TRADE EXPANSION ACT OF 1962

1515-3

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 11970

AN ACT TO PROMOTE THE GENERAL WELFARE, FOREIGN POLICY, AND SECURITY OF THE UNITED STATES THROUGH INTERNATIONAL TRADE AGREEMENTS AND THROUGH ADJUSTMENT ASSISTANCE TO DOMESTIC INDUSTRY, AGRICULTURE, AND LABOR, AND FOR OTHER PURPOSES

JULY 30, 31, AUGUST 1, 2, AND 6, 1962

PART 2

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TRADE EXPANSION ACT OF 1962

MONDAY, JULY 30, 1962

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

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Douglas, Williams, Carlson, and Curtis.

Also present: Elizabeth B. Springer, chief clerk, and Serge N. Benson, professional staff member.

The CHAIRMAN. The committee will come to order.

Senator CARLSON. Mr. Chairman, may I submit for the record a statement from the National Coal Policy Conference which would include a statement of the Governor's conference, the Governors from three coal States in regard to residual oil imports, and also from the International Paper Co., some suggested amendments. This company has plants in Kansas and other areas in the Midwest.

The CHAIRMAN. Without objection the insertion will be made.

(The statements referred to follow:)

SALINA, KANS., *July 25, 1962.*

Senator FRANK CARLSON,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR CARLSON: Concerning the trade expansion bill now pending before the Senate Finance Committee, please find enclosed suggested amendments together with brief comments, which material was prepared by International Paper Co., who has operations in Kansas, having heretofore acquired retail building materials stores from Long-Bell, as well as having plants in Kansas for the manufacture of cardboard containers and milk cartons.

The writer is not familiar in this field but believes that these suggestions are conscientiously made by such company for consideration in your acting upon on the bill.

With best personal regards.

Very truly yours,

HAMPTON, DUNHAM, ROYCE & ENGLEMAN,
By E. S. HAMPTON.

SUGGESTED AMENDMENTS TO THE TRADE EXPANSION BILL H.R. 11970

The United States needs a trade expansion bill, but the bill recently passed by the House of Representatives should be amended as indicated in the attached draft bill.

The attached draft bill would accomplish the following three objectives:

(1) For those articles whose duties have already been decreased by 50 percent or more since the start of our reciprocal trade program in 1934, negotiations for reductions of U.S. tariffs should be only upon a basis which assures mutual

percentage reductions of tariffs in the United States and in the foreign country—article for the corresponding competitive article imported into the United States. This is the only way that Congress can be assured that those industries whose protection has already been substantially taken away from them will not be further sacrificed to enrich other industries.

(2) Negotiations should be carried out from realistic foreign tariff rates actually in existence and not from artificial tariff rates which might in fact have been substantially ignored because of duty-free allocations, foreign exchange controls, quotas, or other limitations. This is necessary as many foreign countries have tariff rates upon many articles which they have not enforced because of duty-free quotas or other reasons.

(3) Title III of the bill—which provides for adjustment assistance to industries, firms, and workers affected by increased imports resulting from trade agreement concessions—could then be eliminated.

Amendment 1 suggested above assures true reciprocity where it is needed most. This strengthening of reciprocity should make the provisions of title III even more unnecessary. If the negotiations are upon an item for corresponding item basis as suggested they are less likely to adversely affect unrelated industries and they also are less likely to adversely affect the particular industry to which the negotiations relate.

A BILL TO AMEND H.R. 11970

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

SECTION 1. That title II of H.R. 11970 "Trade Expansion Act of 1962" be amended:

A. by eliminating from section 201(b) the word "or" at the end of subsection (1) thereof, and by changing the number of subsection (2) thereof to subsection (3), and by adding a new subsection (2) thereto to read as follows:

"(2) decreasing any rate of duty upon an imported article below 50 per centum of the rate existing on July 1, 1934, unless the rate of duty upon each article which is like or directly competitive with such imported article is also being decreased by a like or greater percentage in the foreign country with which such trade agreement is made; or"; and

B. by adding to section 211 a new subsection (f) to read as follows:

"(f) Any negotiation for reduction of duty upon any article to be imported into the European Economic Community shall be negotiated on a basis which only includes in the common external tariff for the European Economic Community tariff rates actually in existence and not artificial tariff rates which may in fact have been substantially ignored because of duty-free allocations, foreign exchange controls, quotas, or other limitations."; and

SEC. 2. That title III be deleted.

NATIONAL COAL POLICY CONFERENCE, INC.,
Washington, D.C., July 26, 1962.

Hon. FRANK CARLSON,
Senate Office Building, Washington, D.C.

DEAR SENATOR CARLSON: The detrimental effect that excessive imports of some products cause to the American economy was recognized at the recent Governor's conference in the form of a resolution urging the executive and legislative branches of the Federal Government to give full effect to those trade acts provisions "designed to prevent excessive imports of any goods or commodities which would endanger the national security or the domestic economy of the United States".

The position taken by the Governors is identical with that of the coal industry and the Governors of the coal States in reference to the importation of residual waste oil. The attached news release issued following the Governor's conference also expresses the opinions of four important Governors. We believe it to be in the national interest to solve the problem of excessive residual oil imports, and solicit your help.

Sincerely,

JOSEPH E. MOODY, *President.*

[News release]

WASHINGTON, July 8, 1962.—Governors from three coal States have issued a warning that residual oil imports pose a serious threat to the U.S. coal industry.

The warning came in a joint statement issued at the Governors conference in Hershey, Pa., last week by Gov. Bert Combs, of Kentucky, Gov. David L. Lawrence, of Pennsylvania, and Gov. William Wallace Barron, of West Virginia.

Their statement said: "The resolution on world trade will be most helpful to our efforts to restrict the importation of residual oil which is a serious threat to the prosperity of the coal industry of our States".

The statement was issued after the full conference of Governors passed a resolution pointing out that "the employment, security, and job opportunities of America had been seriously affected by excessive imports." It urged President Kennedy and the Congress to give full effect to provisions of trade acts designed to prevent excessive imports of any goods or commodities which would endanger the national security or the domestic economy of the United States.

Joseph E. Moody, president of the National Coal Policy Conference, said that the fact that the coal State Governors took the lead in drafting and supporting the resolution, and that it was approved by the Governors conference, is indicative of the Governors concern of the flood of residual waste oil from abroad.

"The Governors are close to the severe economic and social problems which excessive imports create", Mr. Moody declared. "It is, therefore, not surprising that they should take the lead in pressing for the protection which domestic industry must have to exist in the face of mounting imports from low production cost areas.

"If the administration would take such action as requested in the resolution, the coal industry could be relieved of the residual oil import threat within a matter of minutes."

The coal industry has repeatedly appealed to the administration to stabilize the importation of residual oil for 5 years which would permit the coal industry a chance to orderly develop its resources.

The CHAIRMAN. The Chair would like to ask again that the witnesses confine their testimony to 10 minutes. We have more than 100 witnesses to hear and we are trying to hear everybody we can. But we have to insist that it be confined to 10 minutes and if you desire to make insertions in the record, you may do so.

Now, the first witness is Mr. Robert A. Hornby of the California State Chamber of Commerce.

STATEMENT OF ROBERT A. HORNBY, PRESIDENT, CALIFORNIA STATE CHAMBER OF COMMERCE, AGRICULTURE AND INDUSTRY

Mr. HORNBY. Mr. Chairman and members of the Senate Finance Committee. As its president, I represent the California State Chamber of Commere. I am president of the Pacific Lighting Corp. Our company serves 2,600,000 natural gas customers in southern California.

The chamber is a statewide association with several thousand members from agriculture, industry, and business. One of the purposes of this organization is to present the consensus of California agriculture, industry, and business on matters of concern to our economy.

Shortly after the introduction of the trade expansion bill, I appointed a statewide committee of 37, representing various segments of our membership and our economy. The chairman is Preston Hotchkis, president, Bixby Ranch Co., and the vice-chairman is Dwight M. Cochran, president, Kern County Land Co. The principal consultant is Dr. Karl Brandt, an economist and Director of Food Research Institute, Stanford University.

We appreciate this opportunity to present certain of our views arising out of the proposed legislation in H.R. 11970. To supplement my oral remarks, we are today filing a statement of additional views, questions, supporting tabulations of imports and exports and statistics on the volume of California agricultural and manufactured goods. Also included therein is the policy adopted by the chamber's board of directors which was based upon findings of its special committee on foreign trade. With the permission of your committee, Mr. Chairman, I would like this statement included in the record.

The CHAIRMAN. Without objection, the insertion will be made.

Mr. HORNBY. The uncertainties that we foresee arising out of any attempt by the United States to satisfy the members of the European Economic Community on imports and exports can have an adverse effect upon agriculture in our State. Our State produces the overwhelming majority of certain agricultural products and a substantial part of our economy and new jobs depend upon certain types of industrial activity arising out of agricultural processing and the "electronic age."

Therefore, we urge that Congress make clear its intent that a type of agricultural or industrial production occurring in only one or a few States shall not justify the sacrifice of or discrimination against such agricultural or industrial production in trade negotiations with other nations.

The effect upon the public welfare of injury to an argicultural or manufacturing enterprise often ramifies and extends far beyond the State or region from which basic statistics on the enterprise are derived. We submit that, although the final commodity or product may be delivered from a particular State, the economic effect of such production in terms of employment, raw materials, and subcontracted components frequently extends into many other States.

A recent publication of the Division of Agriculture of the University of California states that, for each 100 persons employed in California agriculture, 263 other persons are employed in associated industries. Much of this ancillary employment is in other States and is substantial when the average base total of some 435,000 individuals engaged in California agriculture is multiplied by the 263-to-100 ratio.

Because of the potential life-and-death impact the administration of title II of H.R. 11970 can have on American agriculture and industry, we urge that Congress assure itself that the proper separation and delegation of the executive and legislative powers are provided and that due process is assured for the protection of the citizens' rights. It is urged that the legislative history, as well as the wording of the final bill, be crystal clear as to congressional intent on these fundamental points.

We further urge you to make clear that there shall be adequate opportunity for interested persons to be heard in all proceedings leading to tariff adjustments and other terms of trade agreements. We hope that the wording of the bill, as passed, will be such that our negotiator teams and others responsible for the administration of the act will know that:

(1) Reciprocity must, in fact, be reciprocal;

(2) Nontariff restrictions must not be imposed unilaterally by other nations upon our exports; and

(3) Effective peril point and escape clause mechanisms must be implemented when required. It seems evident that the peril point concept in the bill needs considerable strengthening.

We are unalterably opposed to the adjustment assistance features of title III of this bill. We believe that they would create a huge drain upon the individual and corporate taxpayers and cancel much of the hoped-for gains from trade expansion. The conditions Government can establish for giving aid to industry and its employees would mean further restrictions in freedom of action as it has in the past in other aid programs. We also believe that, with benefits extended to all firms and workers affected in one way or another, under an ambitious program of trade concessions, these features could surpass any subsidy program this country has ever seen, and with all the Federal intervention that attends such programs.

Another feature of title III which would appear to proliferate the volume of subsidy cases is that, while separate agencies make certifications of whether or not a firm and its workers hurt by trade concessions are eligible to apply for aid, an affirmative finding by one would be tantamount to an affirmative finding by the other.

Still another factor which could increase claims for aid under this legislation is the inseparability of international economc and political consderations. The diplomatic service will be, as it always has been, strongly involved in trade negotiations. Understandably, it is likely to be more concerned with diplomacy than with the effect of a trade concession upon an unknown manufacturer.

One of the basic causes of increase in the cost of government is the patch-upon-top-of-patchwork tendency to enact new relief measures for every new cause of distress of firms and workers. Even if it is sound and in the public interest to embrace the principle of subsidizing firms and workers harmed by foreign competition, the remedies and redress should be left entirely to already existing Federal and State agencies, instead of establishing new procedures and conflicting standards as this legislation would do.

For example, under title III of H.R. 11970, workers unemployed because of import competition may receive readjustment allowances of up to 65 percent of their average weekly wages. This is higher than unemployment benefit rates of most States. Is it worth more, therefore, to be unemployed because of import competition than it is to be unemployed because the Government has canceled a defense contract or closed down a military base? What justifies this creation of a preferred class of unemployed? Will the unemployment assistance features of the bill become the criteria for establishing Federal standards for unemployment benefits? What does this mean to the present policy of leaving the determination and administration of unemployment benefits to the States?

There are other unanswered questions about the adjustment assistance provisions of this measure.

Where a firm, particularly one with several subsidiaries and plants throughout the country, is engaged in production for both domestic and foreign markets, and it sustains injury and must lay off workers due to foreign competition, how will the Secretary of Commerce determine the extent the firm is damaged by imports? Will the Secretary insist that other profitable subsidiaries serving the domestic market underwrite losses of the deficient subsidiaries serving foreign markets? How will the Secretary of Labor determine the degree foreign competition is responsible for displacing an employee if he had been producing for both the domestic and foreign markets?

How will the adjustment assistance program be administered in agriculture, where many workers are employed seasonally and where different crops from year to year present different problems?

Because of the obligation many nations owe the United States for its part in their postwar economic reconstruction, should these nations grant more favorable trade concessions to the United States than we to them?

Will the built-in relief features of the bill for injured industries and workers provide trade negotiator teams, which include members of the diplomatic service, with a facile or comforting reason to readily sacrifice some industries in return for international political concessions?

In our filed statement, we raise several other major questions, which arise out of our attempting to foresee the direction, continuing success and the time required for achievement of the hoped-for results by the Inner Six of their Common Market.

For example, if the Common Market succeeds for either a long or a short period, will its major achievement be:

(1) Tariff and trade barrier minimization?

(2) Currency stabilization?

(3) Balance-of-payments surpluses from within and without the European Economic Community and I might add, Mr. Chairman, a fourth would be, Will it be political unity through perhaps federation and confederation and how long will that take?

Since the time of achievement cannot be reasonably foreseen and since the duration of the European Common Market depends upon political as well as economic determinations, cannot the United States of America wish the European Common Market well, do what we can to help make our industry and agriculture competitive, and promote freer trade with all free countries outside as well as inside the European Common Market?

While we favor the objectives of this legislation as they relate to trade expansion throughout the world, we wonder if we are not orienting ourselves toward an international economic combine which still seems to be in its infancy.

We believe that these major questions need at least to be raised. if not resolved at this time.

In the meantime, the California State Chamber of Commerce believes there can be an environment in this country which will permit this country's agriculture and industry to compete with the rest of the world. The chamber believes that the ingredients are reasonable rates of tariff adjustments, properly functioning peril-point and escape-clause mechanisms, and especially Government recognition of the need of a tolerable burden of taxation and fiscal and other conditions that permit growth of our industry and agriculture and control of our production costs. There is much that we can do for ourselves in creating an environment for a healthy and competitive economy.

In closing, the California State chamber wishes the committee to know that the chamber favors the expansion of commerce with other nations of the free world, including those within the European Economic Community. We believe that this is not only essential for the growth of our own economy, but obviously essential for a better international balance-of-payments position and the possible favorable effect of the latter upon U.S. gold reserves.

On behalf of the California State Chamber of Commerce and myself, I thank you for your courtesy and attention.

The CHAIRMAN. Mr. Hornby, I congratulate you on making a very clear statement.

As I gather from what you said you fear that the adjustment assistance program as related to employees would be the first step toward federalizing the unemployment insurance. Am I correct?

Mr. HORNBY. Yes.

The CHAIRMAN. Thank you.

Any further questions?

Senator CURTIS. Mr. Hornby, I wish to congratulate you on a very fine statement. I think you have directed the committee's attention to some things that merit attention. I happen to be acquainted with Dr. Brant who assists the chamber on some of these things. I am very pleased, coming from a farm State, to see you place such importance upon agriculture.

I think there is a tendency in the country, because fewer individuals are engaged in agriculture as we mechanize, to discount its importance. But it really is the backbone of a tremendous portion of the industry of our country; isn't that right?

Mr. HORNBY. It certainly is, and it certainly is a very great part of the entire economic activity of the State of California.

Senator CURTIS. Yes.

Now, the State of Nebraska, while we are much smaller in population we have quite a growing industry, but it is tied to agriculture. Much of our manufacturing is the manufacture of farm machinery and implements and irrigation pipe, storage bins.

There is another branch of our industry, the processing of food. In Omaha we pack more meat than any place else in the world. Personally, I have very grave doubts as to the capability of the State Department to understand the problems of agriculture. I think that we are taking a very serious step when we delegate the powers in the bill, as passed by the House, without any further restriction.

I might call your attention to an article that appeared in the last issue of the Farm Journal published in Philadelphia. It says:

> Unless we can head it off, beginning July 30 we will have to pay 10 to 75 percent higher duties to ship some of our farm products into the European Common Market, and these tariff duties may even run higher. For instance—

I think the Senator from Delaware would be particularly interested—

> we are being asked to pay 10 percent higher duty on barley, 29 percent more on wheat, and 75 percent more on poultry meat going into West Germany, one of the six Common Market countries, the others being France, Italy, Belgium, the Netherlands, and Luxembourg. Duties will also increase by undetermined amounts for pork and eggs. We are already paying 5.4 cents a pound duty, that is 15.9 percent on 34-cent poultry, to ship ready-to-cook poultry into West Germany. The Common Market has announced on July 30—

that is today—

> four new poultry duties will go into effect.

The first three of these duties in West Germany will add up to 9½ cents a pound, 4 cents more than now. If our poultry price to the Common Market countries falls below 33⅓ cents per pound, we will have to pay a fourth duty, making up the difference between the importing price and the 33⅓ cents.

Three months ago our ready-to-eat poultry was going into Hamburg at 30 cents a pound which would call for a 3⅓-cent additional duty under the new Common Market setup.

Lately there has been a big splurge of buying by West German importers to beat the deadline for the new duties Prices of imported poultry have climbed to 34 cents per pound. If prices fall back to 30 cents later then we will have to pay 3⅓ cents additional duty, making a total of about 12¾ cents a pound duty compared with 5.4 at the present time.

What will happen is this: West Germans will pay about 10 cents a pound more for poultry meat in the store. We will ship them less. Our poultry meat exports to West Germany increased 25 percent last year. The farm prices of poultry meat will shoot up in the Common Market countries. The European broiler industry will boom, capitalizing on the U.S. promotion and merchandising that has more than doubled per capita poultry consumption in West Germany in the last 5 years.

Farm Journal learns that our Government has protested through the highest level to the Common Market countries, United States claims that increases in duty are discrimintaory and unreasonable. But so far as Farm Journal can learn we haven't threatened to hike any of our tariffs in retaliation.

Mr. Hornby, do you not think it is important that in approaching this subject we realize that the Common Market countries have not lowered or abolished their exterior tariffs; have they?

Mr. HORNBY. Not as far as we can find out.

Senator CURTIS. No. What they have done is abolish certain tariffs between the Common Market countries, and then built defensive barriers around the entire group; is that right?

Mr. HORNBY. Yes, that is our understanding.

Senator CURTIS. Yes, that is the system that they work upon.

Mr. HORNBY. We understand that is the purpose.

Senator CURTIS. Yes.

There has been a great deal of loose talk to the effect that the Common Market countries are lowering all tariffs and we had better do likewise. Well so far as the United States and the rest of the world are concerned, at least up to date that hasn't happened, has it?

Mr. HORNBY. As far as we can determine it has not.

Senator CURTIS. Frankly, I think the Common Market arrangement is a good thing for them. I think we should encourage their unification economically and politically and give them every help possible. I do not think that they will respect us nor do what they can to maintain the value of our money if they decide that we are chumps; do you agree with that premise?

Mr. HORNBY. Yes, sir.

Senator CURTIS. Thank you very much.

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

Mr. HORNBY. Thank you, sir.

(Mr. Hornby's prepared statement follows:)

STATEMENT OF ROBERT A. HORNBY, PRESIDENT, CALIFORNIA STATE CHAMBER OF COMMERCE, AGRICULTURE, AND INDUSTRY ON H.R. 11970

Mr. Chairman and members of the Senate Finance Committee, my name is Robert A. Hornby. I am filing this statement for the California State Chamber of Commerce, Agriculture, and Industry.

The California State chamber is a statewide association, as its name implies, with membership in agriculture, business, and industry. One of the aims of this organization, which I think it achieves quite well, is to present the consensus of

California agriculture, business, and industry on matters of concern to our economy. One of these matters is the legislation you gentlemen now have under consideration. The chamber appreciates the opportunity to supplement the views which I am presenting orally.

The chamber's official policy, on which this statement is based, and statistical tables on California agriculture and industry appear as appendixes at the end of this statement.

The State chamber favors the expansion of commerce with other nations of the free world including those within the European Economic Community. We believe that trade expansion is essential to the improvement of our international balance-of-payments position and to the expansion of our own economy.

However, we believe that tariffs should be adjusted by stages, with reciprocity which is in fact reciprocal, in such gradual manner that agriculture and industry can survive without intervention and a dole from the Federal Government. We have serious questions about the adjustment assistance provisions which I shall raise at various times in this statement.

Because of the nontypical, wide variety of California's agricultural and manufactured products, and because of the heavy involvement of these two parts of our economy in foreign commerce, our State has a deep interest in H.R. 11970.

Among the 50 States, California is first in agricultural production and income. It also ranks first in farm exports. Much of the income of California's agriculture is earned from specialty crops, of which there are little or none grown elsewhere in the United States. This fact and its relation to international trade negotiations worry our farmers and all those business groups who depend upon the prosperity of our farmers. They reason that crops grown in a relatively restricted area, and thus having an apparently local economic impact, are more likely to be sacrificed in trade negotiations than would be the case with crops which are more widely grown. A number of major California specialty crops of direct importance to the economy of this State, but of less evident significance nationally, are vulnerable to such sacrifices. Injury can come in two ways: from the imposition of tariff and other barriers, such as unrealistic specifications on pesticide residues, color variations, size, packaging, etc., by foreign nations on their importations of our specialty crops; and from the failure to provide proper restrictions in this country against excessive imports of foreign agricultural products competitive with California specialty crops.

For example, California producers of vegetables, citrus fruits, canned fruits, dried fruits, grapes, almonds, dried beans, and poultry, fear possible loss of export income resulting from foreign restrictions on our export of these items.

Producers of grapes, olives, melons, figs, dates, citrus fruit juice, and some meat products, are also concerned about the potentially price-depressing effects of a liberalization of our own trade policies toward imports of competitive items.

The export product lines of our industrial production are similar to those found among other States industrialized to the same degree as California.

Recent manufactured exports moving through California ports were: Canned fruits, vegetables, and fish; wine; lumber and paper; lubricating oils and petroleum products; iron and steel products; electrical machinery; construction equipment; industrial machines; agricultural implements; aircraft (most are flown out); autos, trucks, busses and trailers; chemicals; and medicinals and pharmaceuticals.

Recent manufactured imports moving through California ports were: Wine; cotton manufactures; wool manufactures; lumber, plywood, pulp, and paper; crude petroleum; glass and glass products; china, porcelain, and clay products; steelmill products; copper products; lead ores and concentrates (heavy); electrical machinery and apparatus; sewing and shoe machines; autos, trucks, and buses; machinery and parts; chemicals; and fertilizers.

California industries which already are vulnerable to injury by imports are wine, electronics, electrical machinery, chemicals, fertilizers, lumber and plywood, steel and steel products, motor vehicles, and machinery.

Exports which are affected by the importation policies of other nations are motion pictures; electrical machinery; atomic power equipment; chemicals and pharmaceuticals; canned fruits, vegetables, and fish; wines; machinery; wire rope; iron and steel products; and aircraft.

International trade in aircraft poses a difficult problem which it is hoped will not be worsened by the operation of the proposed legislation. A quotation from the president of a large west coast aircraft manufacturer is pertinent:

"Unit cost in our industry is based largely on a combination of labor cost and labor productivity. We know that the cost of labor per hour in the United

States is several times higher than in Great Britain and France, the major competitive nations. We believe that productivity in the United States is also higher. However, we definitely are of the view that it is not high enough to offset the European labor cost advantage. Furthermore, our observations indicate that manufacturing methods in European factories are generally efficient. Lower unit costs in the Common Market area are probable.

"We should also bear in mind that every major airline in the Common Market area is either government owned or government controlled. Therefore, if it serves the Common Market interest, political pressure can be brought to bear on the airline to purchase Common Market products. This is most likely where the airplane manufacturer is also government supported. You have, then, a situation where government is selling to government, rather than manufacturer to airline.

"Now, let us examine the proposed tariff reductions. We recognize that broad reduction or elimination of barriers can stimulate trade and promote the economic growth of the free world. However, there are certain facts involving the aircraft industry that are worthy of consideration.

"Elimination of tariffs on airplanes would have a twofold meaning. First, on this side of the Atlantic, our European competitors would have an additional price advantage * * * on top of the price advantage they already enjoy. Second, the reduction or elimination of barriers on the other side would be quite meaningless. At present tariffs are waived where no local competitive product is available. So far, this has been the practice. However, let us assume that tariffs are imposed. The airline purchaser is Government-owned or supported. The Government takes the duty and simply passes it along in the form of subsidy or other support to the airline * * * having the effect of a 'wash' transaction. So the tariff is no barrier at all. The dual result is that our sales in the domestic market can be impaired by tariff reduction or elimination, whereas our sales to Common Market nations cannot be benefited thereby."

These brief observations of the effect of tariffs and other restrictions on west coast aircraft manufacture can be applied to other products of California industry.

Title III of H.R. 11970 to us is an enigmatic part of this proposed legislation. It is difficult to understand why, after private industry and its employees have filled their respective roles in the winning of a global war, they now face the prospect of going on Government relief and in effect becoming wards of Government in peacetime. We have underwritten the economic reconstruction of much of the free world and made an efficient production machine of it. We have done this while many of our own manufacturers have been hobbled under our tax and fiscal policies. Must our Government now intervene and subsidize some of our industries and their employees so as to remove them from the path of, or to assuage their injury from international competitors created by ourselves under an earlier eleemosynary foreign program?

We believe that a sound, freer trade policy, operating under informed administrators, can better enable American industry and agriculture to compete in the world markets. This requires that our Government come to grips with the need for sound fiscal policies with better control of Federal expenditures and impartial labor relations administration. If these are attained, subsidies to industries and workers as provided in title III will not be necessary.

To what avail would it be for the Government to make arrangements for reciprocal trade on the one hand, while on the other hand following policies at home which result in hobbling American industry and agriculture in competition in the world markets? Inflationary spending by the Federal Government with accompanying higher taxes and the price-wage spiral are two major contributors to noncompetitive prices. They also contribute to the ever-tightening profits squeeze.

If the principle of adjustment assistance is embraced in this legislation, there can be no doubt that sooner or later it will be extended to all who are harmed, whether they are harmed directly or indirectly. Otherwise, it will be discriminatory legislation.

If the unemployment benefit funds of States should become overburdened because of unemployment demonstrably arising out of foreign trade policies and practices at the Federal level, and aid should be financed through Federal taxation, then the funds of the State could be reimbursed appropriately. The proof of the cause of such unemployment should be presented by the States and agreed to by the Federal administrators, but the disbursement of such unemployment benefits should be in accordance with the State standards and paid out by State administrators.

In such sweeping metamorphoses of national policy inherent in this legislation, there is not only the decision of what to do but, even more important, how much time is there available in which to decide to do it, to implement it, and to expedite it.

Since this proposed legislation evidently was prompted largely by what is occurring in and proposed by the European Economic Community, it seems evident there are questions about the direction, continuing success, and exclusivity of membership in the Common Market which need to be posed:

1. Is the ultimate intended result political cohesion of the Inner Six countries and, if so, is it reasonable to expect that the United States will be permitted to participate in some of the trade concessions (the "glue") which will hold the possible federation or confederation of these Inner Six countries together?

2. Is it not inevitable that balance-of-payments troubles will arise between Common Market countries and will this imperil their continuing their membership?

3. Must the nations of the Common Market adopt a common currency or floating exchange rates—a time-consuming, major undertaking?

4. How many other European countries will be permitted to join the Common Market? Will additional membership dilute the trade gains of the Inner Six and thereby weaken their cohesiveness?

5. Since much of what is promised for the future in the European Common Market still must meet the test of performance, how do we judge the prospects for long duration of the European Economic Community?

6. If the Common Market succeeds, for either a long or short period, will its major achievement be:

(*a*) Tariff and trade barrier minimization?
(*b*) Currency stabilization?
(*c*) Balance-of-payments surpluses from within and without the EEC?

Since the time of achievement cannot be reasonably foreseen and since duration of the European Common Market depends upon political as well as economic determinations, cannot the United States of America wish the European Common Market program well, do what we can to help make our industry and agriculture competitive and promote freer trade with all free countries outside as well as inside the European Common Market. While we favor the objectives of this legislation as they relate to trade expansion throughout the world, we wonder if we are not orienting ourselves toward an interantional economic combine which still seems to be in its infancy.

There are additional major questions that we think need to be at least raised if not resolved at this time.

In the meantime, the California State Chamber of Commerce believes that there can be an environment in this country which will permit our agriculture and industry to compete with the rest of the world. The chamber believes that the ingredients are reasonable rates of tariff adjustments, properly functioning peril-point and escape-clause mechanisms, and especially Government recognition of the need of a tolerable burden of taxation, fiscal and other conditions that permit better control of production costs. There is much that we can do for ourselves in creating an environment for a healthy and competitive economy.

There is something wrong with us in the United States of America if we must seek Federal Government intervention and special subsidies from the Federal level so as to compete with countries which, heretofore, have been outclassed by this country's industry and agriculture.

APPENDIX I

GENERAL POLICY ON FOREIGN TRADE

(Adopted by board of directors of the California State Chamber of Commerce in Los Angeles on April 18, 1962)

The California State Chamber of Commerce favors the expansion of commerce with other nations and advocates the following guidelines in reference to tariff and other foreign trade proposals currently under consideration by Congress that any new Federal legislation establishing U.S. policy and regulation of trade relationships with other nations contain the following provisions:

1. Provide for the vesting in the Tariff Commission, instead of in the President, the discretionary authority, after hearings, for the setting of tariffs. Judicial review, based upon policy and limitations established by Congress on the setting of tariffs, should be provided.

2. Provide for reciprocity which is in fact reciprocal with due regard for individual commodities in the negotiation of tariff concessions. U.S. negotiators should achieve agreements which forbid the imposition of non-tariff restrictions not contained in trade agreements.

3. Provide for rates and progression of tariff cuts in mandatory reduction categories which shall enable vulnerable industries and agriculture to adjust to foreign competition without special assistance for this purpose. Effective peril-point and escape-clause mechanisms should be retained and their administration should be subject to judicial review.

4. Provide for retention and growth of key industries and agriculture which are important to this country's economic mobilization base and required in order to make the Nation as self-sufficient as possible in time of national emergency.

The Government should recognize and implement its responsibility to adopt labor relations, antitrust, tax, depreciation, and fiscal policies which shall better enable American agriculture and industry to compete with other nations of the world.

APPENDIX II

Gross receipts to farmers from sales of farm products, California and United States

	California 4-year average, 1957-60	U.S. 4-year average, 1957-60	Percent California of United States
Field crops:	*Thousands*	*Millions*	
Alfalfa seed	$20,236	$38.5	52.6
Barley	62,908	257.0	24.5
Cotton (lint and seed)	317,019	2,230.3	14.2
Dried beans	32,664	126.5	25.9
Flaxseed	4,325	80.0	5.4
Hops	4,671	24.7	18.9
Potatoes	61,580	394.2	15.6
Rice	49,095	230.5	21.3
Sugarbeets	50,180	191.0	26.3
Vegetables and miscellaneous:			
Asparagus	21,113	42.0	50.3
Carrots	25,674	42.8	60.0
Celery	32,254	55.3	58.3
Greenhouse and nursery	75,917	660.0	11.5
Lettuce	76,734	135.0	56.8
Onions	9,662	65.3	14.8
Tomatoes	102,432	237.2	43.2
Fruits and nuts:			
Almonds	24,435	24.4	100.0
Avocados	7,352	8.3	88.6
Cherries	7,232	44.0	16.4
Figs	5,286	5.3	100.0
Lemons	36,583	39.5	92.6
Melons [1]	41,415	107.5	38.3
Olives	8,134	8.1	100.0
Oranges	110,781	337.0	32.9
Peaches	51,848	128.5	40.2
Pears	28,149	55.2	51.0
Strawberries [1]	32,430	86.2	37.6
Walnuts	31,247	33.0	94.7
Livestock and livestock products:			
Beef cattle and calves	427,742	7,153.8	6.0
Chickens	42,413	1,085.4	3.9
Dairy products	365,764	4,638.3	7.9
Eggs	149,148	1,670.4	8.9
Hogs	16,979	3,037.5	.6
Sheep and lambs	26,978	338.2	8.0
Turkeys	62,262	337.5	18.4
Wool	8,868	107.1	8.3

[1] Often classified as vegetables.

Source: U.S. Department of Agriculture.

APPENDIX III

California—Value of exports of manufactured products by major product groups (1960)

	Total exports [1]	Percent		Total exports [1]	Percent
Food and kindred products	$180.5	13.8	Primary metals industries	$43.6	3.3
Tobacco products			Fabricated metal products	33.4	2.6
Textile mill products	3.2	.2	Machinery (except electrical)	84.8	6.5
Apparel and related products	9.0	.7	Electrical machinery	45.1	3.5
Lumber and wood products	14.8	1.1	Transportation equipment	476.5	36.6
Furniture and fixtures	3.3	.3	Instruments and related products	22.2	1.7
Paper and allied products	6.4	.5	Miscellaneous manufacturing	119.1	9.1
Printing and publishing	6.0	.5	Total, manufactured products	1,302.6	100.0
Chemicals and allied products	123.3	9.5			
Petroleum and coal products	113.3	8.7			
Rubber and plastics products	10.7	.8			
Leather and leather products	1.1	.1			
Stone, clay, and glass products	6.3	.5			

[1] In millions of dollars.

Source: U.S. Department of Commerce, Foreign Commerce Weekly, Feb. 5, 1962.

The CHAIRMAN. The next witness is Mr. James A. Cavanaugh, Independent Fuel Oil Marketers of America.

Mr. Cavanaugh, take a seat, sir, and proceed.

STATEMENT OF JAMES A. CAVANAUGH, OFFICER, INDEPENDENT FUEL OIL MARKETERS OF AMERICA, INC.

Mr. CAVANAUGH. Mr. Chairman, I am appearing today as an officer of the Independent Fuel Oil Marketers of America, Inc., in behalf of Mr. Carey, who is president and who is unable to attend.

Mr. Chairman, I appreciate the opportunity to appear before your committee.

I am an officer of the Independent Fuel Oil Marketers of America, Inc. Our trade association is composed of independent residual fuel oil marketers operating from ocean terminals located on the east coast. Our members are all vitally interested in the problems of foreign trade, since about two-thirds of the commodity in which we deal is imported into the United States from abroad.

One of the stated purposes of the Trade Expansion Act of 1962 is to improve the competitiveness of the American economy. As the President said in his message to Congress on this subject last March:

> * * * to try to shield American industry from the discipline of foreign competition would isolate our domestic price level from world prices, encourage inflation, and reduce our exports still further * * *.

We endorse this principle fully and hope it will not become watered down in the final version of the Trade Expansion Act. America's total annual exports run about $5 billion above total imports. To increase, or even to maintain, this favorable trade balance, our price structure must be competitive with that of the rest of the world. Without a reasonably liberal import policy this cannot be accomplished.

Unfortunately, for the past 2½ years, this policy has been largely suspended for the commodity with which the members of our association are concerned—namely, residual fuel oil.

This suspension has been to detriment not only of our businesses, but also the requirements of our customers and the economic welfare of the friendly nation which supplies the bulk of this product.

The restriction on the importation of residual fuel oil was an executive measure taken under the authority given the President in the national security clause of the existing Trade Agreements Act. I realize that the question of continuing or abrogating this particular executive restriction lies outside the immediate scope of these hearings.

However, an amendment to incorporate this import restriction into the Trade Expansion Act has been offered in the House of Representatives and will undoubtedly also be offered in the Senate. This makes the question of residual fuel oil imports a matter of direct concern for this committee. I would therefore like to discuss briefly the need for these imports and their role in the energy supply of this country.

Residual fuel oil is used primarily as an under-boiler fuel to generate steam to heat residential and public buildings, provide power for industrial plants, and drive the steam turbine of electric utilities.

About 60 percent of all residual fuel oil in the United States is consumed in the 17 east coast States who rely on it for a large share of their total heating and power needs.

Domestic production of residual fuel oil has been insufficient to meet domestic demand since well before World War II.

Hence, for almost a quarter of a century, the United States has now been a net importer of residual fuel oil. The reason for the deficit in our domestic supply lies in the economics of refinery operations.

Briefly, residual fuel oil is a byproduct of the production of gasoline, kerosene, and distillate oil. Like the sawdust falling off in a sawmill operation, domestic residual fuel oil it sold at whatever price is necessary to move it out of the refiners' storage.

This price has traditionally been below the cost of the crude oil from which residual oil is made. U.S. refiners are therefore motivated to produce as little residual oil as technically possible in order to increase their yield of those oil products which permit a profit margin. This has resulted in the well-known decline in residual fuel oil's share of total U.S. refinery output from 27 percent in 1942 to 19 percent in 1952 and 10 percent in 1962.

There is no doubt that this decline in residual fuel oil output will continue. Several major gulf coast refiners are known to plan complete cessation of residual fuel oil production in the near future.

In U.S. inland areas the declining supply of this product has caused consumers to turn to gas and coal for their rising needs of under-boiler fuels.

On the east coast, however, it has been possible to supplement the declining domestic supply by imports of residual fuel oil from the Caribbean area—primarily Venezuela. The reason why these imports are limited to the east coast is that residual fuel oil, unlike most other oil products, is too sluggish to be transported inland by pipeline. Hence, it must be consumed at or near the shipping terminal where it is unload. Residual fuel oil imports are not a matter of choice, as are crude oil imports.

On the east coast we must import residual fuel oil in sufficient quantities or face a shortage of this product.

It is therefore regrettable that the previous administration was misled into lumping crude and residual oil imports together and restrict both. Here are some of the consequences of the restriction on residual fuel oil imports:

(1) It has concentrated nearly 60 percent of the total imports in the hands of just 4 companies, leaving the other 40 importers of this commodity to share in the remainder. This concentration can be traced directly to the Government's import license scheme.

(2) It has demonstably brought about higher prices to consumers than would have prevailed in the absence of the restriction.

(3) It has distorted the normal marketing patterns of residual fuel oil, thereby creating local shortages in a number of markets. An illustration of this is the recent failure of the General Services Administration right here in Washington to receive any acceptable bids for its residual oil requirements.

This failure is due entirely to the fact that the General Services Administration's historic and logical supplier does not have sufficient import licenses to meet the needs of his customer.

These, then, are the effects of the current restriction on residual fuel oil imports. The proposed amendment to the Trade Expansion Act would tighten the import curbs still further and deprive them of any flexibility. The amendment would also be a serious economic blow to the Republic of Venezuela, the chief supplier of the commodity and one of America's stanchest friends in Latin America. This would be contrary to the very spirit of the Trade Expansion Act.

Eventually the import restriction is bound to be removed if for no other reason than that it is jeopardizing the expansion of any industry on the east coast which depends on residual fuel oil for its power and heating needs.

A telling example of this is the recent announcement of one large utility company to build a new power plant in the New York area. According to press reports, the plant will be able to consume about 80,000 barrels of residual fuel oil per day. This volume, which is equal to nearly 10 percent of the east coast's total current residual fuel oil consumption, can only come from abroad. The use of another domestic fuel instead of oil would be impractical, since this utility company does not have the much larger space required to store an equivalent amount of coal, and since city health authorities would strongly object to the dust and air pollution created by storing and burning such large quantities of coal right in the middle of the world's largest metropolis. Similar examples on a smaller scale can be found elsewhere on the east coast.

Thus, we will clearly need more fuel oil imports, not less. Hence, any action to tighten the import restriction or make it still more rigid than it is, would be a step in the wrong direction, both from the international and the domestic point of view.

I therefore respectfully urge this committee to approve the Trade Expansion Act of 1962, and to reject any amendment which would put new roadblocks into the path of U.S. commodity imports.

Thank you.

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

Any questions?

Thank you.

Mr. CAVANAUGH. Thank you.

The CHAIRMAN. The next witness is John H. Mahoney, senior vice president, Seaboard World, Inc.

Please proceed, Mr. Mahoney.

STATEMENT OF JOHN H. MAHONEY, SENIOR VICE PRESIDENT, SEABOARD WORLD AIRLINES, INC.

Mr. MAHONEY. Mr. Chairman and members of the committee, my name is John H. Mahoney. I am senior vice president and member of the board of directors of Seaboard World Airlines.

I want to thank the committee for giving me the opportunity of presenting this testimony to it today.

First, let me briefly tell you about my company, which will help to explain my special interest in the Trade Expansion Act, and, I trust, will serve to substantiate my testimony to the committee.

Seaboard World Airlines is "one of a kind." It is the only U.S.-flag airline certificated by the U.S. Civil Aeronautics Board solely as a scheduled international all-cargo airline. It operates across the North Atlantic, connecting the U.S.A. with the Western European nations of Ireland, England, Holland, Germany, France and Switzerland. Additionally, a great deal of traffic is carried by Seaboard World via connections to and from countries in addition to those named. The company was incorporated in 1946, operated as a nonscheduled freight carrier until certification as a scheduled carrier in 1955, and, although it still is a small airline, it has grown to be the largest transport of air cargo across the Atlantic.

In a staff report issued by the U.S. Civil Aeronautics Board on May 4 of this year in connection with the Transatlantic Route Renewal Case "the substantial public benefit resulting from Seaboard's certification" was referred to, which the report says consists not only to Seaboard's record of its own achievements, but from the fact that since its certification as a scheduled carrier.

* * * the U.S.-flag percentage share of total transatlantic cargo moved has increased from 38 percent in 1955 to a high of 48 percent in 1961, the U.S.-flag percentage of total all-cargo aircraft movement has increased from 39 percent in 1955 to a high of 70 percent in 1961; and the percentage of total freight moving on all-cargo flights has increased from 27.5 percent in 1955 to a high of 53 percent in 1961.

The CAB staff report also states that renewal of Seaboard World Airlines' authority is warranted by present and foreseeable national defense needs, in addition to Seaboard World's scheduled service record. The report makes specific reference to the concern which has been expressed by the President and Congress "over having more modern all-cargo aircraft available to meet any future critical needs of our Nation" and to the fact that "Seaboard is the only U.S. international carrier operating with turbine-powered all-cargo aircraft." The largest volume of military cargo carried on commercial aircraft across the Atlantic on long-term contract is carried by Seaboard World Airlines.

Now that I have given you a brief background sketch regarding my company, let me consider the objectives of the Trade Expansion Act, and our part in achieving these objectives.

A great deal of attention is being directed today toward attempts to curb the outflow of gold from this country. The Trade Expansion Act is part of the program to increase foreign trade and expand U.S. exports in order to achieve a better balance of payments, and thus reduce the gold flow from the U.S.A. The quotations cited above from the CAB staff report confirm the fact that Seaboard World Airlines for several years has been pursuing the same objectives as those of the trade expansion bill. We consider ourselves to be a direct instrument of U.S. trade and economic policy. We have tried to carry out that responsibility of being a leader in furnishing the greatest volume of heavy-lift transatlantic air cargo capacity, in operating the most modern and most efficient cargo aircraft (of the specific type called for by the Department of Defense, for national defense purposes), and by reducing rates so as to encourage the shipment of a greater quantity of goods abroad. As the CAB staff report indicates, this leadership by Seaboard World has encouraged other transatlantic airlines—especially the American-flag carriers—to follow Seaboard World's leadership, thus expanding total transatlantic cargo capacity and causing all transatlantic airlines to develop the export market more intensively.

In addition to expansion of U.S. export trade, two other means of righting our Nation's balance of payments have been receiving considerable recent attention. These are:

(1) To have foreign governments purchase their military equipment from the United States of America.

(2) To have U.S. Military Establishments abroad supplied directly from the United States of America.

With regard to the first, Seaboard World Airlines has evolved a program of working with its foreign airline competitors, so as to pool operating facilities for low cost and efficiency of operation, while still maintaining strong and open competition between the airlines involved. An agreement to this effect is in operation between Seaboard World Airlines and Lufthansa, the German airline, and this arrangement has been approved by the U.S. Civil Aeronautics Board as being in the public interest. As a result of this agreement, military fighter aircraft manufactured in the United States of America for use by the West German Luftwaffe are being transported across the ocean in the huge cargo aircraft owned by Seaboard World Airlines, operated by U.S. pilots, and serviced by U.S. mechanics and cargo handlers. Other types of military equipment are also transported to our European Allies in the cargo holds of Seaboard World's huge air freighters. When you ship by air every inland city with a commercial airport has the potential of being an international port of export or entry. This is important in righting our dollar balance of payments, because when cargo is shipped direct to destination by air carrier, extra dollars that would have been spent for transshipment from seaport to inland European destination can be saved.

With regard to supply of U.S. forces abroad, as I already have pointed out, Seaboard World Airlines is the largest transporter of U.S. military cargo carried on commercial aircraft across the Atlantic on long-term contract with the U.S. Air Force. Seaboard World Airlines has pioneered special low rates for category A military cargo. Category A cargo is military materiel carried on regular commercial flights along with regular commercial cargo, with special stops being made at military bases in the United States and overseas. These low rates were made possible through introduction of new modern long-range turbine-powered heavy-lift swingtail airfreighters, requested by the Department of Defense, and flown exclusively by Seaboard World Airlines on the routes it serves. It is easy to see that carriage of category A military cargo at low rates on commercial flights achieves two objectives of balance of payments: (1) It allows a greater volume of U.S. military supply to be airlifted from the United States to bases abroad, and (2) it permits increased commercial airfreighter frequency, since the military and commercial cargoes are carried on the same flights, thus expanding international airfreight trade.

The dominant theme of the trade legislation under consideration is that if the United States will remove the artificial barriers to trade—especially between the United States and the Common Market nations of Western Europe—several factors will result:

(1) There will be a greater flow of two-way traffic.

(2) U.S. industry will have a greater opportunity to compete in world markets.

(3) The outflow of gold from the United States will be curbed.

(4) The economics of all the free world nations will be strengthened.

In this modern world, airfreight is bound to become an increasingly more important element in international trade. So far, airfreight has only scratched the surface, carrying something like a small fraction of 1 percent of the total. However, with the great potential for growth of airfreight, whatever trade liberalization or increase in market participation by the United States can be accomplished now, will pay dividends not only for the immediate future, but for years to come. The same efficiencies that would be effected by the Trade Expansion Act in lowering trade barriers on a reciprocal basis are being attempted by Seaboard World Airlines in the operating sphere of the transatlantic airfreight trade, by introducing new efficient modern equipment, by lowering prices, by carrying military equipment abroad for both United States and foreign military installations, and by cooperating with foreign airlines to reduce operating expenses while continuing to strongly compete against them.

A "Preliminary Study and Forecast of Trends and Developments in the World Airfreight Industry" has just been issued by the International Civil Aviation Organization. ICAO is an organization of governments, affiliated with the United Nations, for regulation of international civil aviation. This study points out that the record of greatest rate of relative growth in airfreight transportation is on transatlantic routes. The study contains these comments:

* * * In both the U.S. domestic and intra-European scheduled operations the share of freight traffic fell from about 16 percent in 1951 to about 14 percent in 1961. The major exception to this relative decline of freight compared to passenger traffic occurred in the North Atlantic region. Here, the average annual rate of growth for freight traffic on scheduled services over the past decade was 24.8 percent against 20.6 percent for passenger traffic, and the percentage share of freight traffic rose from about 18 to 23 percent.

Growth of all-freight services.—Another aspect of the growth of the airfreight industry is the increase in the share of freight traffic that is being carried on all-freight services as compared with passenger services. From 1951 to 1960 the all-freight share rose from about 5 percent to nearly 19 percent on the international sector and from about 10 percent to perhaps 34 percent on total scheduled operations. The IATA figures for the North Atlantic show an even more rapid growth of the scheduled all-freight services. * * *

The ICAO study shows that transatlantic airfreight carriage has achieved greater relative growth than airfreight carriage in other areas, and the Civil Aeronautics Board staff report cited above has pointed out that the exceptional growth in transatlantic cargo carriage is due in large measure to the leadership and aggressive market development by Seaboard World Airlines. Therefore, we believe, we are fulfilling our responsibility as an instrument of national policy, and that we are aiding the objectives of the trade expansion program, by increasing trade with the free nations of Europe.

Current developments which make air transportation even more suitable to export expansion in the interests of balancing international payments were referred to by Harvey J. Wexler, associate director, international services of the Air Transport Association of America, in an address given on May 23, 1962, as follows:

* * * As Europe enjoys more affluence—both consumer and industrial—U.S. manufactured exports will tend increasingly to be comprised of durable consumer goods and those capital goods which require extensive research and development to create and substantial capital investment to produce. These are clearly areas where the United States holds a comparative advantage. These types of consumer and capital goods which will increasingly comprise U.S. manufactured exports to Europe are high value items which lend themselves to air movement. Excellent examples are our exports of antibiotics valued at $33,000 per ton and electronic equipment valued at $30,000 per ton. Transatlantic movement of such commodities by air is now routine, and the volume of high value commodities should increase for the reasons previously mentioned.

In brief, there appears to be a direct correlation between the types of commodities where in the United States has a clear comparative advantage and the economic desirability for distributing such commodities by air. * * *

Later on in his comments, Mr. Wexler states that the average value in cost per pound of items traded between the United States and European countries is increasing, which makes them more adaptable to air transportation. At the same time, the efficiencies being pioneered by Seaboard World Airlines are resulting in lower rates, which attract lower valued commodities to air export. Thus, we are implementing a two-way process, which should have the effect of pyramiding the volume of our air exports.

SUMMARY

We support the Trade Expansion Act and all of its objectives, which are:

(1) To expand our economy.
(2) To prevent inflation by expanding trade.
(3) To correct our adverse balance of payments.
(4) To promote the strength and unity to the West.
(5) To prove the superiority of free choice.
(6) To aid the developing nations of the free world, and other friends.
(7) To maintain leadership of the free world.

We not only support these objectives but we do our best to promote them in our everyday commercial operation, which is entirely devoted to international trade. We feel that the American way is the way of liberalism and cooperation with our allies in matters of operating efficiency, and free and open competition in commercial trade. These are principles of the trade bill, and they are principles we support and try to follow ourselves.

The CHAIRMAN. Thank you very much Mr. Mahoney.

The next witness is Mr. Heinz Rollman, of Waynesville, N.C.

STATEMENT OF HEINZ ROLLMAN, WAYNESVILLE, N.C.

Mr. ROLLMAN. Mr. Chairman, I will not read my prepared statement. It is too long.

I would like to make a few remarks as to some of the points that worry me personally, the trade bill.

One is I don't think it is good for industry and it might hurt the American miracle to give subsidies to manufacturers who may be hurt through cheap imports. A company can go broke or out of business for a great number of reasons and it would be very hard to pinpoint why did someone go out of business, was it chiefly imports of brassieres from Sicily, or was it just lazy management that didn't want to fight internal competition. I believe if we give subsidies to manufacturers who are not efficient we might wind up with the same difficulties that we find today in the farm program where the subsidies, it appears, are very burdensome upon the American taxpayer.

The second feature that worries me about this trade bill is that it might give one man or one committee or one agency enormous power. to establish a planned economy.

If, for instance, certain industries want to raise their prices and the President does not want these industries to raise their prices, he can almost threaten them by saying, "If you raise your prices I will lower the tariffs to almost nothing, and then find out how you are going to wind up when there are no tariffs."

He might say, the President might say, the same thing to labor. A labor union might want much higher wages. Under the bill, the President, whoever the President is at that time, has the right to lower tariffs on a particular product, and therefore, it could very well happen that the President would wind up regulating completely prices and wages.

It does not have to happen, but I believe this is something that has been reserved to the Congress ever since this Nation was founded, and I believe it is much safer to leave it in the hands of the Congress, which I know people sometimes say is acting too slow and not fast enough, but it is safety, and it is this American miracle which I believe has to be preserved for the whole world by not ever letting one man make too many decisions all by himself.

The third feature that worries me about this bill is we are giving to Europe billions and billions of dollars for defense. I am not talking about the billions that we read about in the newspapers but I am talking about the untold billions of dollars spent here on research which do not appear in a foreign aid bill, billions of dollars worth of know-how for which the American taxpayers have paid.

All this is being made available to Europe. It has probably cost us $10 billion to develop effective Polaris submarines. We are sending these submarines to Europe to protect Europe. The American taxpayers exclusively have paid for the development of these submarines. These submarines will protect Europe in case of need. Europe at the same time does not spend any adequate amounts—and Europe can afford it today very well—Europe does not spend any adequate amounts for its own defense.

I believe what could happen is this: We keep on paying for the defense of Europe, a continent that has the money, ingenuity, and strength to defend itself, and at the same time, while they do not have to pay the taxes for defense, they can undersell American manufacturers. They can hurt American industry, and at the same time they can hurt American labor.

In other words, we are being hurt with this bill twice, not only may it happen that imports can come in duty-free, tariff-free, without any tariffs, it can also happen as we spend more money for the defense of Europe, at the same time European manufacturers can undersell American manufacturers since they do not have to pay these vast amounts for the very necessary defense of the free world.

I feel that this bill will only bring trouble to this country. It will have to raise our taxes. I think if we have millions of workers who may lose their jobs through this great rise of European industries, all these people have to be fed. If these people have to get some kind of compensation while out of jobs there is no end to it. I would not worry at all if the Congress of the United States would be responsible for supervising this work. But one man alone, whoever this one man may be, is against what has made this American miracle so great. I believe if one wants to look at this difficult problem of tariffs, exports, imports of all these things, it would be much wiser to look much, much further, to look toward a United States of Europe which the Congress of the United States could bring about.

It would be wiser to look to a real union of the Americas, all the countries from the Arctic Circle to the Straits of Magellan, I believe it would be wiser to look at a free world commonwealth.

I don't believe that giving the President alone the authority that the President is asking for, I do not believe it would help this country. However, it can hurt it.

Thank you, Mr. Chairman.

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

Do you desire your statement be put in the record?

Mr. ROLLMAN. Thank you.

The CHAIRMAN. Do you desire your statement to be put in the record?

Mr. ROLLMAN. Excuse me?

The CHAIRMAN. Do you want your statement put in the record?

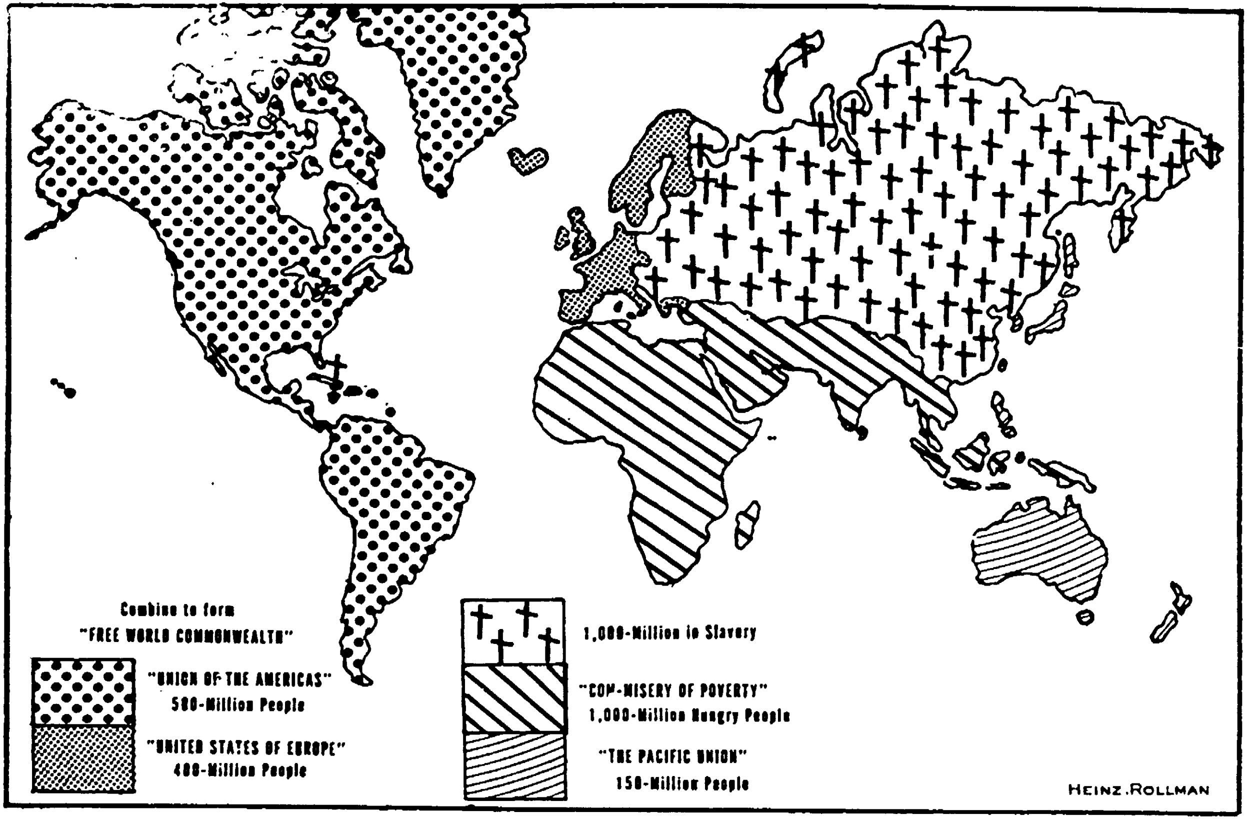
Mr. ROLLMAN. Yes, sir; that depends on you.

The CHAIRMAN. I understand you will have the colored map redrafted in black and white and submit it within the next 2 or 3 days. It will then be inserted in the record with your statement.

Mr. ROLLMAN. Thank you.

The CHAIRMAN. Thank you.

(The material referred to follows:)


Combine to form
"FREE WORLD COMMONWEALTH"
"UNION OF THE AMERICAS"
500-Million People
"UNITED STATES OF EUROPE"
400-Million People
1,000-Million in Slavery
"COM-MISERY OF POVERTY"
1,000-Million Hungry People
"THE PACIFIC UNION"
150-Million People
HEINZ ROLLMAN

STATEMENT OF HEINZ ROLLMAN, WAYNESVILLE, N.C., ON TRADE EXPANSION ACT

(Some of the books and pamphlets published by Heinz Rollman: World Construction (Peace Corps); Observer Corps (Disarmament); Khrushchev's Little Helper (Alliance for Progress); Proposal for the Protection of Members of Congress; China Unpuzzled; Disarmament Isn't A Problem—It's Two Problems; Strengthen the United Nations.)

Mr. Chairman and members of the Senate Finance Committee: I thank you for your invitation to be a witness here today, and I hope that I can make a small contribution, insignificant as it might be, as another part payment in return for what this country has done for me since I came here permanently as an immigrant in 1939. I am appearing as an interested citizen and do not represent any club, association, organization, government agency, or foreign government.

We have witnessed in this last half century one of the most pleasant and important things to happen to humanity. We have witnessed the American miracle, by far the greatest example for all human beings. The American example, if nothing else, has proven that technically, as well as emotionally people can put to good use the inventions made by scientists to raise their standard of living, health, leisure, and even freedom.

My testimony is entitled: "Another phase through which humanity will live."

Outside of the American miracle, the last 50-year phase through which humanity has lived belong to the darkest pages in history. These last 50 years were dominated by two horrible World Wars, the Mussolinis, Stalins, Hitlers, Khrushchevs, and Castros. The last 50 years have also witnessed the greatest number of people ever enslaved in the most ruthless and morbidly efficient way under a Communist dictatorship. We have also witnessed the totally unsuccessful emergence of the colonial nations, without any advantage of any kind to the people in these nations.

It is true that the people in India today are no better off than they were during the time that India was closely affiliated, maybe even dominated by Great Britain.

The average hungry person in the former colonies is just as hungry as he was 30 years ago; he has just as little medicine as he had 30 years ago; he has just as little hope as he had 30 years ago; he is just as unable today to call a doctor as he was 30 years ago; he still drinks contaminated water. A few intellectuals are happy to loosely use the word "freedom" as an emotional appeal to help politicians of all shades in these emerging nations to more power. For the average human being, freedom from hunger, disease, fear, and the elements is far more important than freedom from London, Paris, Lisbon, or Amsterdam.

The Trade Expansion Act under consideration by the Congress of the United States, and also actively being discussed with some of the nations in Western Europe, may be the vehicle to duplicate and use the American miracle not only in Europe, but also in the Western Hemisphere—indeed, possibly even the entire free world.

Any true evaluation of the bill under consideration can only be derived from a careful analysis of how this legislation fits into the broader overall picture of what we as a people and as a nation seek to accomplish.

As a basic premise, I believe the members of this committee will agree with me, the people of the United States seek to continue enjoying a dynamic growth in their standard of living. Aside from minor fluctuations of our internal and external economy, the greatest threat to the continuation of our progress and prosperity is the possibility of all-out war with the Communist world.

I further believe that the legislation under consideration, no matter what final form it takes, can only help us achieve our goal as an integral part of a much broader plan. Since the greatest threat to our own future and all of humanity is armed conflict with communism, we should consider what action (trading fashioned after the American miracle) can be taken to prevent such conflict, including armed deterrence, and the gradual elimination of conditions throughout other parts of the world that presently offer fertile soil for communism to take root, especially within our own hemisphere.

It is self-evident that the people in Europe, Asia, Africa, South America, indeed all humanity, would also like nothing better than a dynamic growth in their standard of living and freedom.

I have made it my concern to think of the future shape of things to come as they affect humanity. Gentlemen, I am convinced that what humanity needs today is not only to see Khrushchev, Mao, and all of communism go out of business, but what the free world really needs, indeed what the whole world needs, is planning for a future Garden of Eden. One can say that the greatest planners since the birth of Jesus Christ have been Americans. Who has devised a better plan that will serve humanity throughout the ages than the Founding Fathers? Who has planned better than American Governments? Who has planned more farsightedly and wisely than the Edisons, Fords, the Einsteins, and the Salks? Which government has ever passed laws that have enabled more free people to grow in freedom than the American lawmakers?

This is the type of planning that is needed today in trade, in international relations, in our whole relationship with the rest of the world. What is needed is the American miracle, with vision, not only for our own country, but with vision for the whole world. Any decision made by you in connection with the Trade Expansion Act, I am sure, will take the above into consideration. It will take care of trade in the larger sense, in the sense that it affects international relations, indeed as it will affect peace on earth.

The world is in need of a real United States of Europe; the world is in dire need of a real Union of the Americas; the world is in need of a free world commonwealth of nations under God, with one law governing a thousand million people.

I have actively fought for a European Common Market and a real effective United States of Europe after I returned from my first visit to America to my then native Germany in 1931. It was obvious to me that a Europe divided could never hope to do for its people a fraction of what existed and was taken for granted in America, even during the depression. I traveled the length and breadth of Europe, urging people to imitate America. I was worried about what the Stalins, the Hitlers, and the Mussolinis would yet do to Europe. Only a deranged European, in my opinion, could visit the United States and return ever to Europe, or if he had to return for personal reasons, could just let events, death, and war take their normal European course. On February 2, 1933, I faced for a whole night my own "private" 12-man firing squad. The worst they could call me was a dirty American for my writings, and speeches, advocating that Europe imitate America. I reserved passage from Belgium to America 1 year before the outbreak of World War II. I knew that I could not be of any further help to Europe once war broke out, and the war had to break out in the year and month that it did.

I have begged and pleaded with the American and British Governments not to assist communism when Russia was invaded by Germany; I have begged and pleaded for a different charter of the United Nations, since I knew what communism would try to do. I am here today to again plead the cause of freedom and full stomachs for all human beings. I am here to prove that America can do it, and we have the possibility to have billions and billions of dollars a year. I am also here to say that if now we do not do the right thing at the right time, unpopular as some of these things may sound, not only America but all of humanity or what is left of it, will forever regret it.

It is the purpose of this witness to show how the American miracle can be used the world over equally effectively if the American people so desire.

Such a plan is not Utopian, for some of the events in Europe since World War II have proved it can be accomplished. Communism has lost all its appeal to most people within the Common Market and the Outer Seven countries. Why? People driving to work in their own cars, or even scooters, people with full stomachs who have sufficient medicine and doctors don't mix better with communism than alcohol and gas mix. Except for some misguided souls, half-wits, fanatics, and sadists, communism as a way of bettering one's life, or acquiring more leisure, or to have a fairer society or have more freedom, is utterly and completely unappealing. Naturally, for any family going to bed hungry night after night, and being constantly unable to pay a physician when sickness befalls a member of the family, for such a family communism is highly attractive until tried.

As an example, look at the comparative year-by-year vote of the almost 100,000 workers in the Fiat Works in Turin, Italy. The Communist unions in the Fiat Works have lost ground in the proportion that the standard of living of the workers has increased. Most European countries, except Spain, Portugal, southern Italy, Greece, and Turkey, if we consider it as part of Europe, today have a political and/or economic climate which is poisonous to communism.

In a proper political and economic climate, economic revolution, fashioned after the American miracle, is possible in other parts of the world. It is essential that the Government of the United States help create such a climate, for it will be beneficial to us in many ways. It can relieve us of much of the heavy financial burden we now shoulder as the prime military bulwark against communism, and will stifle the growth of communism within our own hemisphere. But it will not only be beneficial to us in the United States. The right type of climate will be even more beneficial to the people in other countries, since they have far more to gain than we have to lose.

Europe has approached the point where it can afford to finance its own military defenses against Russia. In doing so, it will stem the flow of our own gold abroad and considerably lessen our own costs for military preparedness. The Common Market in Europe is the first step in the right direction, but it is only a first step. An all-encompassing political union in Europe is essential for continued economic growth and democratic freedom.

THE CONTINENT WITH THE SILVER LINING

The question, then, is this: Should the United States do everything in its power to bring about such a United States of Europe, in a true economic and political sense?

This will require of all of us a great amount of soul searching and a futile amount of pocketbook searching, since all of our pocketbooks will be affected in the most pleasant way. I believe that the members of this committee are well aware of the fact that a real United States of Europe does not need anything or anyone from any other nation on earth. They might want to buy some coffee, tea, or spices, but, by and large, they do not need to import vast amounts of food, and certainly they have no need to import any manufactured products whereever these might come from.

I fear that too many people in America confuse the European Common Market with a real United States of Europe, and imagine that the European Common Market resembles in any way the United States. The European Common Market is not even a fraction of a United States of Europe. Indeed, it is not a beginning of a United States of Europe. A United States of Europe will never result from the Common Market, since national jealousies and preferences have the same fertile soil to grow and prosper. The European Common Market may avoid another war between France and Germany. The European Common Market has helped to increase the standard of living of the people in these six nations, but it will all be for naught without the United States. It will all be for naught unless America, not with arms, but otherwise forces all of Europe into a true union, like the American miracle. We must also remember that the European Common Market is a purely artificial and unworthy creation—unworthy since it is not self-supporting but is supported by the United States.

I have the greatest respect for European ingenuity, for the ability of European managers, farmers, professionals, and workers. They, indeed, I believe, have the same individual abilities as their counterparts in the United States. But let us be honest. What would happen today to Europe if America would pull out. The next morning Russian soldiers would be all over Europe, and Europe would be one vast Communist camp. Through the unwillingness of Europe to unite, through the unwillingness of Europe to do something for its own defense, they have become, without us, sitting ducks for Communist invasion.

The European attitute, even if not loudly proclaimed by the leaders of Europe, has de facto been this: "You people in America, you don't like communism, you are scared of communism; you've got the money, protect us from communism while we concentrate on pastries, whipped cream, and Volkswagen. You in America keep merrily on spending $10 billion or more a year for nuclear research so that you can use the knowledge gained for our protection."

Even if America does not mind being played for the monumental sucker that we are played for now, this attitude of Europe endangers us far more than if Europe would be overrun by the Communist hordes.

While we are in Europe right up to our neck, we can be provoked into a nuclear holocaust. Brutal as this may sound, our only choice is to force Europe into forming a United States of Europe, for the protection of not only Europe and America, but the whole human race.

This is the simple, indeed proven, way, proven throughout the ages. We can do it.

After the Congress of the United States has determined that this is our policy, the President of the United States will make this speech to all the people in the United States and all of Europe:

"Dear fellow Americans and dear Europeans, the Congress of the United States has enacted a series of laws which in their foresight, wisdom, and consequences are as monumental to humanity as were the Ten Commandments, the Magna Carta, the Constitution of the United States, the ideas of Karl Marx, and the knowledge of how to split the atom. I believe that greater good will result from the decisions made by the Congress of the United States than from any other single action ever taken by man. You must remember that even though I am the spokesman for America, I, as spokesman, do not dispose of the taxpayers' money. This, as it has been wisely arranged by our Founding Fathers, is the duty of the U.S. Congress. Needless to tell you that without the necessary funds voted by the Congress, I am nothing but a figurehead. America does not have an Army without the funds being voted by the Congress; America does not have a foreign aid program without Congress voting the necessary funds; America does not send a man into outer space unless Congress so expresses it desire by voting the necessary funds for space exploration.

"Here is what I will tell you as a consequence of the laws enacted by Congress:

"Europe, unite now or we pull out within 12 months from today. You realize that if we pull out in 12 months from today, in 12 months and 1 day you will be Communist slaves. We don't want that to happen. Neither do you; therefore, these are our conditions while you are in the process of uniting, while you are in the process of forming a real United States of Europe, to include all presently free nations in Europe. We will, with American soldiers, with American technicians, and with American know-how, make all preparations that when your union is formed in a year from now, you will be in a position to protect yourself from communism and will have the ability to retaliate, should communism be insane enough to want to attack you.

"We will prepare everything for you, down to the last bolt and screw, except for the nuclear warheads on the Polaris missiles, of which we will sell you 100; except for the nuclear warheads on the antimissile-missile installations and on the missiles which we spread throughout Europe for the purpose of retaliation. We will deliver all the nuclear warheads against payment of all our costs that we incur during this 12-month period.

"This gamble, as a last gamble, we will take; we will remain in Europe during all these 12 months; we will warn Russia that in this 12-month period an attack on any part of Europe will be considered by us as an attack on our own land. On the day that your Congress and President of the United States of Europe is sworn in, we will give you the nuclear warheads. We will pull out completely except for technical teams. We will make available to you also on that day all our nuclear and missile know-how.

"How you arrange your United States of Europe is fairly immaterial to us, but we must warn you that if you try something new, something unproven, 1 year is too short a time to find the right answer; therefore, just be happy to imitate the American miracle all the way, political and economic. We know that Europeans have derived the American way of life for a long, long time. Possibly, you may be right that we cannot rattle off the titles of all the plays written by Shakespeare; maybe it's true that not every American schoolboy and schoolgirl can whistle all the symphonies written by Beethoven. But we have in all of our political campaigns spilled far less blood than you spill in 1 year. We have not used any plastic bombs; we have not abdicated from an empire. Our people can afford doctors; our people can afford recreation and we are in a position to safeguard our people and our Nation from any attacker, wherever he may come from. It is true that Mozart was born the other side of the Brooklyn Bridge, but Henry Ford has also brought an enormous amount of happiness to mankind. It is true that Aristotle made highly intelligent speeches while naked Indians were roaming Manhattan, but it is equally true that when the chips were down in World War I and World War II, we were the arsenal to rescue Europe."

A real strong United States of Europe will be the greatest bulwark against communism, but that is not all. A real United States of Europe will invite any day it pleases the Eastern European nations now occupied by Russia, to join the union as full-fledged States and human beings.

Russia cannot and will not lift a finger to prevent this. But even this is only the beginning. A real United States of Europe, fashioned after the American miracle, will infiltrate before long Communist Russia and communism will go out of business and a free Russia will join, as a free State with free people, the United States of Europe.

Russia, compared to a United States of Europe, has a vast number of handicaps. Not only is communism forever incapable of creating a better life for people, indeed it cannot afford to do so and stay in business, but Russia has only half the population of a United States of Europe, and at best only one-quarter of the inventive genius capacity and none of the freedom.

Some may ask the question, "How will a United States of Europe affect the American economy?"

It does not have to affect us at all, for these reasons: We have today a tremendous deficit in our dealings with Europe. True, we export a few more goods to Europe than we import, but we are also paying billions of dollars a year for the military defense of Europe. Visualize the following: Two nations identically alike; the same brainpower, the same freedom, the same ingenuity, the same inventive genius, the same fun for managers, farmers, and workers to produce, the same freedom to enjoy the fruit of their labor. Two nations as similar as twins. Well, obviously, there is not a thing that the one twin would need or want to buy from the other twin, except for freak cases. Maybe the one twin has the edge on making a certain perfume; maybe the other twin has an edge on making a certain ice cream. But both twins can manufacture all the goods that the people are able to buy; both twins can raise all the food that people can possibly consume; both twins indeed have a far greater ability to produce farm products than can possibly be consumed, since in both nations 1 farmer using the same methods and fertilizers can feed himself and 25 other people. Both nations have the same ability to manufacture medicines and houses. Trade will almost completely stop.

This is the definite shape of things to come when the United States of Europe has become a reality, for we must remember this:

As Europe increases its standard of living, it cannot produce goods cheaper than they are produced in America. Europe can only achieve the American miracle by imitating this miracle, and part of this miracle is that workers and the farmers share the wealth. With low wages there cannot be a high standard of living with adequate food, shelter, and leisure that the people of Europe are so eager for. Already today there are throughout Europe the more intelligent giant corporations acting exactly as do American corporations. We see labor unions in Europe acting more and more like American labor unions. Europe, before long, will have the same overhead expenses in manufacturing as we now have it in America; European management will want to be pampered just like American top management. Featherbedding in Europe, unknown today, will increase almost overnight, since in a common, all-inclusive European market unit, there is no labor shortage. No society can hope to have all the sweet without any of the bitter.

One may say that in America big business is not perfect, that big labor unions are not perfect, and why should Europe copy something that is not perfect. Well, I do not believe that in this particular 50-year phase through which humanity will have to live, we are going to create by any means a perfect or near perfect world.

It is true that we will be able to give more employment to workers in the car industry in Detroit when we stop importing European cars, as it is true that many soybean and tobacco farmers may have to look for new occupations. But we cannot make world history by worrying about an individual shoe manufacturer or an individual soybean grower. We can only make history by looking at the overall ambitions and the final overall results.

Every Member of Congress knows, as I know, that his wife does not buy in a particular supermarket to do the owner a favor. There has to be an incentive to buy from each other, and the incentive is either convenience, price, or choice. Europe does not need us any more than we need Europe for convenience, price, or choice.

I do not think that the U.S. Congress is concerned in which way, technically and emotionally, Europe goes about creating this long overdue union. There is certainly enough political savvy and know-how available in Europe to do so without American "political aid." It cannot possibly concern the Congress or the people of the United States whether or not the countries now being part of the British Commonwealth can sell their goods duty free to the United States of Europe or not.

For Americans it is of little importance who the first chief magistrate of the United States of Europe will be, nor who the members of the first European congress will be. If Europe uses its political know-how, Europe will be politically a carbon copy of the United States. Obviously, the dictators in Yugoslavia, Spain, and Portugal will be chased out. Obviously, the kings and queens will be comfortably retired. After all, they have not hurt anyone and Europe can well afford to let the last generations of kings and queens live out their lives in peace and comfort.

THE GOLDEN HEMISPHERE

With the problem of Europe, and communism in Europe, out of the way, we can now begin the long overdue concentration on the problem closest to home—the golden hemisphere—North America and Latin America, from the Arctic Circle to the Strait of Magellan. Being Americans, we will, obviously, not concentrate on this problem to the exclusion of anything else. But a fraction of our ingenuity and efforts alone will make this golden hemisphere not an empty phrase, but a reality for almost 500 million human beings. I must point out before going deeper into a proposal to form a Union of the Americas, one political and economic sovereign nation with 70, 80, or 90 separate States and State legislatures, that technically we have every ability to live without the rest of the world while improving our standard of living forever, and fully protecting ourselves from any aggression, regardless where such aggression might come from.

We can encircle our Nation with enough anti-missile-missile bases so that we can almost forever remain an oasis of plenty in a world desert of near nothing. I don't think that this will be our approach, though it will be well for the rest of the world to know that we can live that way and that whatever we undertake outside of our own borders is only to a very small degree done for our own benefit, and to the very largest extent is done by us, since we believe in individual freedom, since we believe in the Golden Rule, since in short we feel that we have a mission which is to spread our way of life, our form of political and economic freedom to the farthest corners of the world, and that we are even willing to take risks to accomplish this.

As long as humanity does not understand these simple facts of life, there is no hope that our actions, whatever they may be, can ever be understood or appreciated. However, in order to be successful, even if we are not appreciated, we have to be better understood, since if not, too much of what we do, we do in vain. If we have to forever fight those whom we want to help to help themselves, we will have lost precious time. If we are not understood regardless, then I would feel that it is better for us to force many of our ideas on other nations, not with the big stick, but with the big know-how, with the big experience, with the big hand of understanding, with the big hand that has the ability to produce too much of everything too soon, but then at least we will get results, tangible results: filled stomachs, better health, more freedom, instead of endless conferences alone.

Let us also unemotionally consider our total export and import situation. We cannot forever consider also as exports goods for which the American taxpayers pay. Giving gifts and loans to other nations to enable them to buy from us is a giveaway program, but is not building solid exports. Let us also remember that every nation will be happy to sell us all the goods that we want to buy, that no nation will cut off its export nose to spite its dollar income.

With Europe self-sufficient economically, politically, and militarily, we will be able to concentrate on the vulnerable soft underbelly of our own hemisphere.

Central and South America today provide the most tempting potential opportunity for the Communists to bother and frighten us. It is the only place where they can post a certain threat to us without resorting to nuclear war. For if Central and South America can be turned into one vast armed Communist stronghold, Castro style, we as a Nation would become very nervous. Not that it is in any way material where a missile is fired from, for it can kill you just as dead whether it is marked, "Launched from Havana, Mexico, Buenos Aires, Moscow, or Shanghai." Remember that it takes a missile longer to come from Buenos Aires to Washington, D.C., than from Moscow to Los Angeles. It is true that at the present stage of scientific development, it might be easier to intercept a missile that takes 7 minutes to reach its destination than one that only takes 30 seconds, but that approximately is the extent of the difference.

Changes are going to take place in Latin America, and only the Congress of the United States can influence the direction this change will take. And it cannot be accomplished with piecemeal actions based on temporary expediency. Only the Congress can take the necessary steps to help bring about the proper political and economic climate required to enable all of Latin America to lift itself out of its grinding poverty and unconscionable power-mad politics.

We have to form a true Union of the Americas so that the people in Latin America, in their justified desperation, do not have to embrace communism in the desperate hope of bettering their lives. We would then have a United States of Europe, with 00 million people, and a Union of the Americas, with 500 million people, very soon 2 blocs representing about 80 percent of the industrial output of the world; 85 percent of the freedom in the world; 90 percent of the ability to invent: and alone having the ability to help the 1,000 million people in what are now sometimes described as the underdeveloped or neutral countries.

America would have no earthly use for foreign bases anymore, bases which technically have become obsolete, since a long time, and are becoming emotionally more and more obsolete every day.

Let us take a closer look at this Union of the Americas, all of the states in the Western Hemisphere, from the north of Canada down to the south of Chile. This part of the world has every potential to become the golden hemisphere if it becomes an economic and political entity. It will be difficult, but it will be much less difficult than to live with more than 20 Communist governments in the Western Hemisphere, and it will be much easier for our brothers and sisters in Latin America to form a union with us than to live under a Castro-like Communist dictatorship.

Freedom is a wonderful thing, but it isn't so wonderful any more when it can be misused by inexperienced people to bring about their own enslavement. I believe if this Congress establishes a committee to study such a Union of the Americas, that we will have taken an enormous step forward, a step which more likely than not will be taken by the parliaments in all of the Latin American countries and Canada, too. Let these congressional committees from all the Western Hemisphere nations sit together and start working out a plan and a program. What language we are to speak in the Western Hemisphere? Or are we going to be bilingual, as are the Belgians? What currency are we going to use? How will we bring about this union? Will it come about by letting the people of each nation vote? And if a majority in a nation is for union, and if a majority of the people in a majority of countries have so voted, will we then force a union upon those that may have voted differently? In other words, how are we going about having a revolution without bloodshed and without machine guns and without concentration camps? Are we, as people, mature enough to bring about a peaceful revolution?

These are the problems that tie in very closely with the bill that the Senate Finance Committee is now considering. Are we going to raise our own standard of living by raising the standard of living of our friends, all of our friends, in the Western Hemisphere? On the one hand, we talk about the need of American venture capital; for instance, in Latin America. But which board of directors will let management start a new plant in Latin America until and unless that country lives by the letter of the law, without the possibility of military cliques changing the law at will? Which company is foolish enough to waste precious management talent in establishing subsidiaries in Latin America where one can be expropriated, without due compensation, overnight? Also, for a businessman, compensation is not at all the same as the ability to work and compete free of worry and harassment.

The problems and the details that need solving will look insurmountable only for as long as we don't make a beginning. It will be much easier to clean up a hundred thousand problems than to clean the atmosphere of atomic fallout.

The people in the Western Hemisphere have to unlearn as many things as they have to learn. We have to unlearn, for instance, that narrow nationalism is anything except a hindrance to human progress in the age of science. We have to learn, for instance, that it is utterly and completely unimportant for the welfare of the people of any nation whose name or whose shingle hangs on a mine or a manufacturing plant. Do the American people suffer from the fact that vast blocks of shares in General Motors and Ford, and dozens of other well known corporations, are owned by private individuals the world over? Does it make

Ford cars or General Motors cars run any less good? Do your hands get less clean from the fact that the majority of U.S. citizens wash their hands with soap made by American workers in factories that are in the United States but that are owned lock, stock, and barrel by people in England? The people have to begin to learn some economic facts of life, facts which are well known to Members of Congress, managers, and economists.

We must now visualize, in order to comprehend the enormity of what we are about to do, the Union of the Americas as a fait accompli. For the purpose of not taking up too much of the valuable time of the members of this committee, I will take many things for granted and oversimplify the following:

If all the Congresses and Parliaments in the Western Hemisphere would agree to form a political and economic union, this obviously can be done just as well as did the 13 Independent Colonies in the Congress of Philadelphia. There would obviously not be a lot of give and take, for it would have to be the United States that would give the advice. We have the know-how and ability, while Latin America would have to take the advice. This might not exactly endear us to some of the people in Latin America, but we are not out to win a popularity contest. We are rather concerned with helping humanity, not necessarily ourselves. We must remember that the Latin American nations are independent nations, and have been in many cases for as long as we have been, but yet they have been utterly unable to fill the minimum needs of more than 1 percent of the population. Nor are they able to do it in the next 100 years without imitating exactly the American miracle. They don't have to. They can adopt communism; they can further sink in poverty, but they have the choice to join with the United States.

Once such a Union of the Americas is politically in existence, all of a sudden billions of dollars now stashed away by citizens of South America in North America, Canada, England, and Switzerland, will appear out of nowhere in the Union of the Americas, since people with money are looking for safe investments, and the safest investment is the Union of the Americas.

Government under law can and must create an environment of confidence and guarantee the freedom of decent wages, decent return on money, sufficient fun and pleasure for management to use all the ingenuity people are capable of when they cannot be expropriated, when they are not taxed to death, when their straitjacket is flexible and when they are not answerable to a goon carrying a machine gun.

With Latin America divided into almost two dozen different autonomous countries, each country jealously guarding its borders, avoiding rather than creating trade, avoiding rather than helping the free flow of ideas and money, Latin America will remain just this way. But now visualize, if you please, that all this becomes one nation with one chief executive, with one national congress, freely elected, with one set of laws governing the lives of all the people.

Certainly in the beginning one will hear more of the activities of U.S. citizens than of the citizens of Bolivia, but this is only emotional glory. What will count is that this Union of the Americas has all the raw products within its borders, all the space for four times the number of people, all the technical know-how and knowledge to produce in factories and farms, to create a standard of living for all the people in the Western Hemisphere, as is now not even enjoyed by the people of the United States.

Technically and politically, the Union of the Americas is no problem. Emotionally, to be sure, it is a problem. Emotionally, it is a greater problem for the governments in Latin America than for the Government of the United States. It is harder for them, since they need us, and easier for us since we can well go it alone.

There is no question that American drive, American knowhow, and American ideas, once this union is established, will spread over this whole continent in an incredibly short time. Will that mean that the United States dominates Latin America? Not at all. We only would dominate Latin America if we make this economic drive without political union, for without political union we have different national and international goals. As a political union, our goals would be the same, from the Arctic Circle to the Strait of Magellan. The moment the Western Hemisphere becomes the union of the Americas, all the people in this union will have equal representation, since equal representation comes automatically with a common goal. This has been well proven in the United States, where by and large all the people in all the different States have equal representation and all are considered and all are heard, and all are taken care of. The insane jeolousies that Latin Americans now have for the United States will obviously gradually disappear as they start to enjoy the same life that we take for granted in America.

We must remember that in the eyes of Latin America, the United States never had the same goals as the Latin American nations.

There will spring up throughout the South American nations manufacturing plants owned by people from the United States, and by people in Latin America. There will be thousands of joint ventures, and basically, all of it will still be owned by the people, since the American miracle has enabled any worker, farmer or professional man to own a share in the industrial machinery of the country. Where now the poor farmer has to pull his plows, there obviously will appear the tractor, since it can be bought with time payments as we know it so well.

Once the same social laws govern all the people in the Union of the Americas, and once the same system of taxation applies to all the people in this union, there will disappear overnight in the Latin American nations the small class of multimillionaires and the vast masses of underprivileged. It is so utterly unimportant whether "Wall Street" or "La Rambla" is blamed for investing money or owning enterprises. The main thing for people is that they can produce enough on their farms and in factories that give them jobs and pay them a wage that enables them to buy the products they manufacture.

It is nothing but the American miracle and the easiest way to understand it is this: When our own United States of America has a population of 500 million people, each and every one will not only be as well off as we are today. We will all be better off, since our standard of living keeps on increasing. Now, instead of having to wait for our own population to increase to that extent, we would have a larger population in shorter time before so many women in America going through so much labor pain.

The technical simplicity, I admit, is absolutely frightening, and it will probably be on account of this simplicity that too many people will be too suspicious. But that it what we have the Congress of the United States for. The Congress who has been freely elected by free people, and has proven throughout the years that it can explain to the American people.

After the Congress has passed its own legislation to investigate the feasibility of a Union of the Americas, the President continues his world-wide address:

"* * * I, as the Chief Executive of the United States, up to now have addressed myself to my fellowmen in the United States and to all of our friends in Europe. I will now again address myself to my fellowmen in the United States, but also to our friends in Canada and Latin America.

"The Congress of the United States, with a large majority, has voted to form a Union of the Americas, one political union, one economic union, under one chief executive and under one common law, if Canada and the individual Latin American nations so desire.

"To begin with, I would like to make it quite clear that I will try everything possible to be elected as the chief executive officer of this union if it comes into being. I believe that I am well qualified for this job, that I am better qualified for this job than any other candidate might be.

"I have now been President of the United States for many years and in this capacity have not only been responsible in the administration for the affairs of the United States, but also I had to make innumerable decisions concerning Latin America and have faced problems as Chief Executive of the United States as few other people had to face in the last few years. I do not know in which way the Congress of the United States and the congresses and parliaments in Canada and throughout Latin America will find it best to bring about this union. There are obviously many fair ways to do so, but the next step is up to Canada and Latin America. Canada is no longer needed in Europe, and Canada can only hope to wither away without Europe as a market, but Europe does not need Canada any more than the United States of Europe needs the United States of America. To be sure, the people in the United States of Europe, when they find this advantageous and convenient, will buy cetrain raw products in Canada and from Latin America, but they may also decide to buy these same products in the same quantities from countries in Africa and southeast Asia. This is up to them and not up to us, as a Union of the Americas.

"The Congress of the United States has appointed a committee to enter into immediate and binding negotiations with like congressional and parliamentary committees in Canada and throughout Latin America. Their work and their deliberations, I am sure, will be successful.

"I, like the vast majority of the 500 million people in the Western Hemisphere, know that a Union of the Americas will be an accomplished fact in a few months from now. We all have to trade-in some emotional sovereignty for the greater good of all the people in the Western Hemisphere. Also, as my country's spokesman in foreign affairs, I want to inform you that the Congress of the United States has decided not to further allocate $1 for aid or assistance for any country in the Western Hemisphere in 12 moths from now, unless this Union of the Americas has become a living organism. The Congress has further passed legislation that if within a 12-month period this Union should not be in existence, that no American companies or individuals will henceforth be permitted to invest any money in any activity or enterprise of any kind in Canada or Latin America, and Congress has furthermore passed legislation that the United States in this case would not further permit any imports of any kind from, nor any exports of any kind, to Canada and the nations of Latin America.

"As you well know, the United States can well live without exports and without imports. Indeed, the United States can well live without having any intercourse with any other group of people anywhere on earth. As you well know, this, however, has not been our approach to life, and living: on the contrary, our approach has been to make the ailments of other nations our own ailments; to make the difficulties and problems of other nations our own difficulties and our own problems; to be as concerned about the loss of individual freedom in any nation as if we were deprived of our own freedom. But America has come to a new stage in its dealings with other nations, in its dealings with humanity. We have seen that with the efforts that we have made, that with all the goodwill we are capable of, we have indeed accomplished litle for the betterment of the people in this world. It is true that the fault is ours and ours alone. We tried to please everybody and wound up pleasing no one. We tried too often to buy peace and friendship and we wound up with a bag full of cynical enemies. These days are now gone forever. The game is either played according to our rules or we don't play.

"We do not threaten you; we do not coerce you; we do not blackmail you; we will not attack you. We will just sit by and watch what will happen to Europe if Europe does not form the United States of Europe, as we would watch what happens in Latin America without a Union of the Americas. Up to now we have been the arsenal for the whole free world, we have been the banker for the whole world; we have been the wet nurse to to the whole world. And the results are pitiful.

"We hate communism with all our heart. We hate dictators with a passion. We suffer emotionally from the loss of freedom of any people. But we will not start a global war for and on behalf of other nations. If need be, we will take part and come out as winners in a global war if we are attacked, just as we, as one part of the Union of the Americas will defend this hemisphere to the last drop of blood in us, as will all the people in the Western Hemisphere.

"I can assure you the people in my own country and in all the countries of the Western Hemisphere, that once his Union of the Americas has been established, there will be an age of plenty, an age of happiness as humanity has never believed possible.

"There will be differences in the standard of living for the people in this Union of the Americas, just as there are differences today in the standard of living in the Argentine and Bolivia, just as there are differences in the standard of living between Connecticut and Mississippi. As human beings become more and more mature, there may be less differences. There will be more fairness. But we are not looking for a near perfect union. We are looking now at the phase which humanity has to live through without perfect human beings. We are trying to accomplish today what is feasible today, not what might be possible in a thousand years from now. The only type of society that has been able to do away with most differences, at least on paper, is the Communist society, and in that type of society no one has a thing and no one ever will have a thing. We have the living proof of this in our hemisphere in Cuba. We do not need any little dictators in this hemisphere, and I am sure that the First National Congress of the Union of the Americas will decide to give freedom to the good people of Cuba.

"To begin with, there will be 500 million of us working in peace, friendship, and harmony, sharing the tremendous wealth that the Creation has provided in this hemisphere, and sharing the abundance of skills and know-how that are eager to be released and put to work. The next step is up to the people and their congresses in Canada and all of the Latin American nations. Let any military clique in any country in Latin America beware of trying to stop humanity's progress. The rightful wrath of the people will consume them. Let freedom ring from the Arctic Circle to the Strait of Magellan."

THE FREE WORLD COMMONWEALTH

With a United States of Europe well able to take care of itself in every respect, and the Union of the Americas headed toward a prosperous, plentiful, and wonderful future, we must then take steps to create what we can call any number of names, such as the "Commonwealth of Free People." or the "Atlantic Commonwealth," or the "Free World Commonwealth," or the "Christian Commonwealth." For this purpose, any name will do. It is important to remember at this point that up to the present the highest standard of living, as well as freedom, is enjoyed by what we usually refer to as the Western nations. This is not true for a number of countries in Latin America, nor is it true for the islands of Japan, Australia, and New Zealand, who enjoy a standard of living and freedom closely approaching that of the Western World.

The irrefutable fact remains that these high standards of living are enjoyed by people who have embraced the Judea-Christian religion, by these approximate thousand million people. Compared to their standard of living, the standard of living of the approximate 2,000 million people embracing the Buddhist, Moslem, or Hindu religion is appalling.

It is well possible that the United States of Europe and the Union of the Americas will pursue different goals with respect to both communism, under which now a thousand million poor people have to live, as well as to the thousand million people now living in abject poverty throughout southeast Asia and Africa.

Possibly, there may develop a rat race between the United States of Europe and the Union of the Americas as to who can best help liberate the thousand million from their Communist dictators, and who can help fill the fastest and fairest the thousand million empty stomachs in southeast Asia and Africa. Nothing finer than this competition for the hearts and markets of the people could develop, except for one thing, and that would be that the Union of the Americas and the United States of Europe become one nation under God, with one goal, with one mission under one commonwealth congress, with one commonwealth police force, and chief executive—a Free World Commonwealth.

The strength that this commonwealth would present to the rest of the world is indescribable. If this commonwealth speaks with one voice, it will be a voice to be heard around the globe. Both the United States of Europe and the Union of the Americas can live well without uniting, and can well afford to face 1,000 million hungry people, as well as 2,000 million hungry people, but united, as the Free World Commonwealth, will bring more happiness to humanity.

I will not discuss at this point what we can do to free 600 million oppressed Chinese, as explained in my article, "China Unpuzzled." I will concern myself here rather with the thousand million people in the underdeveloped countries, people who today are nominally still free. We can or we cannot offer them our help and assistance, but we cannot help them or assist them either as the United States of Europe or as a Union of the Americas or as the eventful Free World Commonwealth on their own terms. They have to accept this help strictly based on our own terms, and if they want the Free World Commonwealth to take the slightest interest in their welfare, they can no longer continue to play either neutral or play East against West. If they want to hook up with us, they have to permanently forget about communism.

If these thousand million people continue to go it alone, they will be sunk. If they hook up with communism, they have had it, but good. Their only hope is to hook up with a Free World Commonwealth, or with a United States of Europe, and the Union of the Americas as two independent nations.

It dwarfs the imagination what the thousand million people in the Free World Commonwealth can do literally overnight for these thousand million neutral people. Even for them an age of splendor can start if they will adopt our laws and our form of government, if indeed they follow and imitate the American miracle. But they cannot hope to share in the American miracle by getting money or military assistance from the Free World Commonwealth. They have to begin to learn that the only way to raise their standard of living is to start using, in an intelligent and proven way, those things which they have available in their nations which have been supplied to them free of charge by the Creation, as they have been supplied free of charge in the Free World Commonwealth.

We do not today, unfortunately, have a spokesman either for the United States of Europe or the Union of the Americas or the Free World Commonwealth. It will be next to impossible to present these underdeveloped nations with a program understandable to them as long as the Free World Commonwealth does not speak with one purpose, with one goal, and with one voice. The danger is that they may, in spite of everything or because of everything, go Communist one by one. There is no one today who can help them except the United States of America. After the Congress of the United States has decided to use all its power, ingenuity, and influence to help create a United States of Europe and a Union of the Americas, we, as a nation, have no need, right, or reason to keep any foreign military bases. We may, in order to safeguard humanity, not ourselves, tell the Communist empire that an aggression during the next 12 months on any nation in southeast Asia, the Pacific, or Africa, will be considered as an act of aggression against the United States, but we can speak no further today if in a year from now the United States of Europe and the Union of the Americas have become a reality. Only they can make commitments.

It is well to inject at this point that forming unions is obviously most practical for those nations that have more in common than not. This fully applies to Europe, and it applies almost to the same extent to all the nations in the Western Hemisphere. Indeed, it applies to all the nations proposed to form the Free World Commonwealth. It does not apply, however, to the same extent, if at all, to the underdeveloped nations, since their only common denominator, is poverty, hunger, and disease. Such people do not make for a strong union.

The Africans for a long time will scream that Africa is for the Africans, and I ask you, for whom else should it be? But what are the people in Africa going to do with Africa and what can they do? Absolutely nothing, without the help and assistance from the Free World Commonwealth, and what can southeast Asia really do by itself? Can it unite from Iraq, all the way through to the eastern tip of Indonesia? Yes, it can unite in splendid poverty, trying Socialist experiments.

How much trade can there really be under the present circumstances between Africa and southeast Asia? Not any to speak of. There is no strong, capable, or powerful nation in any of these countries. There is lacking any and all leadership. There is lacking any and all inventive genius. There is lacking the feeling for political freedom, and it has nothing to do with the fact that most countries in southeast Asia and Africa belonged to colonial empires for so long.

It is true that all of the thinking and decisionmaking took place in Europe. It is true that this was not conducive to bringing out the best in these countries, but there are also oher reasons which largely religious. It is too easy to blame everything on Allah. It is too easy to have as a constant excuse that it is Allah's will. Neither Allah nor God nor Buddha has willed it that people live forever in poverty and with horrible diseases. The reason that human beings are on this planet, if any, is for them to enjoy themselves while they are alive, to be happy while they are alive, to help their fellow man while they are alive.

If this is not the reason for humanity to be here, then there is no reason. To find a way, expedient as this may seem in the present phase through which humanity lives, it will be necessary to invite the chief executives of all the nations in southeast Asia and Africa to come to Washington for a know-how conference, as it will be important to urge their parliaments and congresses to appoint committees to meet together, possibly under the auspices of the United Nations, to discuss a future plan for these nations.

The Free World Commonwealth certainly does not want to see these nations become Communist satellites, not that it would affect the Free World Commonwealth, but it would horribly affect these thousand million people. Possibly, under the auspices of the United Nations good offices, these many countries in Africa and southeast Asia would try to form a loose federation. At this time they are not ready for more. The United Nations will be far more effective for these nations when it is removed from the United States, as described in my article, "How To Strengthen the United Nations."

Possibly, the best that could be hoped for at this time would be for these nations to do away with all their frontiers and all their trade barriers. Possibly, at this time these nations should not have their own private little armies which are utterly inadequate anyway to stave off communism, but they should have an international police force directed by one central authority. Such an international police force should consist of nationals from Africa and southeast Asia and should be under the direction and command of one of them.

There is no question that there is almost a whole world waiting to be fully developed to share in the age of science and splendor. The Free World Commonwealth can help bring this about with an enormous program of education and with millions of members of a Free World Commonwealth peace army to teach these underdeveloped nations the skills so it will only take them decades, and not centuries, to work themselves out of the misery they now live in. (See my book, "World Construction.")

Possibly, even in spite of anything short of war, they may live through a phase of Communist domination.

The President and the Congress feel that basically the attitude of the Free World Commonwealth will be not to forget about the unfortunate human beings in other parts of the world. He, therefore, continues his speech:

"* * * I, as head of the American Government, would like to address myself now to the thousand million people living in southeast Asia and Africa. The free world full well knows the dislike you have for the Western World. It is true that for many decades you were unable to make your own decisions, since the decisions were made for you in the capitals of the countries of which you were colonies. The United States has never believed in colonies and even though England, France, Spain, Portugal, and Holland did believe that colonialism was a good thing, at a certain time in history, you people must admit that these nations have gracefully helped you in the transition from colonial countries to independent nations.

"You hear so much in this world that the white race looks down on people with a different color skin. This is maybe true for hatemongers, idiots, and sadists in the Western World, but by and large the Christian religion would not be practiced in the dynamic way it is practiced in the Western World if we would not consider you as equals.

"Maybe the Western World has been too slow for your taste, considering you and accepting you as equals; nevertheless, this is history and you and we, all free people the world over, want to look now in the future. If you want to see a bright future before you, you must realize that ever since man was born he has tried to invent a way to have the cake and eat it too. This invention cannot be made. You have to decide in whom to place your trust, in the Communist gospel, or in the concept of the free world, free people with freedom and full stomachs. I am sure that the Free World Commonwealth, in spite of our different religions, which are not differences but only different beliefs, will, if given a chance by you, do everything in its power to teach you the skills and the know-how so that you are able with your own hands, with the things you have in your own ground, to improve your standard of living, your standard of health, your standard of shelter, and your standard of freedom. We are your friends and we will only forsake you if you do not trust us.

"The decision is up to you. We will not make war on you to force on you our love, understanding, know-how, and helping hand. But I am sure that the first congress of the Free World Commonwealth will make it its most urgent business to pass legislation that will show you thousand million people in the 'commisery of poverty and disease' that the free world is deathly serious in its desire to help you unite together into a 'commonwealth of hope' which, before another decade, we are sure will become the 'commonwealth of the happy' in which you will be able to fully share in the abundance of the creation.

"You do not need much patience. Wait a year and you will find it was well worth while waiting this year before joining communism. I am convinced that if you join communism, the Free World Commonwealth will turn its back on you."

THE PACIFIC UNION

There is, unfortunately, the matter of countries like Japan, the Philippines, Australia, New Zealand, and some others. I cannot provide a pat solution for these countries, unless they would want, as proposed by me many years ago, form their own union. It will not be, for reasons of distance, as effective a union as the United States of Europe, or the Union of the Americas, but it may help them stay alive without communism until communism goes out of business and we have a truly one-world community.

Some years ago I suggested such a Pacific union, including Japan. It is true that a union comprising Japan and Australia will be considered the least desirable union. It appears to be less than tempting for Australia to open its doors to millions and millions of Japanese, and millions of Japanese who have no land would immigrate to Australia. The population movement in Europe would almost be infinitesimal as would be the population movement in the Union of the Americas. We must remember that most people like to live in the country of their forefathers, and it was mainly the golden opportunity in America that made people leave their homes in Europe. People from the Argentine or Venezuela, even if they could travel and move as freely and change their residence as easily as people can change their residence from the east coast to the west coast in the United States, will not be tempted to do so if the economic opportunities in Latin America are the same as they are in the United States. People move away from their homeland for only two reasons: (1) to escape oppressions, and (2) to better fill their stomachs.

CONCLUSION

There are now about 25,000 lawmakers on the national level in the approximate 45 countries that make up the proposed Free World Commonwealth. Obviously, it is hoping for the impossible for even a fraction of the almost 1,000 million people in this Free World Commonwealth to fully grasp this particular phase through which humanity has to live. But it is realistic to say that at least 12,501 lawmakers know that this particular phase through which humanity has to live can be bloodless and free of some of the fears and tensions that were prevalent during other phases through which humanity had to live.

It would, I believe, be self-understood that while negotiations proceed to form the true United States of Europe, while negotiations proceed to form the Union of the Americas and while negotiations proceed for an eventual Free World Commonwealth, that the United States will continue its efforts to convince Russia that disarmament, in a safe way, eventually is possible. Whether these negotiations are attended by other governments or not, is really of no importance, since the quarrel, the disagreements and suspicions are confined to Communist Russia, on the one hand, and the United States of America on the other.

It would obviously help all humanity if the moneys now used for defense and possible aggression would be channeled into activities that will rather create than diminsh wealth. (See my article, "Observer Corps" and "Disarmament Isn't a Problem—It's Two Problems.")

If a United States of Europe becomes a reality, it is well nigh impossible for any nation to live outside of such a union, since very few countries in Europe are so self-sufficient that they can afford to go it alone. It must be made clear by the United States that any European nation that wants to stay outside the European union cannot look to Washington for help or export markets. The same is true also for all the countries in the Western Hemisphere. None of these nations can go it alone. If a country would not join the Union of the Americas, it is safe to say that it will positively wither away, that the standard of living of the people in such a country would come to the point of utter desperation.

If the Congress of the United States lets events take their own normal course, then Europe obviously might never unite, and might stay divided at the expense of the American taxpayers and the nerves of the American people.

I hope that it is quite clear that I am in no way preaching isolationism, nor am I advocating to carve up the world into different blocs. Quite simply, what I am proposing is this:

To form a Free World Commonwealth, which can only be formed if simultaneously Europe unites and the Western Hemisphere unites and then the two unite. In this way, the free world will be in a position to adequately deal, if necessary, with communism and the underdeveloped nations. Only if we take this step, will we avoid a nuclear holocaust which might do away with humanity.

This will be, by no means, the final phase through which humanity has to live, since there is nothing final when it comes to human beings.

The free world cannot do anything at this time to help the unfortunate thousand million slaves under Communist dictatorships, and the President considers it fitting to address his closing remarks to these unfortunate people:

"* * * I, as the Chief Executive of the United States, want to end my speech tonight addressing myself to the most abused people on earth, to the thousand million now living in Communist tyranny in Eastern Europe, Russia, and China. I know that all free human beings on earth feel as sad for you as do I. But the Congress of the United States feels that so many hundreds of millions of people the world over will die in a nuclear holocaust if by force we try to free you at this time, that I can only end with this prayer:

"May God preserve you and give you the strength to live through this horrible phase through which you have been forced to live through no wrongdoing or guilt of your own. May God give you the strength that without jeopardizing your own lives you will find ways and means to rid yourself of the tyrants who now oppress you. God willing, we are willing, I am sure, to help you with our love for humanity, with out understanding and with our know-how once you are free again."

The CHAIRMAN. Now, the next witness is Mr. Douglas S. Steinberg, National Confectioners Association of the United States.

Take a seat please, sir.

Proceed.

STATEMENT OF DOUGLAS S. STEINBERG, PRESIDENT, NATIONAL CONFECTIONERS ASSOCIATION

Mr. STEINBERG. Mr. Chairman, and members of the committee, my name is Douglas S. Steinberg. I appear as president and in behalf of the National Confectioners Association, headquartered in Chicago, Ill., which is a national trade association of candy manufacturers and suppliers of goods and services to the industry located throughout the United States.

With me here today is Mr. L. R. Hopkins, association vice president and chairman of the Washington committee whose company is Stephen F. Whitman & Son of Philadelphia.

Mr. Chairman, the full next of my statement is in printed form before you. Because of time limitations, I am summarizing it. However, I ask that the full text be printed in the record as if it had been delivered.

The CHAIRMAN. That part of your statement which you do not read will be printed as if you read it entirely.

This includes only your statement. It does not include the statement of Stephen Powers?

Mr. STEINBERG. Yes, sir, a little later on in my remarks here I also ask that be put in the record.

The CHAIRMAN. That is in the House record and it is quite lengthy and I think we can get it from the House record. This is in the Ways and Means Committee of the House?

Mr. STEINBERG. Yes, sir.

The CHAIRMAN. There is no need of putting it in both records.

Mr. STEINBERG. The confectionery industry, in terms of value added by manufacture is the 8th largest in the food and kindred products group. In terms of employment, it ranked 6th in 1961 averaging 79,800 employees of which 62,800 were production workers.

The National Confectioners Association is opposed to H.R. 11970 in its present form. We feel we have substantial reasons for this opposition and a lengthy presentation would be required to properly present the facts and data which we believe would conclusively demonstrate that H.R. 11970 should not be enacted.

As you know, we were only allotted 15 minutes and I am going to do the best job I can do in that time. When the bill, then known as H.R. 9900, was considered by the House Ways and Means Committee, our industry submitted a comprehensive presentation including many exhibits containing facts pertinent to our industry which have direct bearing on the proposed legislation.

This statement contains several tables of pertinent statistics to which I shall make reference in my presentation. Therefore, it is requested that Mr. Powers' entire statement with the attached exhibits be printed in the record of the hearings at the conclusion of my statement.

Senator CURTIS. Mr. Chairman, I share the chairman's view on saving what we can on printing. I wonder if we can direct the reporter at this point to call attention to that statement in the Ways and Means hearings by volumn and page?

The CHAIRMAN. No objection to that.

If the Senator thinks it ought to be inserted——

Senator CURTIS. Not inserted but merely have the reporter show the volumn and page it appears in the House hearings so it can be read in conjunction with this.

The CHAIRMAN. That is a very good point and it will be done.

(Statement of Stephen T. Powers appears on p. 3328 of pt. 5 of the hearings before the Ways and Means Committee.)

Mr. STEINBERG. As you know, H.R. 11970 would authorize the complete elimination of all import duty on certain groups of commodities for which it is determined 80 percent or more of the world trade is between the United States and the European Economic Community.

In his testimony before the Ways and Means Committee, the Secretary of Commerce presented a list of categories including confectionery, which the Department had determined 80 percent or more of the world trade occurs between the United States and the Common Market.

Confectionery is included in that list. We are told that just because the power to eliminate duties is bestowed upon the President this power will not necessarily be used. However, we know that the power under the current program has been used and have every fear that the increased power under H.R. 11970 would be used broadly.

Confectionery is one of 26 commodities in the group for which the administration already has asserted it would have the power to eliminate all duty under the Common Market trade category.

In any event, we do not believe the President and administrative officials should have this power. Individual efforts of our industry members should determine our future and not the actions of Government.

In the case of confectionery, import duties already have been reduced drastically and imports correspondingly have increased substantially and are still increasing at the present rate of duty. Your attention first is invited to exhibit I, page 2 of the House testimony. You will note that imports of sugar candy and sweetened chocolate in 1951 totaled only 14,841,000 pounds but that 10 years later in 1961, imports had increased more than four times to 68,375,777 pounds.

You can see, therefore, at the present rate of duty, imports are increasingly materially and we feel confident they will continue to increase at the present rate of duty. If the import duty should be eliminated or even reduced as the proposed new legislation would authorize, the effects upon our industry would be critical indeed.

Your attention next is invited to exhibit III of Mr. Powers' testimony. In this exhibit, you will see how imports have increased as import duties have been reduced. The import duty in 1930 was 40 percent ad valorem on both sugar candy and sweetened chocolate. It now has been reduced to 14 percent ad valorem in the case of sugar candy and 10 percent in the case of sweetened chocolate.

These tariff cuts already have been too substantial and equity demands an upward adjustment in tariffs on confectionery and chocolate. Certainly the President should not have power to reduce or eliminate such import duty.

While our imports have increased more than four times in the last 10 years, our exports are at a lower level. Concerning exports your attention is invited to exhibit V of Mr. Powers' statement which indicates import duties and other restrictions imposed on confectionery by various countries all over the world. You will note that practically all of these duties are much higher than the United States imposes upon foreign confectionery.

In the very few instances in which the duties appear to be lower, import licenses are required which virtually prohibit the shipment of confectionery to these countries. You will observe that not only are the import duties on confectionery in other countries of the world higher than the U.S. import duty on confectionery, but that they are many times higher, in some instances more than 20 times higher than the United States imposes upon foreign confectionery.

Many countries have raised their tariffs in recent years. A number of these countries are not members of the General Agreement on Tariffs and Trade and, therefore, although they are not required to give the United States any concessions under the most-favored-nation clause of GATT, we are required to extend our reduced tariff rates to those countries.

For example, you will note in exhibit V, page 4, that Mexico imposes on chocolate confectionery a duty of approximately 12½ cents per pound plus 100 percent ad valorem plus 3-percent surtax.

Incidentally, the 100-percent rate until recently was 90 percent. Now, however, by order of the Mexican Government dated November 3, 1961, Mexico has imposed an absolute embargo on the importation of chocolate confectionery. Mexico, still, however, has the benefit of our low 14-percent duty and could ship confectionery into the United States absolutely free of duty if H.R. 11970 should pass and the President by negotiation with the Common Market should eliminate the U.S. import duty on confectionery even though Mexico or none of the other countries which have very high tariffs and which are not members of GATT should offer nothing in return.

This, we believe to be obviously unfair.

Let me point out another reason for our opposition.

Grossly unfair import competition already has been created by our own Government in the case of confectionery in the following ways:

(*a*) We are required to pay much more for practically every important agricultural commodity which we use as an ingredient in the manufacture of confectionery than our foreign competitors are required to pay for the same ingredients when used in the manufacture of confectionery to be shipped to the United States.

Your attention is invited to exhibit VI of Mr. Powers' testimony which compares U.S. ingredient prices with those of our foreign competitors. On the average we must pay approximately twice the price which our foreign competitors pay for the same agricultural commodities.

In the case of sugar, a principal ingredient of our industry, we are required to pay 2½ times the world price which is the price for which sugar may be obtained by our foreign competitors if the confectionery is to be shipped to the United States.

For the Government on the one hand to force us to pay these very high prices for the ingredients which we use and on the other hand to vigorously champion H.R. 11970 which the Secretary of Commerce states would authorize the President to eliminate entirely the import duty on confectionery, we consider to be grossly unfair.

(*b*) Stimulated by our own minimum wage law, the wages and benefits which the U.S. confectionery industry pays its workers are several times those paid by our foreign competitors.

Your attention is invited to exhibit VII of Mr. Power's statement which presents a comparison of wages paid in the United States and abroad.

The President has described the provisions of H.R. 11970 as representing a bold new approach. We agree but we are convinced it is not in the best interest of the United States. Although we realize that State Department officials are aware of the broad and extremely far-reaching provisions of the bill, we do not believe its broad ramifications are appreciated by many others.

We know, however, that this committee is going to carefully consider the matter. We believe and are hopeful that the committee will conclude that H.R. 11970 should not be enacted, that it does too much and goes too far.

In fact, we believe that it moves in the wrong direction. As an alternative would it not be better to extend the current program until June 30, 1963, avoid these serious consequences and in the interim permit Members of Congress to carefully determine what trade agreements legislation is in the best interest of the United States? We strongly recommend for your consideration this suggestion.

If the committee, even in view of the considerations I have mentioned, should decide to report H.R. 11970 in a form other than authorizing a 1-year extension of the current program, we urge that a number of important amendments be adopted.

1. STRENGTHEN THE PERIL POINT

The current trade agreements program, as committee members are aware, contains a peril point provision which requires the Tariff Commission after the holding of public hearings to establish peril points on all commodities on which the President has indicated his intention to negotiate. Once the peril point is established, the President may not reduce the duty below that level without reporting to this committee and the Ways and Means Committee. In 8 years of office President Eisenhower did not lower a single duty in violation of a peril point.

In 1962 President Kennedy has violated 62 peril points. He has approved the lowering of our import duties in 62 instances to levels below which the Tariff Commission has found reduction would cause or threaten serious injury to the domestic industry.

True, the President has reported to this committee and the Ways and Means Committee as required by the law.

Under H.R. 11970 as now proposed such situations are resolved by elimination of the procedure entirely. We do not think Congress should authorize such a whitewashing solution to such a critical matter.

It is the peril point provision which has enabled the confectionery industry to maintain even its currently low 14 percent rate of duty. Despite the equities of the situation, confectionery always has been listed for further tariff concessions and peril point hearings have been necessary. You may say that H.R. 11970 provides elaborate procedures for the development of lists, formal public hearings by the Tariff Commission and findings and reports by the Commission to the President. A procedure which on the surface looks very much like the current peril point procedure but which is entirely different. Whereas under the current law, the President is required to respect the peril point findings of the Tariff Commission or report to the Finance Committee and the Ways and Means Committee, the findings which would be required by the Tariff Commission under H.R. 11970 are not peril point findings but merely reports and comments which are entirely advisory in nature with no requirement whatsoever that they be followed by the President.

I consider the provisions requiring the development of a negotiation list of items to be considered for reduction, the holding of hearings and the submission of reports prior to international negotiations as provided in H.R. 11970 as being comparable to a beautiful eight-lane, limited-access, divided highway which dead ends in the jungle. We urge the committee to retain the existing peril point procedure except that we believe it should be strengthened so that the President will be required to abide by Tariff Commission peril point findings and not permit him to disregard such findings by merely reporting his already accomplished violations of peril points to this committee and the Ways and Means Committee.

2. THE ESCAPE CLAUSE PROVISIONS OF EXISTING LAW SHOULD BE STRENGTHENED

As you know, this is the provision which authorizes an industry which has been injured by import competition as a result of duty reductions to obtain a hearing before the Tariff Commission for either an increase in the import duty or the imposition of import quotas. If the Commission finds injury it may recommend an increase in import duty or the imposition of a quota to the President who may or may not follow the recommendation. As the committee well knows the Commission's recommendations for escape clause relief have been rejected rather than accepted by the President in an overwhelming number of instances.

We feel that a majority of the Members of both Houses of Congress should be permitted to affirm a Tariff Commission recommendation over the objection of the President. We are pleased that the House of Representatives authorized such action in its passage of H.R. 11970 but the way the provision is included in the House bill is an empty gesture. In order for both Houses of Congress to be assured of an opportunity to vote on affirming a Tariff Commission recommendation not accepted by the President within the time limit provided, such action should be authorized to be taken by means of a privileged resolution. Certainly if the Tariff Commission has made a finding of injury to the domestic industry and the President has not accepted that finding, all Members of Congress should have an opportunity to vote on the matter. As now provided in the House bill, I consider the procedure comparable to a congressional authorization which is not followed by a congressional appropriation.

3. COMMON MARKET RECIPROCITY SHOULD BE REQUIRED

It is recognized that the announced objective of H.R. 11970 is the obtaining by the United States of reduced or eliminated tariffs from the Common Market countries in return for reduction and elimination of duties which the United States might grant. However, there is no provision guaranteeing that we obtain genuine reciprocity. For example, the existing Common Market duty on confectionery is 30 percent ad valorem. The U.S. import duty on confectionery is 14 percent ad valorem. We think that before the President should be allowed to negotiate downward further our own low 14 percent duty a required prerequisite should be the reduction of the existing 30 percent Common Market duty on confectionery to 14 percent. Of course, the same principle should apply to all commodities and not just confectionery. In short, in the case of categories or commodities wherein the Common Market duty is higher than the duty the United States imposes on comparable products, we urge the committee to require the Common Market or other country with which negotiations are to be commenced to lower its duty to the U.S. level on the same commodity before negotiations may even commence. What could be a fairer request?

4. ANY TARIFF REDUCTION AUTHORITY SHOULD BE LIMITED TO 20 PERCENT

Actually we believe that in the case of most commodities, the United States already has reduced its tariffs to dangerously low if not critical levels and that there are few commodities in the tariff schedule on which a lower tariff is justified. However, if the several suggestions we have recommended under items 1, 2, and 3 all are approved, we feel that the Congress could authorize additional tariff reductions not to exceed 20 percent. Over the years when Congress has authorized tariff reductions they have been in amounts approximating 20 percent. Certainly the broad 50-percent reduction urged by the President and the complete elimination of certain tariffs should not be approved and we see no basis why authority should be granted for a reduction of tariffs of more than 20 percent of the rate in effect on July 1, 1962, now that many tariffs already are at dangerously low levels.

5. ELIMINATE THE "MOST-FAVORED-NATION" PRINCIPLE

Of all of our international tariff policies, I believe that the most-favored-nation principle is one of the most unsound. As you know, under this principle when the United States negotiates a tariff reduction with any country in the world, we are required to give the benefit of the reduction to every other country in the world other than Iron Curtain countries. To us this neither makes good sense nor is good business. Earlier in my testimony, I illustrated how this works in the case of Mexico. Here we have a country with whom we do much trading. Mexico is not a member of the General Agreement on Tariffs and Trade but nevertheless gets the benefits of all of our concessions to any other country and is not required to grant anything in return. The most-favored-nation principle may be sound as to those countries which are members of GATT even though we are not completely convinced that it is sound. Certainly it is not sound in the case of the many other countries of the world who are not members of GATT but who obtain the benefits which the United States and other countries grant to countries which are members of GATT.

6. THE ADJUSTMENT ASSISTANCE PROVISIONS OF THE BILL SHOULD BE ELIMINATED

About one-third of H.R. 11970 deals with tariffs and trade. The other two-thirds pertains to providing special assistance and benefits to workers and industries injured by this legislation. It is not conceivable that the U.S. Government should want to develop and place into effect a plan which it knows, recognizes, and admits is going to seriously injure American workmen and industry and then to provide crutches for the injured workers and industry. The entire adjustment assistance provisions of the bill should be deleted and the relief to injured industries and workmen should be in the form of increased tariff protection or import quotas.

7. EXTENSION OF THE ACT SHOULD BE LIMITED TO 2 YEARS

If Congress is to give the President broad power in the field of tariffs and not fully assume its constitutional responsibility, the exercise of this power should be reviewed at least every 2 years to determine whether it is being used judiciously and discreetly and in the interest of the United States and to determine whether or not the granting of the power should be continued. A 5-year extension as provided in the bill is too long.

8. The bill should specifically prohibit further tariff reductions on items on which it is apparent that the import duty either already is too low or should not be further reduced.

Items on which it is apparent that there should be no further reduction should not be left to the discretion of administrative officials. Instead import duty reductions on these items should be prohibited specifically. Confectionery definitely is one such item.

We know that there are many other such items, although, of course, it is not our function to speak for other industries. It would seem that it would be sensible to list all such items in one amendment. I cannot overemphasize how important we consider this last recommendation. When it is apparent that the duty on confectionery and other items should not be further reduced, we are opposed to administrative discretion but instead urge legislative direction.

CONCLUSION

Let me restate that we think the sensible solution to the problem is an extension of the current program until June 30, 1963, primarily because of the hurried consideration and general lack of understanding of the broad provisions of the bill. For example when the matter was considered on the floor of the House, we found that many of the Members of the House did not understand the difference between the peril-point provision of the law which prevents the lowering of duties and the escape clause provision which is a means of providing relief in the form of increased duties to industries which have been injured. Likewise we found that many Members of the House did not recognize the difference between the peril-point provision of the current program and the proposed new provisions of H.R. 11970. Under the current program, the peril-point provisions do provide some protection to the domestic industry. Under H.R. 11970 the proceedings, although similar in nature, are entirely advisory without any binding effect.

Finally, we believe that Government officials have not adequately represented U.S. business interests in international tariff negotiations. We feel our country has more often than not given more than it has received and as a consequence the United States has been the loser. Therefore, good judgment dictates withdrawal of present authority and certainly not the granting of vastly increased authority as called for in H.R. 11970.

The CHAIRMAN. Thank you very much.

Senator CURTIS. Mr. Chairman; how many people are engaged in the confectionery industry, Mr. Steinberg?

Mr. STEINBERG. As indicated here, sir, we have 79,800 employees, which was an average in 1961.

Senator CURTIS. I know it is very important. I believe that the candymaking industry is the largest employer in the city of Lincoln, Nebr.

Mr. STEINBERG. Yes, sir.

Senator CURTIS. And I know by exhibit 8, the average wage paid, according to your table, is $2.18 an hour and there isn't a foreign country that pays as much as a dollar.

Mr. STEINBERG. That is right, sir.

Senator CURTIS. All of the ingredients used by your industry are agricultural?

Mr. STEINBERG. That is correct. We are one of the largest users of agricultural commodities, dairy products, of any industry in the country.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator WILLIAMS. Mr. Steinberg, I merely want to say you have done an excellent job in condensing your recommendations and they certainly will be considered by the committee.

As I understand it the peril point should be retained and strengthened?

Mr. STEINBERG. Yes, sir.

Senator WILLIAMS. And you are recommending the act be extended for 2 years, rather, than the 5 years by the administration?

Mr. STEINBERG. Yes, sir.

The CHAIRMAN. Those points mentioned by Senator Williams are your main recommendations or amendments to the present bill?

Mr. STEINBERG. Our prime recommendation would be that the present law be extended until June 30, 1963, but if the committee in its judgment feels that this bill should be put forth then we believe these recommendations would strengthen the legislation.

The CHAIRMAN. I am sorry to interrupt, but we have a schedule here we have to adhere to.

Thank you very much, sir.

Mr. STEINBERG. Yes, sir.

The CHAIRMAN. The next witness is Mr. L. Russell Cook, Chocolate Manufacturers Association of the United States.

Will you take a seat, sir, and proceed.

STATEMENT OF L. RUSSELL COOK, VICE PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE UNITED STATES

Mr. COOK. Mr. Chairman, may I thank you for this opportunity of presenting our views.

My name is L. Russell Cook. I am president of the Ambrosia Chocolate Co. in Milwaukee, Wis.; vice president and chairman of the executive committee of the Hooton Chocolate Co., in Newark, N.J.; vice president of the Chocolate Manufacturers Association of the United States, and appear before you today as chairman of that organization's tariff committee.

The Chocolate Manufacturers Association is a national trade association composed of chocolate manufacturers responsible for the production of an estimated 80 percent of all the chocolate manufactured in this country.

The purpose of my appearance is to tell you some of the reasons that lie behind our strenuous opposition to the trade expansion bill, H.R. 11970. We are certainly not at odds with the basic objective of stimulating trade and the general economic health of our Nation. We do not disagree with the broader objective of joining the free world to the economic advantage of all of its members. Neither do we quarrel with the hopeful objective of drawing the relatively underdeveloped countries of the world into the advantages to be gained through stimulated international trade. We do object to H.R. 11970 as a means of reaching these universally desired goals because we do not believe it can serve as a vehicle in their direction.

We believe this bill to be discriminatory to some segments of our industrial complex and self-consuming to our country as a whole.

We believe, also, that it would represent an abdication of its responsibilities by the Congress.

Since many have come and will yet come before you with arguments as to the effect of this bill on the general welfare of our Nation, I would like to defer the broad question without deemphasizing it, and risk the acquisition of selfish interest by first telling you wherein our industry would be damaged by passage of H.R. 11970.

We do not believe that we are greatly different from other members of the vital U.S. food industry, but specific illustrations in our own backyard will serve to point up an area of sensitive danger to the manufacturers of all foods and to the farmers of this country who raise most of the ingredients these manufacturers use.

Among the laws of our country is one which says, in effect, that it is wrong for a supplier to sell the same product at a different price to each of two customers who in turn compete with each other, if such price differential will lessen competition or will threaten to do so.

For instance, a sugar refiner would be violating the law if he were to sell sugar to one chocolate manufacturer at 8 cents per pound and to a competing chocolate manufacturer at 9 cents.

The reason is obvious: It just isn't moral or fair. It is discriminatory and therefore is justifiably outlawed.

Yet our Government not only allows us to face this identical situation from foreign competition, but aids and abets it by lack of compensating tariff protection. As a result of legislated sugar controls we pay more than twice the price at which sugar is available to the rest of the world.

Illustratively, the New York Journal of Commerce quoted sugar in the United States on February 28, 1962, at $9.40 per hundredweight. On February 24, 1962, the London Public Ledger quoted a London price of $3.69 per hundredweight. What does this mean in making chocolate?

Chocolate formulas contain on the average of 45 percent to 50 percent sugar, so it is easy to figure that U.S. manufacturers have a higher cost by $2.56 to $2.85 per hundredweight than their British and European counterparts.

Gentlemen, my company specializes in manufacturing chocolate coatings and similar products for the manufacturers of confectionery, biscuits, and ice cream, and we would lose any customer on our books if we were high in price by only 20 percent of that difference. Nor is that all.

Almost two-thirds of all the chocolate made in this country is milk chocolate, and a similar situation exists in milk—another product whose price is artificially raised to us as a result of subsidies. Illustratively, the Daily Dairy Market Report of the Agricultural Marketing Service of the U.S. Department of Agriculture quoted 28 percent butterfat dry milk solids (the kind we use in milk chocolate) at 37 cents per pound on February 23, 1962.

On February 28, 1962, the Danish export price reported in the trade was 23.3 cents per pound. What is the effect of this difference on chocolate costs?

FDA standards for milk chocolate require a minimum of 12 percent whole milk solids, and average milk chocolate will run from this level up to 15 percent and higher. Using these two levels, our milk chocolate costs are from $1.64 to $2.05 per hundredweight higher than our foreign counterparts as a result of our subsidized milk prices.

If you add together just these sugar and milk penalties that we pay as a result of current laws, our costs of milk chocolate are from $4.20 to $4.90 per hundredweight higher than those of our foreign competitors. This difference compares with a total current cost of from 27 to 32 cents per pound of this type of chocolate, 15 percent of it, in other words.

Gentlemen, is this what you'd call fair competition? Certainly if such a situation existed among our own manufacturers, someone would quickly land in jail.

Yet with this artificial situation already existing, as between U.S. and foreign manufacturers, we're asked to be broadminded and open the gates still more. What gates?

U.S. duty on chocolate imports is 10 percent ad valorem, an amount sufficient to balance only about two-thirds of the higher cost that we have as a result of just the higher sugar and milk prices that we must pay. This compares with average United Kingdom duty on chocolate of 14 percent ad valorem, Netherlands duty on chocolate of 24 percent ad valorem, France with 30 percent, West Germany with 42 percent, and so forth. We don't need to open our tariff gates; they are already easy enough to simply jump over.

Even if all countries eliminated all tariffs on chocolate, products of equal intrinsic quality could not be made in this country competitively with foreign products under current subsidized price conditions.

How is it then, that foreign chocolate has not already stolen our business? Simply because factories across the Atlantic are just getting around to it after postwar rebuilding.

Since 1948 they have already almost doubled the chocolate confectionery imported into this country, and the Foreign Trade Division of the Bureau of the Census, in Report No. FT 110, tell us that in the first 4 months of 1962 the tonnage of chocolate confectionery imported has exceeded the same period of 1961 by over 24 percent. The small hole in the dike grows at a fantastic pace.

Early in June of this year we met a new type of import—bulk chocolate coating from Europe. It was offered at $24.88 per hundredweight delivered in New Jersey, with lower bids solicited.

Calculating from its declared constituency, which we found to be correct, our cost—repeat: cost, not price—for manufacturing the same product at the same time was $26.32 per hundredweight, $1.44 higher.

Are we, then, inefficient? Gentlemen, if we subtracted our total labor expense from our cost, it wouldn't equal the difference between the foreign delivered price and our cost.

These cost figures I have given you are not the only ones to be considered. For further illustrations, including peanuts, almonds, and other products, I refer you to the statement of Stephen T. Powers made in behalf of the National Confectioners Association before the Committee on Ways and Means of the U.S. House of Representatives on April 6, 1962.

In the tables presented by Mr. Powers is reference to another "ingredient"—labor. You've heard a lot about that already, as applied to all industry, and I would mention only that if fair and equal opportunity to compete is desired in trade, then all ingredients must be available to all at equal prices, including the ingredient of labor. I doubt that American labor would or should be willing to furnish its commodity at average world prices, or that we would enjoy seeing higher unemployment if they don't. We are expected to be consoled by the claim that foreign labor will quickly climb to our wage standards.

Personally, I think we'd all starve before that could happen.

The Chocolate and Confectionery Industry, and indeed all food industries, need more protection, not less, while carrying the burden of artificially high costs.

While you are doubtless already more than amply supplied with identical testimony, we would like to add our voices to those others who object to H.R. 11970 as a matter of principle.

For too many years Uncle Sam, alias Uncle Santa Claus, has been on the giving end. Where reciprocal concessions have been made, we are too accustomed to giving one horse and receiving one rabbit. Never in the history of mankind has a nation acted so apologetically over its success. We are seemingly so ashamed of our industrial accomplishments that we are anxious to divest ourselves of our assets as fast as we can.

With such an habitual position of apology, it is downright suicide to give into the hands of job-protected bureaucrats the power to decide our economic life or death. This power must be retained in the hands of the Congress, where it belongs. Remember how the senators of ancient Rome gradually passed their powers to one man and his staff, and ended up with a line of Caesars.

One of the very common experiences in shopping life today is to find an imported producted of quality equal to a domestically manufactured one, but at a lower price. If a foreign manufacturer can export to this country and undersell an American manufacturer on equal quality, won't he be able in his own country to undersell the same American manufacturer even if all tariffs were zero?

How, then is H.R. 11970 going to expand American exports?

Is there anything we make that other countries don't now or in the near future won't be able to make—and cheaper, with lower cost labor and ingredients?

If they do it by pure excellence of performance, they deserve to get all of our business they can; but until equal competition can be provided by equal costs for labor and for unsubsidized ingredients, we are only kidding ourselves by thinking that the reduction or elimination or tariffs will correct inequities that were not in the first place created by tariffs.

The adjustment assistance program is evidence of expected failure within the bill itself. If the bill isn't going to harm American business and labor, we don't need adjustment assistance. If we accept such assistance, our businesses will very obviously be under the control of the Federal Government. In any event, such an insurance policy doesn't help the deceased very much after he's dead.

Perhaps the worst feature of the adjustment assistance program is the temptation it will offer the official deciding any tariff issue at hand to be more careless with the welfare of the business and labor force involved. It makes it too easy for him to think: "Oh, well, if I'm wrong and they get badly hurt, there's always the adjustment assistance program."

I'm not being naive, gentlemen. You know as well as I do that such an attitude is only human nature, and cannot help but arise to influence the men on whom, under this bill, we would have to depend for our economic defense.

Finally, I would like to ask you a question. Much is being said today about buy American. The Defense Department, for one, is making strenuous efforts along these lines, apparently trying to help reduce gold dollar payment imbalances.

What do we want, more American goods purchased—or less? While certainly more American goods will be sold abroad with mutual tariff reduction, do you honestly think the increase of exports will equal the increase of imports when the latter are already cheaper than our products in our own stores?

Let's be practical: We can't help the rest of the world by weakening ourselves.

Thank you, Mr. Chairman, and members of the committee, for this opportunity of presenting our views.

The CHAIRMAN. Thank you, Mr. Cook.

Any questions?

Thank you.

The next witness is Mr. Everett R. Jones, Damascus, Md., in behalf of the Division of Peace and World Order of the General Board of Christian Social Concerns of the Methodist Church.

Please proceed, Mr. Jones.

STATEMENT OF EVERETT R. JONES, OF DAMASCUS, MD., TESTIFYING ON H.R. 11970 AT THE REQUEST OF THE DIVISION OF PEACE AND WORLD ORDER OF THE GENERAL BOARD OF CHRISTIAN SOCIAL CONCERNS OF THE METHODIST CHURCH

Mr. JONES. I am Everett R. Jones, of Damascus, Md. I am a mechanical contractor and have traveled in Europe and Africa. For 2½ years I supervised construction of mission buildings for the Methodist Church in the southern Congo.

I am also a member of the general board of Christian social concerns of the Methodist Church and am appearing here to testify as to the position of that denomination on H.R. 11970, the trade expansion bill of 1962.

In 1960 I was an alternate delegate to the general conference of the Methodist Church, the highest legislative body of our denomination. Meeting at Denver, Colo., the 900 ministers, laymen, and laywomen who composed the general conference declared:

> The Methodist Church reaffirms its support of reciprocal-trade agreements and commends the Congress of the United States for having extended them in 1958 for 4 years. We believe that the executive branch of the Government should be given greater latitude in the negotiation of trade agreements and that the Reciprocal Trade Agreements Act expiring in 1962 should be renewed for a period of not less than 5 years.

TITLE II, CHAPTER 1

Section 201. Five years' extension: In the Methodist General Conference statement there is a specific endorsement of the extension of the expiring act for a period of at least 5 years. This recommendation was based on the obvious need for a long-range program of reduction of barriers to international trade. It is clear from the entire statement that this recommendation is in keeping with the objectives of the present trade expansion bill, H.R. 11970.

Section 202, Section 212, Section 213. Discretionary Presidential Authority: These sections would give the President discretionary authority in regard to low-rate articles and certain other commodities. We support these provisions as consistent with the call of the Methodist General Conference for "greater latitude in the negotiation of trade agreements" to be given to "the executive branch of the Government."

TITLE III

Adjustment Assistance: We believe the proposed adjustment assistance represents an important step forward. We do not pose as experts on the details of title III of the bill, but we do express our firm conviction that the principles on which it is based are morally sound.

If trade policies are adopted which are beneficial to the people of the United States as a whole, both economically and in our international relations, and these policies have serious adverse effects on segments of our people, elementary justice demands that the extra burdens borne by some for the good of the whole should be shared by all. We urge that title III be adopted in a form which would provide reasonable protection for workers, firms, and industries that may be substantially injured by further reductions in tariffs under this act.

TITLE IV

SECTION 406. Appropriations: Finally, we state our support for adequate appropriations to agencies performing functions under this act so that its purposes may be properly sustained and executed. I close with another paragraph from the Methodist General Conference statement:

Peace is the gift of God, but it is appropriated by man only through the practice of love and cooperation. The peace of God cannot be contained within any one nation, economic system, or religion. To be a stable and lasting reality it must become universal.

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

The next witness is Mr. Robert S. Eckley, of the Caterpillar Tractor Co.

Mr. Eckley, you take a seat, sir, and proceed.

STATEMENT OF ROBERT S. ECKLEY, MANAGER OF BUSINESS RESEARCH DEPARTMENT, CATERPILLAR TRACTOR CO.

Mr. ECKLEY. My name is Robert S. Eckley, representing Caterpillar Tractor Co., of Peoria, Ill.

I have taught economics at Harvard University and the University of Kansas and for the past 8 years have been manager of the business research department at Caterpillar Tractor Co., with headquarters in Peoria, Ill. We appreciate this opportunity to express our support of the pending trade expansion bill. Caterpillar is extensively engaged in export business and offers an illustration of the benefits to be gained by the United States through freer international trade.

In recent years, Caterpillar Tractor Co. has been among the top two or three exporters of goods from the United States. Last year almost half of our business was abroad, and 83 percent of our foreign sales was supplied from this country. Much of our domestic employment is accordingly dependent on our ability to sell machinery abroad, and our suppliers likewise have an indirect but proportionately sizable stake in foreign trade.

Recently the company was presented with the President's E-for-Export Award for its achievements in export expansion. For these reasons, we believe that the company's experience will be of interest to this committee in its consideration of the proposed Trade Expansion Act.

The company's foreign business has expanded rapidly despite the existence of trade restrictions in many parts of the world inhibiting the purchase of our machines. When the Trade Agreements Act was first passed in 1934, we were able to find markets for $6 million worth of machinery in foreign areas. Last year our foreign sales were valued at $336 million. While it is necessary to have an attractive product line to achieve sales gains of this magnitude, it is also necessary to have access to markets. The trade agreements program was essential and conducive to the realization of this opportunity for foreign sales and domestic employment gains.

Let me briefly describe the company, its products, and its markets. We manufacture an extensive line of construction machinery which also finds wide application in agriculture, logging, mining, and materials handling. Our products include crawler tractors and related equipment, tractor shovels, wheel tractor-scraper units, motor graders, and diesel engines.

These products are sold in every area of the world outside the Iron Curtain. Sales are not concentrated only in the industrial nations since machinery of this type is required for the economic development of Latin America, Africa, and Asia. U.S. manufacturing operations are conducted in seven midwestern plants, the largest of which is located in Peoria, Ill., one plant in California, and one in Pennsylvania.

The great majority of foreign sales is supplied from these U.S. plants. In addition, during the last decade, the company has established manufacturing facilities abroad to supply markets which for one reason or another could not be supplied entirely from U.S. sources. It now has three manufacturing plants in Great Britain, one in France, one in Australia, and one in Brazil.

Caterpillar currently has 31,000 employees in the United States, of which approximately two-fifths, or around 12,000, work to meet the orders of foreign customers. This employment for export is more than double our total employment in 1934 and is almost 10 times the number of domestic employees dependent on foreign markets when the initial Trade Agreements Act was passed.

Moreover, the average Caterpillar employee receives wages and other benefits that are substantially higher than the national average in manufacturing industries, and the stability of employment dependent on export business has been better than that dependent on domestic sales in recent years.

But our own domestic employment serving foreign customers denotes only part of the significance of our export business.

For while we had a wage and salary bill last year of $229 million, our purchases of materials and services amounted to $371 million, not to mention capital expenditures of $25 million in the United States.

Without question the employment of domestic suppliers that is dependent upon our export business exceeds by a considerable margin the 12,000 Caterpillar employees whose jobs are export oriented.

One example may be helpful in illustrating this. Last year we purchased 445,000 tons of steel and steel casting in this country. Direct employment of these firms alone partially dependent on our export business is estimated to be in the neighborhood of 3,600 workers.

Of more than 5,000 domestic Caterpillar suppliers, there are undoubtedly many who are unaware of the extent of their involvement in foreign business despite our efforts to spread this information. Moreover, trade and service workers indirectly dependent on the export workers at Caterpillar and its suppliers seldom identify their jobs as having any relation to exports.

Since the end of 1957, the United States has suffered a persistent balance of payments deficit of distressing magnitude. In order to correct the basic disequilibrium and at the same time maintain essential obligations abroad, President Kennedy has called for a major effort to expand our export surplus.

If this is to be accomplished, exports must be increased to those countries having the funds with which to buy more U.S. goods, principally the free nations of Western Europe. It is with this region—especially the six Common Market countries—that the rest of the free world, including the dollar area, has experienced a payments deficit.

This situation demonstrates again the axiom that if we wish to sell abroad we must in turn be prepared to buy goods and services from foreigners.

As businessmen, we have learned to watch for changes in the export earnings of the primary producing countries as the earliest indication of either improvement or deterioration in our sales prospects in those areas.

Economic developments in the last 5 years have not favored the export earnings of many nations in Latin America, Africa, and Asia and our business there in turn has not expanded as rapidly as elsewhere.

In contrast, in Western Europe where economic growth has been more rapid, Caterpillar sales have mounted severalfold. If we are to enjoy the many advantages of expanded sales in these markets, which include increased domestic employment at higher than average wages, higher profits, as well as the cost savings made possible by larger scale operations through the inclusion of export volume, then we must, in turn, offer the same benefits to our trading allies abroad.

The significance of Caterpillar's export business to the legislation under consideration lies in the fact that it illustrates conditions within the heterogeneous collection of firms making up the capital goods industries.

In recent years, capital goods; that is, machinery and transport equipment, except automobiles, have made up almost a third of U.S. exports of goods. During the course of the last 50 years, capital goods sales abroad have increased more rapidly than any other major category, greatly augmenting their share of total exports.

Similar developments have occurred in the trade patterns of Great Britain and the nations of the European Common Market. Together these eight countries account for well over 80 percent of free world exports of capital goods.

Thus, international trade in these industries is tremendously important (amounting to more than $26 billion annually in recent years) and Americans have succeeded in doing very well at it.

Today the industrial nations sell roughly comparable magnitudes of capital equipment to each other and to the primary commodity exporting countries, demonstrating that the industrial nations are good customers of each other's machinery industries. Great economic advantages arise from trade in capital goods, which have been sufficiently compelling to overcome many artificial barriers that have been erected.

The potential benefits of the pending bill through the lowering of trade barriers abroad can help the U.S. construction machinery industry in its quest for foreign markets.

New and expanded negotiating power is indeed needed. Prior to the initial implementation of the European Common Market, we encountered only small or negligible duties on exports to West Germany and the Benelux countries. Now we face an eventual tariff of 15 to 20 percent on most exports of construction machinery entering any part of the Common Market.

This degree of protection would prevent us from having full access to these markets and encourage the development of foreign competition which will hurt us in the third markets as well.

The hope for further tariff concessions as a result of negotiations was encouraged early this year when under the authority of the expiring Trade Agreements Act, the United States obtained some reductions in the external tariff of the Common Market countries.

The proposed bill would hold out the possibility of eventual elimination of European tariffs on construction machinery. As we now appraise the situation, this will be necessary if we are to hold an effective competitive position in these markets with goods exported from the United States.

Let me hasten to assert that we in no way regret the newly emerging unit among the free nations of Western Europe. Rather we applaud their progress during the last decade, their efforts to rationalize their economic and political order, and the prospects these steps hold for strengthening the free world. These developments only emphasize the need for the United States to recognize the new conditions that exist and to devise an approach to trade negotiations that will lead the entire free world in the direction of more liberal trading relationships.

In this way we can hope to promote the expansion in our export trade required by our balance-of-payments situation. Through freer trade we will have an opportunity to meet the increasing foreign competition on equal terms which we are confident will result in a sharing of mutual benefits by all.

Trade restrictions have another deleterious effect particularly significant at a time when we are concerned about our balance-of-payments position. U.S. tariffs and quantitative import controls raise American costs and prices and make export sales more difficult than they would otherwise be.

Any trade restriction that causes our machinery to be more costly limits our ability to sell abroad in increasingly competitive markets. As an industrial nation, the United States is heavily and increasingly dependent on raw material imports from abroad. Trade barriers add to the cost of these essential supplies. Insofar as the proposed Trade Expansion Act would lead to negotiated reciprocal tariff cuts, it would be accompanied by the possibility of cost reductions for the U.S. exporter.

A final reason for seeking to stimulate exports through the proposed legislation is that if a firm cannot supply a foreign market by exporting from the United States, the alternatives are rather definitive.

Either it is obligated to withdraw from the market, leaving it to others, or it establishes a foreign subsidiary, engages in a joint venture, or licenses a foreign firm to manufacture its products.

The company's first foreign manufacturing operation was established in Great Britain in the early 1950's. At that time sterling was not freely convertible into dollars, and we did not know when, if ever, it would be. Protected British competitors were mushrooming, and the British Government was even encouraging the development of a crawler tractor by one of its large engineering firms.

We decided to try to retain as much business as we could and have succeeded in doing so, first by making replacement parts, then equipment for use with tractors, and finally a limited line of complete tractors.

Import restrictions and nationalistic economic policies similarly motivated our establishment of smaller manufacturing facilities in Australia, Brazil, and France. All of these countries have large and growing markets for construction machinery which we simply could not reach entirely from the United States.

Subsequently, Caterpillar has exported a larger volume of machinery to each of these countries from the United States after engaging in local manufacture than it did before. This is partly due to the rapid growth of demand, the fact that we cannot economically make a complete line in any foreign country, the use of U.S. components, and the subsequent relaxation of import controls on our machines. We understand that this has been a common experience among other American firms, although we would not argue that it can be generalized.

The point is that in a complex machinery business "all-or-nothin" situations do not arise overnight. Moreover, I would be less than candid if I did not indicate that the expansion of American manufacturing operations abroad in our industry probably has some distance to go as a result of present conditions.

The rapid growth of demand for construction machinery in Europe combined with the creation of the Common Market, possible European manufacturing or transport cost advantages, and the growth of foreign competition, make the likelihood of an expansion of the industry there very high.

That is why it is so important for the United States to recognize the new situation and to foster conditions conducive to the expansion of U.S. exports.

Exports obviously provide domestic employment, generate tax revenues in the United States, and convey other benefits not obtainable through foreign manufacturing operations. We would prefer to export U.S. manufactured goods if it is at all feasible to supply foreign markets in this way. It has been erroneously contended by some that U.S. manufacturers are intentionally exporting American jobs.

This accusation is contradicted by the circumstances involving Caterpillar Tractor Co.

During the last 5 years we have had excess capacity in the United States and have periodically had substantial numbers of trained employees on layoff.

Were it possible to serve inaccessible foreign markets with these resources, we would gladly and profitably have done so. The alternative has involved the conversion of design drawings to other systems of measurement, additional capital outlays, the costly process of hiring and training foreign workers, reliance on suppliers of unknown dependability and quality, and years of high costs and low profits.

Resort to this mode of operation is not undertaken lightly or without exhausting the last vestige of hope that we can continue to export from this country.

However, in those markets that cannot be reached completely by U.S. exports, whether because of import restrictions or cost and price disadvantages, we can salvage some profits and often a substantial volume of U.S. exports by establishing foreign operations. In cases where this is necessary, the understanding and support of American policymakers is essential.

In this connection, we regard the present draft of the new tax bill, which would tax unremitted profits of foreign sales subsidiaries reinvested in foreign operations, as detrimental to the national interest.

Treasury officials have urged that taxes be what they call equalized when earned—as they now are when remitted—on domestic and foreign operations of American enterprises so that there would be no greater inducement to invest abroad, other things being equal. But other things are not equal. Abroad we face foreign competitors not subject to high U.S. tax rates and foreign governments devoted to their own nationalistic economic policies.

The proposed Trade Expansion Act is a more potent means of fostering American opportunities, by offering foreign nations an inducement to relinquish their protectionist policies.

We endorse without qualification the trade agreements features of the bill under discussion, included in title II of the bill. It is on this phase of the bill which we think our experience as an exporter best qualifies us to speak.

It is our sincere belief, buttressed by such studies as the one published last year by the Brookings Institution, that the need for adjustment assistance occasioned by import displacement would be very limited. We understand the desire to allay fears of dislocation from foreign competition. However, we believe the provision for greater unemployment benefits resulting from import displacement as opposed to domestic recession, secular decline of industries, or technological change to be essentially unworkable because the cause of unemployment is often not single or easily distinguishable.

It would provide an inducement to attribute as much unemployment as possible to import competition. Furthermore, we think that trade legislation is not a proper vehicle for the introduction of a basic change in unemployment compensation through the provision of Federal standards.

In summary, we believe that Caterpillar Tractor Co. provides a dramatic example of the gains obtainable through the promotion of exports. Because of our unusual dependence on export volume, we are able to portray numerically a portion of the jobs arising through serving foreign markets. We know that much employment indirectly dependent on export sales is not so identified by the firms or persons involved.

We find this true in Peoria among those in professional, trade, and other service activities. Although this committee has been presented with reasonably accurate estimates of aggregate export employment in the United States, we suspect that much of this aggregate is unrecognized by the firms involved.

We hope that we may properly speak then, not only for ourselves, but for all of the other Americans whose welfare would be enhanced by this measure in urging your favorable consideration of the many beneficial aspects of the pending bill.

Senator CURTIS. Mr. Chairman.

Senator CARLSON (presiding). The Senator from Nebraska.

Senator CURTIS. What percentage of your exports go to the European Common Market?

Mr. ECKLEY. Roughly a quarter.

Senator CURTIS. What percentage of your exports are sold directly to your foreign government?

Mr. ECKLEY. It would be a small percentage, 5 to 10 percent, something in that neighborhood.

Senator CURTIS. They pay no duty?

Mr. ECKLEY. Dependent on the individual situation. Generally speaking they would not.

Senator CURTIS. Only 10 percent.

Mr. ECKLEY. Yes, it is a small fraction that goes to Government customers, both domestically and in export.

Senator CURTIS. Now, what percentage of your exports are paid for with foreign aid funds?

Mr. ECKLEY. Again, a very small fraction. It is hard to estimate precisely, between 5 and 10 percent, I believe.

Senator CURTIS. To the extent that you traded with foreign governments, on exports which are supported by foreign aid funds this bill under any tariff would not have any effect, would it?

Mr. ECKLEY. No.

Senator CURTIS. That is all.

Senator CARLSON. Mr. Eckley, I am delighted to know that although you had taught economics at Harvard you did get some ameliorating influences out at Kansas University.

Mr. ECKLEY. Thank you, sir.

Senator CARLSON. We are delighted with your testimony. I think you have made a very fine statement and you certainly speak for one of the very great corporations of our Nation and one that we in Kansas are personally familiar with the officials and the splendid products that you put out.

Thank you for your appearance.

Mr. ECKLEY. Thank you, Senator Carlson.

Senator CARLSON. The next witness is Mr. Lichtblau, the Petroleum Industry Research Foundation, Inc.

Mr. Lichtblau, we are pleased to have your statement this morning. You may proceed.

STATEMENT OF JOHN H. LICHTBLAU, RESEARCH DIRECTOR, THE PETROLEUM INDUSTRY RESEARCH FOUNDATION, INC.

Mr. LICHTBLAU. Mr. Chairman, my name is John H. Lichtblau. I appear on behalf of the Petroleum Industry Research Foundation, Inc.

Our organization is concerned primarily with the interests and problems of oil marketers and consumers located along the U.S. east coast.

Since 38 percent of all oil consumed in the 17 East Coast States is of foreign origin, the oil industry in that part of the country has always been directly involved in the problems of foreign trade. We would, therefore, like to discuss H.R. 11970, the Trade Expansion Act of 1962, from the viewpoint of this segment of the economy, as we see it.

Nearly all of the several thousand oil refiners and wholesale and retail marketers on the east coast deal in imported products. It is our understanding, based on direct contacts with many of these companies that the vast majority of them supports the principles contained in the Trade Expansion Act, since these companies are aware of the close interdependence between imports and exports and understand the need for a more liberal U.S. trade policy.

Of course, as this committee knows, oil—America's principal import commodity—would not be directly affected by any of the trade liberalizations foreseen in the act under consideration, for the importation of all types of oil is specifically controlled under the national security clause of the existing trade legislation.

In fact, amendments to the Trade Expansion Act to render oil imports still more rigid will be proposed to the Senate, as they have been to the House of Representatives. We believe that such amendments are not justifiable because they are not in the national interest.

We grant that there is a justification in principal for the restriction of crude oil imports. Given the present surplus of oil both at home and abroad and the significant cost differential between foreign and domestic oil production, the completely free entry of foreign crude oil could have serious consequences for many domestic oil producers.

However, if we must have restrictions on crude oil imports they should be both liberal and flexible. The need for relatively liberal restrictions derives from the fact that it is in the public interest to keep oil prices reasonably low. Oil imports make an important contribution toward this goal, (*a*) by providing a source of lower cost oil to domestic refiners which reduces their total crude oil costs, and (*b*) by helping to postpone the replacement of older domestic oil reserves by new ones; since new reserves are now generally costlier than those located in previous periods, the speed with which this process of replacement occurs determines to a large extent the cost of production of domestic oil.

For instance, if there had been no crude oil imports in 1961, our proved domestic oil reserves would have had to be nearly 6 billion barrels, or 15 percent, higher than they actually were, if we wanted to maintain the existing ratio of production to reserves.

Thus, if we want reasonably low energy costs in the United States we must permit a reasonable volume of controlled crude oil imports. The present volume of crude and unfinished oil imports east of California equals about 11 percent of domestic crude oil and gas liquids production.

This can hardly be termed unduly high, particularly if we consider that domestic crude oil and gas liquids production east of California has increased by 2.5 percent in 1961 and will grow by at least 2 percent in 1962, according to most forecasts.

By comparison, oil imports east of California—exclusive of residual fuel oil—will grow by about 2.9 percent in 1962, so that the growth rates for imports and domestic oil production are really not very much apart.

Of course, if we were to compare oil imports and production for the Nation as a whole a somewhat different picture would emerge. But this is due entirely to the fact that crude oil production in California is rapidly declining and must be supplemented by a growing level of imports. However, these imports do not displace domestic crude oil.

Hence it is misleading to lump oil statistics for the west coast and the rest of the country together, as is sometimes done for the purpose of dramatizing the magnitude of oil imports.

Besides being liberal, crude oil import restrictions should also be flexible. But, if the imports were to be legally tied to a specific ration of domestic oil production, as has been proposed, our oil imports policy would become so rigid and unadaptable to changing conditions that it would be more likely to harm our national security than to help it.

The proposed amendment would mean that if domestic oil production should ever decline or stagnate for any reason or period, imports would automatically have to follow suit. Yet, just then we may need more imports to offset the decline in domestic output. Thus the only responsible and justifiable oil imports policy is one flexible enough to respond to quickly changing situations.

My comments, so far, apply only to oil imports other than residual fuel oil which is in an entirely different category. For residual fuel oil, unlike crude oil, is in permanently short supply in this country. Hence, we must either import this commodity in growing quantities or do without it.

Domestic oil producers or refiners are not affected by the level of such imports, since residual fuel oil is an unprofitable byproduct of domestic refinery operations which does not influence the level of domestic crude oil purchases nor have a measurable impact on refinery profit margins.

Imported residual fuel oil does compete to some extent with domestic coal. But this competition is very limited, since residual fuel oil cannot be transported inland at economic rates so that all imports must be consumed along the Atlantic seaboard.

Furthermore, much imported residual fuel oil is consumed in markets where coal is no longer significant such as space heating and ship bunkering.

Coal-mining employment is therefore not affected by residual fuel oil imports. The steady decline of the U.S. coal mining labor force is due entirely to technological improvements in coal production.

Thus in the first 6 months of 1962 U.S. coal output rose by about 11 percent. Yet during the same period employment of production workers in the mines declined by some 15,000 to 20,000 men.

Coal is not an industry in dire straits. Its markets are growing, primarily as a result of the current and projected vast increases in steam-electric power capacity. The new slurry coal pipelines to the east coast which will soon be completed are supposed to reduce the laid-down cost of coal at the Atlantic seaboard by about $3 per ton. This could make the price of coal so low that even imported residual fuel oil—which is not a byproduct but the principal product of Caribbean refineries—might find it difficult to compete successfully.

In view of these facts, the restriction on residual fuel oil imports goes against the very essence of what the Trade Expansion Act is designed to accomplish. The original error of restricting such imports should therefore under no circumstances be compounded by making the restriction part of our law.

Oil imports have been charged by some groups with being the principal reason for America's persistent balance-of-payments deficit.

It is, of course, correct that imports cause an outflow of dollars. But this applies not only to oil but also to automobiles, steel, textiles, and all the thousands of other items which go into our $16 billion import bill. Hence to single out oil as the culprit for our balance-of-payments trouble is quite meaningless.

Furthermore, this approach ignores the obvious fact that imports engender exports. Without our oil imports such countries as Venezuela, Trinidad, Canada, Indonesia, or Iran would not purchase the American goods which have helped to give our country a favorable trade balance in every single postwar year.

In short we believe that no sound reason exists for a further curtailment of oil imports. We therefore urge this committee to pass the Trade Expansion Act of 1962 without any amendments which would adversely affect the importation of oil.

Thank you, Mr. Chairman.

Senator DOUGLAS (presiding). Mr. Lichtblau, there are many things in your very able statement with which I agree, but I wonder if you really want to stand on your statement in which you say, "Coal is not an industry in dire straits."

My own State of Illinois was once one of the great coal-producing States of the Union and still is, but whereas we had something like 80,000 to 90,000 coal miners 20 years ago, we now have 9,000, and the decline of coal mining is a large cause for the fact that a considerable portion of the southern part of Illinois is really a distressed area so that I think you overstate your case in saying that coal is not an industry in dire straits.

Mr. LICHTBLAU. Well, sir, I am looking ahead so far as coal markets are concerned——

Senator DOUGLAS. You are looking to the future?

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. But you use the present tense. You say coal is not an industry—you don't say coal will not be in dire straits in the future, so you shouldn't use the present tense.

Mr. LICHTBLAU. In the first 6 months, sir, there has been a fairly sharp increase in U.S. coal production and sales as compared to last year.

Senator DOUGLAS. But unemployment is still very great?

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. Tonnage wage rates on coal, of course, have not been increased. The policy of the United Mine Workers has been to maintain tonnage rates. So that there has been no increase in the price of coal.

Mr. LICHTBLAU. No, sir; but employment has declined to a large extent for technological reasons rather than because of competition from other fuels.

Senator DOUGLAS. Now, I want to come to a point which I think is important. Each industry tends to concentrate upon its own troubles and to blame other industries. I was in Germany last fall, and it became evident that Germany was restricting the importation of American coal. The total German production of coal is something like 120 million tons a year, I believe.

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. They restrict imports to 6 million tons, 5 million of which are permitted to be American, under import licenses or tariff-free quotas, although we could lay down coal in the lower part of the Rhine very much more cheaply than the German coal.

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. Yet the German Government persists in this, and deprives us of a market of probably from 20 to 40 million tons of coal a year.

Now it is because of the loss of this German market that the coal industry in this country has turned to advocating reprisals on Venezuela residual oil; I told the German trade authorities, notably Mr. Erhard, who was delivering a speech to me on the advantages of free trade and reproving us for following the policy of restricting residual oil, that he had the remedy for this problem in his own hands: If he would only admit American coal to Germany then we could forego restrictions on residual oil from Venezuela which I think would be beneficial both economically and, as you say, politically.

I have been advocating giving the President power to increase tariffs, if this is necessary to compel the European countries to lower their tariffs and quotas and other restrictions upon American goods.

Would you favor such a policy?

Mr. LICHTBLAU. Yes, sir; entirely.

Senator DOUGLAS. You would?

Mr. LICHTBLAU. I think the restriction of American coal imports into Germany is just as obnoxious as restriction of residual fuel oil coming into the United States.

Senator DOUGLAS. If we could wash the two out together wouldn't it be a great benefit?

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. But you can hardly blame the coal industry, can you? Because of the failure to eliminate restrictions in Germany, they demand restrictions on Venezuela and on residual fuel in Latin America.

Mr. LICHTBLAU. Except that some of the German spokesmen have said: "Just as you restrict your coal production in the United States against fuel oil, we must protect our own production against American coal"; you never know what comes first.

But I agree with you fully, sir, if both of these could be eliminated, it would be to the advantage of both Germany and the United States.

Senator DOUGLAS. I am glad to hear that. I am going to move that we place a clause—at least I intend to move, unless I can be convinced that it is wrong—have a clause added to the bill to give to the President the power to raise tariffs if these can be, and these are necessary, to get a reduction in the tariff schedules of other countries.

Mr. LICHTBLAU. Yes, sir; I would favor it entirely. I think it is a very sound approach.

Senator DOUGLAS. I have always hoped that we could get the importers of the country together on a policy of broadening trade.

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. I am very glad you came down here to testify because the importing interests and the consuming interests always tend to get neglected.

Mr. LICHTBLAU. Yes, sir.

Senator DOUGLAS. So I want to commend you, but instead of merely looking at your own problem, which is that of selling residual fuel, I wish you would look at the broader means to see how we can expand trade generally.

Do you think your people would go along with it?

Mr. LICHTBLAU. Yes, I am sure they will. Because they are in favor of free trade in general, there would be an expanding trade. There should be no objection to it, sir.

Senator DOUGLAS. We are running into the difficulty with the State Department which was opposed to giving the President power to increase tariffs.

Mr. LICHTBLAU. It is my understanding the State Department is in favor of Germany reducing it.

Senator DOUGLAS. Oh, yes; they are in favor of it, but they are reluctant to give us any weapons which we can enforce it with. That is the point. They depend upon persuasion and principles of the Sermon on the Mount which are very admirable principles, but not wholly effective in this hard-boiled world.

Mr. LICHTBLAU. I think that is correct. They have tried it for a number of years, but it hasn't worked.

Senator DOUGLAS. Senator Carlson?

Senator CARLSON. I want to commend Mr. Lichtblau on a very temperate statement. Here is an issue in which I could be very much involved.

Mr. LICHTBLAU. Yes, sir.

Senator CARLSON. I do hope you can keep in mind we have some problems in the domestic oil-producing areas as well as the coal industry which the Senator from Illinois has so well stressed, so I think it is a problem we have got to work at mutually. The domestic oil industry is operating at a greatly curtailed production, reduced exploration, and unemployment.

I think you made a very temperate statement.

Mr. LICHTBLAU. Thank you very much, sir.

Senator DOUGLAS. This is always characteristic of the Senator from Kansas; he is a very kindly man.

The final witness, I think, is Mr. William J. Barnhard, representing the three organizations, American Chamber of Commerce for Trade With Italy, the American Importers of Brass and Copper Mill Products, and the Association of Food Distributors, Inc.

That is quite a choice from silk and art and glass to groceries.

STATEMENT OF WILLIAM J. BARNHARD, ATTORNEY, APPEARING ON BEHALF OF THE AMERICAN CHAMBER OF COMMERCE FOR TRADE WITH ITALY, INC.; AMERICAN IMPORTERS OF BRASS AND COPPER MILL PRODUCTS, INC.; IMPORTED NUT SECTION OF THE ASSOCIATION OF FOOD DISTRIBUTORS, INC.; OFFICE EQUIPMENT SECTION OF THE NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.; ASSOCIATION OF CHILEAN FRUIT AND PRODUCE IMPORTERS; AND AMERICAN ASSOCIATION OF APPAREL AND TEXTILE IMPORTERS

Mr. BARNHARD. Actually, Mr. Chairman, the list is somewhat incomplete. I am also appearing on behalf of the Imported Nut Section of the Association of Food Distributors, the Office Equipment Section of the National Council of American Importers, the Association of Chilean Fruit and Produce Importers, and the American Association of Apparel and Textile Importers.

Senator DOUGLAS. You have a broadly based coalition.

Mr. BARNHARD. Yes, indeed, sir.

Actually, in the interest of conserving this committee's valuable time, rather than have each of these groups request time for a separate appearance, they have all agreed to express themselves orally through one witness.

But each would appreciate the opportunity to provide this committee with a written memorandum to be furnished before the close of these hearings, subject to the approval of the chairman.

(The statements referred to appear at the end of Mr. Barnhard's testimony.)

Each of these business groups has a somewhat different story to tell. The importers of tree nuts, including almonds, walnuts, and filbert as well as the specialties like pistachios, cashews, and Brazils, are concerned over attempts being made to remove them from the program of tariff reduction and trade expansion.

Senator DOUGLAS. For that we have to thank the residents, the producers of the beautiful State of California, don't we?

Mr. BARNHARD. Yes, sir, I am well aware of that and I am well aware of the amendment which has been proposed and printed. It seems to me these imports, which are essential to many American processing industries as supplements to domestically produced nuts, now pay substantial tariffs that are an unnecessary burden on the American public as well as American industrial consumers. Any attempt to remove them from the scope of this bill would not be in the national interest and I can say I have been authorized by the Peanut and Nut Salters Association which has 29 active and 50 associate members engaged in American industrial enterprise that they support this statement.

Senator DOUGLAS. Did the peanut manufacturers support a reduction in the support level of domestic support level for the price of peanuts?

Mr. BARNHARD. Sir, I am not familiar with the situation of peanuts because my clients, the Imported Nut Section, do not regard peanuts as a nut. They are restricted to tree nuts. The peanut is regarded in the trade as a goober, sir, not a tree nut.

Senator DOUGLAS. That is a classification which may be technically correct, but which is not popularly accepted. [Laughter.]

Mr. BARNHARD. I think, sir, we had two witnesses here earlier this morning——

Senator DOUGLAS. Do you think this is a case of etymological snobbishness?

Mr. BARNHARD. It may very well be, sir, but they have limited my scope of interest and my research as a result.

I think we had two witnesses here this morning, the confectioners and chocolate manufacturers of America, both of whom complained about the very substantial high price which they have to pay for imported materials. The extent to which imports of almonds have been penalized by American governmental action, makes a substantial contribution to the increased costs of these American manufacturers.

Similarly, the imports of onions, grapes, and other fruit and produce, many of them already bedeviled by inequitable marketing controls, should not be exempted from the broad and beneficial objectives of the 1962 trade program.

So far as office equipment is concerned, importers of office equipment, whose purchases are valued at less than one-third of U.S. office machine exports, have a particular interest in the provision of H.R. 11970 permitting removal of duties where the United States and the Common Market account for 80 percent of world trade (sec. 211).

Effectuation of this provision, they believe, would inevitably result in an even larger favorable balance of trade for the United States in this category.

These importers, however, are concerned over the recent Buy-American order of the Defense Department and the inequitable and frequently illegal manner in which it is being enforced throughout the United States.

Their general position on U.S. trade policy is expressed in the brochure, entitled "How Imports Create U.S. Jobs," which is attached to my statement.

(The attached booklet was made a part of the committee files.)

The brass mill importers, who have provided at least a modicum of competition to an industry long characterized by uniform and administered prices, have been subjected to a variety of attacks, both by officials and industry spokesmen, despite the fact that their shipments to the United States have decreased by more than 45 percent in the past 2 years.

The importers of textile and apparel products have been made the "whipping boys" of American protectionism, through the efforts of some of President Kennedy's political advisers who seem willing to sacrifice the President's programs and principles to curry political favor.

Senator DOUGLAS. I must enter the lists in the defense of the President. You recognize the political situation which the President had to face that the textile industry which was formerly concentrated in New England and which resulted in New England's being blindly protectionist for so many years has now largely moved down into the South, taken its protectionist position with it and largely succeeded in converting most of the southern Senators and Congressmen. They now demand protection so that the South instead of being a citadel of low tariffs as it formerly was when it exported cotton and tobacco is now one of the centers of protectionism.

Mr. BARNHARD. I am well aware of the political change which has taken place and the problem which is imposed upon any President because of it, Senator Douglas.

Senator DOUGLAS. That is correct.

Mr. BARNHARD. However, the interest of the South itself is still much more greatly dependent upon expansion of trade than it is upon the voices of a few industrial enterprises which are centered there.

Senator DOUGLAS. I have thought of that myself, and I have felt therefore that as a low tariff man I was protecting the real economic interest of the South but I have not had much success in convincing the southern business interests or the southern political representatives.

Mr. BARNHARD. I hope we can both be successful with that in the future, Senator Douglas.

Senator DOUGLAS. Well, I hope, but I don't carry much expectation.

Mr. BARNHARD. There are many observers in Washington who feel that world trade in cotton textiles was sacrificed to get this bill through the House, and that imports of lumber, agricultural products and perhaps some other commodities may be sacrificed to get the bill through the Senate. I hope these reports turn out to be false.

Thus, although each of these substantial American business groups has a different story to tell, there is a common theme running through their presentations—that is, the frightening extent to which action in specific cases departs from general principles.

Senator DOUGLAS. What Oliver Wendell Holmes said in one of his decisions was abstract decisions have nothing to do with concrete determinations.

Mr. BARNHARD. You put me in mind——

Senator DOUGLAS. It is a commentary but I fear a description of the truth.

Mr. BARNHARD. You put me in mind, sir, of a very recent tariff hearing involving the cement industry which, as you know, has been characterized by alleged violations of the Federal Trade Commission Act and price uniformity.

They were taking some action against some clients of mine, importers of cement, and I described them in terms of price uniformity and monopoly, and the defense of the spokesman for the domestic industry was that they really believed in free enterprise, free competitive enterprise, and my comment was, yes, in the abstract but not in the concrete. [Laughter.]

Senator DOUGLAS. Not in the concrete and not in electrical equipment, either, isn't that true?

Mr. BARNHARD. I believe so.

Senator DOUGLAS. You remember the bidding for the generators on machinery in TVA where Westinghouse and GE had bids in excess of foreign bids and when the contract was awarded to the foreign suppliers they raised a great cry that TVA was unpatriotic in not giving the award to them, and it later developed over a period of years there was a conspiracy between these companies and others to keep prices up, and when these facts came out, there was this judge up in Philadelphia who surprised me by sending some of these men when they pled guilty to prison for short periods.

Mr. BARNHARD. This is exactly the type of administered pricing or price uniformity which is encouraged by the absence of import competition, sir.

Senator DOUGLAS. You remember Mr. Henry Havemeyer, head of the Sugar Trust, in the 1890's but who was a very frank man; his wife collected impressionist paintings and he spoke his mind frankly; he said tariff is the mother of trusts.

Perhaps it is not the mother but it may be the midwife; isn't that true?

Mr. BARNHARD. I think it plays a very substantial part and any reference to the brass mill industry is one of those examples.

Senator DOUGLAS. We are in a good deal of agreement with each other.

Mr. BARNHARD. I think so, Senator Douglas, and I am happy to hear that, sir.

Perhaps I am more sensitive to these specific cases than I should be, but after all I am an attorney, not a student of world trade.

I am more interested in the dollars-and-cents interest of my clients than in general economic theory or political policy. I am more interested in decisions than in speeches.

As a citizen, I am pleased that the interests of my clients coincide with the national interest and with the avowed goals of the administration, but I am afraid that most of the trade decisions of the past year or so coincide with neither. Among these contradictory actions——

The 100-percent duty increase on window glass, to protect a domestic monopoly in its price-gouging actions;

The 100-percent duty increase on carpets, to protect a declining segment of an immensely profitable and growing industry——

Senator DOUGLAS. Mr. Barnhard, I am glad you mentioned that. I am a supporter of the administration, as you know, and I protested against these decisions, because I do think they represent a breach in general policy. They hit Belgium primarily which has been a low tariff country and they forced the Common Market to introduce reprisals.

Now, this is a very delicate business. I am for using economic weapons to compel the Common Market to come down but I don't believe in taking the aggressive in advance of negotiations.

Mr. BARNHARD. I agree with you completely, sir.

Senator DOUGLAS. I am for defense but not aggression.

Mr. BARNHARD. I, too, Senator, am a supporter and long-time supporter of this administration, but unfortunately on the basis of some of these recent actions I am tempted to entitle this presentation "With friends like these." I think other instances are the renewed furor to Buy American; the sacrifice of world trade in cotton products and the unconscionable damage to American businessmen through the operation of that program; the little-noted provision of the recent Sugar Act that threatens world trade in manufactured food products; the increasing harassment of antidumping inquiries; and the White House pressure for restraints on lumber imports.

Inequitable restrictions being imposed under color of controlling foreign assets—all of these, and more, seem to belie any real belief in the need for a trade program in the national interest.

If America's trade negotiators must be given greater bargaining strength, in order to maintain and expand our own world trade, stimulate our economic growth, and help protect our international security—objectives with which no one can quarrel—then I respectfully submit that there is one glaring weakness in H.R. 11970. It gives the President too much power.

Not too much power to cut tariffs, but too much power not to cut tariffs. He is given too much discretion in section 225(c) of the bill to remove articles or whole categories of products from the scope of negotiations, whenever he deems it appropriate. This will inevitably subject him to the type of intense political pressures that his advisers seem to have difficulty in coping with.

Other portions of the bill I should like to mention in the brief remaining time are the time limitations placed upon the Tariff Commission in section 301(c) and the definition contained in section 405(4).

With regard to Tariff Commission investigations, I do not believe it is physically possible to conduct the type of comprehensive investigation which is expected of the Commission in the 60 days allowed by the bill for company and worker determinations or even in the 120 days allowed for industry determinations.

At the very least, the Commission should be given the authority to extend either or both time periods by up to 60 days whenever it finds such action necessary.

With regard to the definition which calls all earlier or later stages of processing "directly competitive" with the product itself, this embodies and enlarges a concept which has many times been rejected by the Senate in the so-called glace cherry amendments to previous trade bills.

It permits growers of raw materials to complain about imports of a finished product, even when the U.S. manufacturers of that product have no basis for complaint and no interest in complaining about imports.

And since there are approximately 1,800 parts in an automobile, it could mean that 1,800 different industries could file complaints against imports of Volkswagens.

Basically, I believe, sir, this is a sound and sensible bill, because it incorporates two fundamental principles:

First, trade expansion—which means an increase in both imports and exports—is in the national interest; and

Second, where increased trade requires economic adjustment, it is better, it is cheaper, it is more American, it is more in keeping with the principles of free competitive enterprise to make the adjusting companies competitive than to eliminate the competition.

If this bill is enacted and administered with these principles in mind, I am convinced it will make a tremendous contribution to the economic welfare and political security of the entire free world, and particularly of the United States.

Thank you, Mr. Chairman, that completes my statement.

Senator DOUGLAS. Thank you, Mr. Barnhard.

Has your group of companies taken any stand on the compensation provision of injury, both for manufacturers and for workers which are embodied in the bill?

Mr. BARNHARD. There are some differences as to details, sir, but in general, there are those who favor the trade adjustments provision as a sound and sensible means of adjustments. There are those who are against it in principle because of the Government intervention in a new business-type operation, but even these who are opposed to it in principle favor it as the lesser of two evils, that is an attempt to make noncompetitive companies competitive, an attempt to retrain workers so that instead of earning low wages in a noncompetitive industry, they can earn higher wages in a competitive industry. This is highly preferable to the tremendous subsidies and tremendous economic burden of increased tariffs across the board.

So on these two——

Senator DOUGLAS. If it became necessary to put the trade adjustment program into effect in order to get the bill passed, you would approve, even those who disapprove of the trade adjustment would support it?

Mr. BARNHARD. It is somewhat stronger than that. I think it is an improvement over any alternative which has been proposed, sir, and if it is necessary to get H.R. 11970 through then, of course, because we must have H.R. 11970.

Senator DOUGLAS. Well, I am very glad to get your testimony.

Have you tried to educate the general public on this question?

Mr. BARNHARD. We are trying very hard, sir.

I think you have a copy of one of the brochures which one of our groups has distributed, we have made a rather wide distribution of that and have had some rather satisfactory responses to it.

Senator DOUGLAS. I take it you would be opposed to the suggestion that I have made that the President be given the power to increase tariffs as a weapon to compel the European countries to reduce theirs?

Mr. BARNHARD. Yes, sir; I would for this reason: I think your goal is proper. That is your attempt to whittle down the quantative controls which have been imposed by Germany on our shipments of coal is a proper goal. But the answer is not in threatening more trade restrictions.

Senator DOUGLAS. And also on farm products, you know. European countries are moving now to a variable levy system, the effect of which will be to maintain high domestic prices for farm products and then levy a variable tariff to keep imported goods out, and with the money thus collected subsidize their domestic agriculture.

Mr. BARNHARD. Senator, they have learned a good deal about import restrictions on agricultural products from the United States. I think there is plenty of opportunity there for both sides to sit down and negotiate these restrictions away.

Senator DOUGLAS. That is precisely what I suggested to some representatives of the American farm industry, who protested loudly and I thought correctly about European restrictions.

I asked them if we would be willing to eliminate or reduce American restrictions in the field of sugar, wool, Canadian hard wheat, Argentinian beef, and so forth, and I got no response whatsoever.

Mr. BARNHARD. Well, we have——

Senator DOUGLAS. None at all, and the only inference I could draw was that they wanted European countries to make concessions to them but they would make no concessions to Europe.

Mr. BARNHARD. One of our most vicious controls for agricultural imports, sir, is in exactly the field which is now being hotly debated in Brussels and that is the question of dairy products.

New Zealand and Australia are both major producers of dairy products, and Canada too for that matter, but New Zealand particularly because I think 75 percent of their agricultural exports are in dairy products.

We have a limitation of 700,000 pounds of butter which they are allowed to ship in here in the course of a year. We have imposed proclamation after proclamation under section 22 under the most ridiculous circumstances allowing them what they themselves call a derisory amount of dairy products that they can ship to this market.

If they are, if the United Kingdom is, to join the Common Market and if United Kingdom is therefore to become a fertile market for Danish and German dairy products and Dutch dairy products, then obviously New Zealand is going to have greater difficulty. The real solution to that problem is to offer alternative markets in the United States.

Senator DOUGLAS. The Danes have restrictions on our products, too.

Mr. BARNHARD. I beg your pardon?

Senator DOUGLAS. The Danes have restrictions on our products, too.

Mr. BARNHARD. Yes, there are restrictions throughout the world, Senator, but our hope is in a bill like this—and a bill that goes beyond that and goes in section 22 and the Buy American and Antidumping Acts and other forms of restrictions—these barriers can be whittled down bit by bit where free competitive enterprise takes its proper place.

Senator DOUGLAS. I have desired that all my life. I have made some progress, but very slow progress.

Mr. BARNHARD. Sir, I have always regarded you as a teacher and perhaps to some extent a fighter alongside in the same objectives I have had for so long.

Senator DOUGLAS. I have noticed that the importers are never as vigorous in stressing their case as those who want to restrict imports. Why is that?

Mr. BARNHARD. Well I hope I have shown a certain amount of vigor here today on behalf of the importers, Senator.

Senator DOUGLAS. Oh, yes; vigor—the question is, How much vigor do your clients have?

Mr. BARNHARD. Well I can tell you this, sir, they have more now than they had 5 years ago.

Senator DOUGLAS. I notice also that American exporters who stand to gain from an expansion of trade are always much less vigorous than those who want to "protect" domestic industry.

Mr. BARNHARD. I think there is an improvement in that regard, too, sir. The testimony of organizations like the Caterpillar Tractor Co., who was on here—an excellent presentation by Mr. Blackey in the past and Mr. Eckley here today—have always done a good job.

Senator DOUGLAS. We are very proud of them. We are very glad to have them. I am not speaking of Caterpillar. It seems to be generally true but the exporters support the political party which most firmly believes in protection so none of this belief ever leaks over into the political struggles of the Nation.

Mr. BARNHARD. I think there have been changes in that regard, too, sir.

Senator DOUGLAS. I do, too. I have been interested in this but I don't have much expectation on that.

Mr. BARNHARD. Although I must admit while the tariff was the major basis for distinction of our political parties for the first hundred years of our national existence, it is no longer the No. 1 issue dividing the two major parties.

Senator DOUGLAS. It is not the primary but it is still predominantly true that the Democrats from the North and the West are primarily low-tariff men and the Republicans from the North and West are primarily high-tariff men, and yet the exporting groups largely support the high-tariff Republicans.

Mr. BARNHARD. Well, Senator, haven't you found——

Senator DOUGLAS. We are really having a little clinic here on rationality or irrationality of groups interested in this tariff question.

Mr. BARNHARD. Well, Senator, haven't you really found that while the movement you have described earlier where so many of the textile mills have moved to the South and have changed the complexion of the South with regard to their former free-trade policy, haven't you also found that the industrial centers of the Midwest, which used to be Republican centers, are now strongly in support of our export program? This is where the companies like the——

Senator DOUGLAS. Illinois is the largest exporter.

You take industrial and farm products, the eastern section; New York is the largest exporting State, if you take purely exporting goods.

I don't like to bring political questions in, but they are important. The Illinois Republicans are almost uniformly high-tariff men. The Illinois exporters, both agriculture and industrial, are the strongest supporters of these protectionist Republican standards.

Mr. BARNHARD. I can only hope we have more Democrats like you in the country. [Laughter.]

Senator DOUGLAS. Thank you very much.

Mr. BARNHARD. Thank you.

(The following was later received for the record:)

STATEMENT OF THE IMPORTED NUT SECTION OF THE ASSOCIATION OF FOOD DISTRIBUTORS, INC., BY WM. J. BARNHARD, COUNSEL

Mr. Chairman and members of the committee, the Imported Nut Section of the Association of Food Distributors, Inc., includes most of the American importers and distributors of tree nuts produced abroad. These include principally almonds, filberts, walnuts, cashews, pistachios, brazil nuts, and various other varieties. The almonds, filberts, and walnuts are comparable in general to the similar varieties grown in the United States, while most of the others are specialty products not produced in our country.

We are particularly concerned by the amendment to be proposed by Senator Engle, of California, which would remove tree nuts from the scope of tariff reduction and trade expansion contempltaed by this bill.

The commercial markets in tree nuts, as in the case of any other agricultural product, vary from year to year, depending upon the nature and size of the crops in various growing localities. For the most part, U.S. imports of nuts have been supplemental to domestic production, even in the importation of almonds, filberts, and walnuts, varieties which are also grown within the boundaries of our own country.

In almonds, for example, several hearings before the Tariff Commission have demonstrated the extent to which the imports supplement domestic production. Until a few years ago, the great bulk of the domestic almonds grown in California were of a relatively large size, usable primarily in mixed nuts, direct retail sales either in the shelled or unshelled form, or for processing into a variety of manufactured products. The size of these domestic nuts precluded their use in chocoltae bars and for other confectionary uses The great bulk of the almond imports, however, are of a small size suitable for use in candy bars and other similar products. These "bar sizes" supplemented the domestic production by providing a raw material which aided American processing industries in producing the kind of finished article wanted by the American public.

However, 2 years ago, California had a tremendous crop of almonds with a substantial number of them in the small sizes. The result was a huge increase in domestic shipments of California-grown almonds and a virtual disappearance of almond imports, with the exception of a few specialty items significantly different in flavor and taste and serving very restrictive markets.

During the last year, the California crop has been somewhat above average, and the current crop, together with a carryover from the preceding crop year, have so far been sufficient to meet virtually all the needs of the American market. An aggressive selling campaign by the domestic industry, which has finally chosen to devote its energies to market development rather than artificial restrictions on imports, has raised the sale of domestically grown almonds to a level of 54 million pounds in the last marketing year. By contrast, imports of almonds decreased to less than 600,000 pounds during the last year. It is significant also that during the last complete marketing year the U.S. industry exported about 10 million pounds of almonds, the bulk of which went to Western Europe.

The figures for walnuts are comparable. In the last market year, sales of domestic walnuts totaled about 60 million pounds in the shell and about 36 million pounds shelled, while imports during 1961 were only slightly over 7 million pounds. Exports of U.S. walnuts were down to 2 million pounds, not because of any decrease in the market demands abroad but because there was no surplus available from the domestic crop to ship overseas.

These domestic nuts are not the subject of any price support program by the Department of Agriculture, but do operate under marketing agreements which attempt to limit the U.S. shipments to the demands of the U.S. market and to declare the surplus available for lower priced sales overseas, sometimes referred to as dumping.

In past years, this mechanism has been used to restrict the availability of nuts for sale in the U.S. market, to maintain relatively high prices for domestic nuts, and to use these restrictions as an excuse for limiting the quantity of imported nuts through a proceeding under section 22 of the Agricultural Adjustment Act. The results had been that over a period of 10 years during which the marketing program was in effect for almonds, for example, domestic consumption of almonds never approached the size of the market which had been available prior to the marketing agreement program.

Since the last Tariff Commission hearing on almonds, however, when for the first time import restrictions were denied to the domestic industry, a vigorous selling campaign at lower prices has succeeded in pushing almond consumption to record levels and virtually excluding imports by competition in the marketplace.

Inevitably, however, there will be years when the California crop will not be large and will not be sufficient to meet the demands of America's confectioners, bakeries, food processors, and other industrial consumers of the raw material. In those years imports will be essential to maintain our own industrial processes and to provide a reasonably priced product for the American consumer. It is to be hoped, therefore, that in the administration of the Trade Expansion Act of 1962, serious consideration will be given to reduction of the excessive duties now applicable on these imports. Shelled almonds, for example, paying a duty of 16½ cents per pound, equivalent to an ad valorem rate of at least 35 percent.

Since imports can only be substantial in quantity during years when the domestic product is not available in sufficient quantity or in appropriate sizes or qualities, it seems to be unnecessary to maintain such a high rate of duty on essential raw materials supplemental to domestic production. If a substantial duty reduction should create a problem under the marketing program for domestic almonds and other tree nuts in any particular year, section 22 is always available to place appropriate restrictions on the volume of imports. But to keep this duty at all times, including the many years when the imports are essential to keep American processing firms in operation, seems unnecessary and unwise.

Reducing this unnecessary burden will help solve the problems described to you by spokesmen for the confectioners and chocolate manufacturers of America. They pointed out that artificial Government props and penalties on their industrial raw materials disadvantaged them in competition with manufacturers abroad.

We respectfully submit the sound and proper solution to this is not to erect new barriers and impose new artificial restrictions (which they propose as protection for their own high-cost operations), but rather to reduce the tariff burden on their raw materials and permit them to buy competitively.

In short, we favor restoring competition in raw materials instead of eliminating competition in the finished products.

In supporting the objectives of H.R. 11970, therefore, we urge the committee to give adequate consideration to the problems of agricultural imports and to the supplemental role they usually fill in providing materials for American factories and for the American consumer.

STATEMENT OF THE AMERICAN CHAMBER OF COMMERCE FOR TRADE WITH ITALY, INC., BY WILLIAM J. BARNHARD, COUNSEL

Mr. Chairman and members of the committee, the American Chamber of Commerce for Trade with Italy, Inc., this year celebrating its 75th anniversary, is composed of and directed exclusively by American businessmen and business organizations having a common interest in that they import commodities from Italy, export commodities to Italy, or provide banking, shipping, or other services in connection with such trade.

We believe the chamber's interests and activities are particularly pertinent to the subject matter of H.R. 11970, since its membership represents all aspects of the two-way flow of trade between the United States and Italy.

The dimensions of that trade are revealed in the following tabulation (in millions of dollars:)

	U.S. exports to Italy	U.S. imports from Italy
1955	280.9	156.8
1956	519.9	213.7
1957	659.0	244.4
1958	485.0	275.1
1959	408.2	387.7
1960	642.6	393.2
1961	794.0	376.1

Note that there has been a favorable balance of trade from the U.S. viewpoint in every year, U.S. exports usually running from two to three times the size of U.S. imports. Since 1955 this favorable balance of trade has provided a surplus of almost $1,500 million as a net balance in U.S. trade with Italy.

Italy, of course, is one of the members of the European Economic Community (Common Market), and the future development of this very favorable U.S. trade with Italy will hinge on the relationships between the United States and the Common Market. These, in turn, will depend in large part on the form in which H.R. 11970 is enacted into law.

The need for broad bargaining authority in order for the United States to maintain and expand its markets in the European Economic Community has already been explained in great detail both by public and private witnesses. It can reasonably be expected that the favorable balance of trade that the United States has long enjoyed with Italy and with the Common Market as a whole will be maintained as the total volume of trade between these two economic entities grows. H.R. 11970, we believe, is essential to that growth.

We frequently hear the charge that the Common Market is discriminating against U.S. exports and those from other countries of the free world. A corollary to this charge is the claim that the United States has already negotiated its own tariff reductions in compensation for reductions by the member nations of the Common Market, and that now we are going to have to cut our own tariffs even further in order to obtain the benefits of the reciprocal concessions we have already won. We do not believe that this is an accurate analysis of the Common Market program.

For one thing, the Common Market external tariff is an average of the six national tariffs which have previously been applicable. In some cases, the average requires a lowering, in other cases a raising, of national tariff levels. In some individual instances this will impede the shipment of particular products to particular markets, but aid the shipment of those products to other markets.

In the second place, the Common Market has already programed reductions in its external tariff in order to compensate the United States and other exporting nations for losses that they may incur in the shipment of particular products to particular markets. This was the basis for a substantial number of the Common Market tariff reductions announced by the President earlier this year.

In the third place, the Common Market has indicated that it is willing to negotiate substantial reductions, or even complete removal of duties, for the countries outside its own economic unit, on a reciprocal basis. The development of the Common Market has often been likened to the federation of our own 13 colonies, and the Market's removal of internal tariffs likened to the duty-free status of goods moving among the various States of the United States. When tariff barriers within the United States were completely removed, there was no inclination to extend such duty-free status to the competing products of other nations. The willingness of the Common Market to take such a step augurs well for the future of trade between the United States and the rest of the free world on the one hand and the countries of the Common Market on the other.

There has also been considerable discussion of the quantitative restrictions which have been imposed and maintained by Italy and the other European nations since World War II. It was long recognized that during the postwar reconstruction period and the long period of the dollar gap, quantitative restrictions were essential, not as a means of discrimination against the U.S. trade but only because of the sheer physical lack of dollars to buy the American commodities which the citizens of these countries would have liked to buy.

During the last 8 years, however, Italy, like the other members of the Common Market, has been engaged in a steady and quickening liberalization of their trade barriers. In 1955, for example, only 39 percent (by value) of the Italian imports from the United States were free from licensing requirements and quantitative restrictions. A few years ago this percentage was increased to 72 percent, and currently 97 percent of U.S. exports to Italy are free from these licensing and quota restrictions. A similar pattern is apparent among the other members of the Common Market, and this progress is continuing so that complete removal of all such restrictions is an early prospect.

Since relations between the United States and the Common Market are such an essential element of the pending trade legislation and are so important to the economic growth of both national groups, we cannot help but comment on the effect of the recent presidential action in raising U.S. tariffs by 80 to 90 percent on imports of sheet glass and Wilton and velvet carpets. The effect this action will have on the all-important negotiations to be conducted between the Common Market and the United States is difficult to foretell, but certainly the timing of the increase and the severity of the tariff barriers imposed will raise serious doubts among the Common Market negotiators as to the validity and effectiveness of reciprocal concessions. These unnecessary and harsh restrictions have already incited a small trade war with serious repercussions on America's exports to the Common Market.

Perhaps one of the most important elements in H.R. 11970 is the fact that temporary and local economic disruptions, which are the natural consequences of any form of competition, will be remedied under the trade adjustment program, rather than under a trade disruption policy such as the carpet and glass proclamations.

In conclusion, we urgently suggest that enactment of H.R. 11970 in substantially its present form will be of tremendous economic benefit to the United

States as well as to its trading partners abroad, and that the net benefit to the United States will even exceed the benefits abroad.

Senator DOUGLAS. Are there any other witnesses this morning?

I believe we will recess until tomorrow morning at 10 o'clock.

(By direction of the chairman, the following is made a part of the record:)

STATEMENT SUBMITTED BY C. R. MORRIS, OF MILWAUKEE, WIS., IN BEHALF OF CERTAIN AMERICAN MANUFACTURERS OF BARLEY MALT IN OPPOSITION TO CERTAIN PARTS OF H.R. 11970

The undersigned manufacturers of barley malt account for most of the U.S. production. We filed a statement with the House Ways and Means Committee in April 1962 in opposition to certain features of H.R. 9900. Changes embodied in H.R. 11970 have in part met our objections but there remain certain objectionable features to which we address this statement.

In summary, we advocate the following:

(1) The reduction of duties on a product-by-product basis instead of on a broad category basis;

(2) The restoration of the peril point as provided in section 3 of the Trade Agreements Extension Act of 1951, as amended;

(3) Changes which will restore the escape clause with its definition of industry as provided for in the aforementioned amendment;

(4) The removal of adjustment assistance provisions; and

(5) The removal of section 212 providing for elimination of duties equivalent to 5 percent ad valorem or less.

THE INDUSTRY HAS NO ADJUSTMENT POTENTIAL

Our industry is the largest cash customer for the American farmers' barley, taking some $100 million worth annually. Our purchases of price-supported barley facilitate the operation of the price-support program but tend to render us more susceptible to foreign competition which has access to lower cost barley supplies. Not only does this place U.S. maltsters in the position of having to pay more for the barley they use, because it is price supported, but, according to our best knowledge, it also makes U.S. maltsters virtually the only ones in the entire world whose production for export is not the beneficiary of a subsidy of one kind or another.

We are a one-product industry with a predominant outlet, the brewing industry, which takes 85 percent of our production. Our facilities, valued at some quarter of a billion dollars, are in no practical way convertible to the production of any other product. In the last 10 years the industry has spent $45 million in modernization of its facilities which are up to date and efficient. The industry is very mindful of its inability to convert to other operations than malt production. One company alone, over the last 6 years, has spent over a half million dollars for research, primarily for determining other uses for its facilities. So far it has found no practical operations to which it could convert.

Also, our employees are skilled in an occupation which does not equip them for transfer to other skilled levels of employment without years of new training and experience. This makes their reabsorption in the employment force extremely difficult.

THE INDUSTRY HAS FACED A DECLINING MARKET FOR ITS PRODUCT AND VERY LOW PROFIT MARGINS

During the last 10 years, the U.S. consumption of malt has been declining. This has been due to a relatively static level of production in the brewing industry and the marked decline in the amount of malt consumed per barrel of beer. This dropped from 30.48 pounds in 1950 to 28.42 in 1961 or 6½ percent. (See appendix table 1.) As a result of this drop in U.S. consumption, combined with decreased U.S. exports of malt and increased imports, U.S. production (see appendix table 2) has declined substantially. This has left the industry with excess capacity and higher fixed costs which, combined with the lower prices occasioned by cheaper imports, has placed the industry in a cost-price squeeze. We have long been, as an industry, accustomed to narrow margins in our sales of malt but these margins have been so low in recent years as to cause the industry to face a completely precarious future. Hence, a rate of duty that to some might seem only nominal is extremely important to us and its elimination would bring quick disaster to the industry.

THE INDUSTRY FACES SHARP DECLINES IN ITS EXPORTS AND SHARP INCREASES IN IMPORTS

In the earlier 1950's, the industry had substantial exports (see appendix table 3) averaging around 4.5 million bushels per year and at prices which were profitable. This trade has become increasingly less profitable and, even at prices which often yield no profit at all, we have lost volume sharply since 1959, exporting in 1961 only 2.5 million bushels. We sell in export markets at cost if we must in order to utilize some of our idle capacity and to provide jobs for some additional employees. But, we are now at the point where the prices of low-cost malt from other sources is driving us rapidly out of our former export markets.

Conversely, imports have been increasing at an alarming rate. (See appendix table 4.) In 1961, imports of 4 million bushels stood at nearly double the average for the early 1950's. The increased quantities of imported malt seeking a share in the diminishing American market, in itself, has become an acute burden on domestic producers. Imported malt, furthermore, has been entering at lower values recently than in the preceding years thus accentuating its impact in the market. This pressure on U.S. prices has been constant and the 6 cents per bushel below U.S. prices is causing more and more American brewers to increase their use of the imported malt. Thus, it can be seen that the present duty of some 10 cents per bushel is a very important one.

Even at the lower prices at which imports, virtually all from Canada, sell in the American market, the Canadian maltsters are making high profits and could reduce prices further in enlarging their share of the U.S. market without endangering their profits. The potential resources of Canada for enlarging its output of low-priced barley are great enough to supply a very much larger malting industry and there is every reason to anticipate a large further growth in the Canadian malting industry with an increasingly stronger drive to enlarge its share of the U.S. market.

THE INDUSTRY STRONGLY OPPOSES REDUCTION OF DUTIES EXCEPT ON A PRODUCT-BY-PRODUCT BASIS

Any across-the-board or broad category basis for reduction of duties would include us in company with other industries whose problems and potentials are entirely dissimilar. True, under H.R. 11970 some indefinite form of relief might be provided if we were greatly injured. However, the practical delays in assessing the injury and prescribing the remedy, if any, would leave the industry completely on its financial back and in the hands of the receiver. Liquidation of all or a large part of the industry would be the logical expectation.

For these reasons, we oppose any across-the-board tariff cuts. We might add, in support of the product-by-product approach, that a massive reduction in U.S. duties has already taken place under this practice and there is no reason to believe that it won't work effectively in the future.

THE INDUSTRY FAVORS THE RETENTION OF THE PERIL POINT

H.R. 11970 provides for hearings before the Tariff Commission on any item upon which it is proposed to reduce duties. However, the bill does not in any way provide for the Commission's judgment as to what rate would safely protect an industry from serious injury nor for congressional review of any rate reduced by the President below that found by the Tariff Commission. In 1951 extension of the Trade Agreements Act, as amended, provides for this clear-cut action by the Commission and we have been the beneficiaries of this provision. In 1951 the duty on barley malt was initially listed for reduction but no reduction was made and the same was the case at Geneva in 1960–61. In both cases we appeared to protest any duty reduction and we conclude that our protest was duly reflected in the recommendation made subsequent to the hearings. H.R. 11970 provides no such safeguard and subjects the industry which might be injured to a long period over which it would have to sustain the injury from imports resulting from reduced rates. Furthermore, since the remedy provided could vary from tariff protection to adjustment assistance there would be little assurance as to whether we would be preserved or liquidated.

THE INDUSTRY OBJECTS TO THE PRESENT PROVISIONS OF H.R. 11970 FOR TARIFF RELIEF

H.R. 11970 provides for increases in duty or imposition of quotas where it is determined that an industry is injured by imports. However, it employs such a broad definition for "industry" that it makes relief contingent on the total activities of a firm or an industry rather than on the actual operation pursuant to the production of the product under pressure from imports. In addition, having to resort to alternatives such as adjustment assistance and/or delayed tariff relief would practically mean our liquidation. We feel these provisions would eliminate the historic and basic principles of tariff laws which were designed to protect workers and domestic industry through the safety valve of mandatory public hearings on an individual commodity or industry basis. We urge that the Congress not surrender its integral part of the tariff making process.

We advocate the inclusion in the escape clause provision of H.R. 11970 of the clear and limiting definition of industry that is embodied in the Trade Agreements Extension Act of 1951, as amended.

THE INDUSTRY IS OPPOSED TO THE SO-CALLED ADJUSTMENT-ASSISTANCE PROVISION OF H.R. 11970

H.R. 11970 provides for various types and kinds of assistance other than tariff relief to industries or employees thereof injured by imports. In our opinion, these provisions serve no purpose except to dilute the President's responsibility to safeguard U.S. industry from destructive import competition. They provide for some industries perhaps a way of evading the impact of imports but for most industries they rather provide an avenue to oblivion. We, since we could not effect any practical conversion to other operations, would definitely be doomed and many of our employees would have become superannuated in the time it took them to attain new skills which might yield them equivalent wages. For these reasons we advocate the complete deletion of title III of H.R. 11970 and the substitution therefor of the language of section 7 of the Trade Agreements Extension Act of 1951, as amended.

THE INDUSTRY OPPOSES THE REMOVAL OF DUTIES AS PROVIDED IN SECTION 212 OF H.R. 11970

We, like many industries, operate on a low margin in our sales dollar. Section 212, of H.R. 11970, which provides for the elimination of duties of 5 percent or less ad valorem would, if applied to us, be disastrous. Our margin is so thin already that the removal of the present duty of about 10 cents a bushel would encourage a much faster takeover of our market than is already taking place. As we pointed out above, a discount of 6 cents per bushel on imported malt has caused an already large switch from domestic malt to Canadian malt. A 10-cent gratuity to Canadian and other potential sources would soon finish us and, accordingly, we strongly advocate the deletion of section 212 from the present bill.

APPENDIX

TABLE 1.—*U.S. production of beer and consumption of malt, 1950–61*

[Fiscal years ending June 30]

Year	Beer produced, 1,000 barrels	Malt consumed, pounds per barrel of beer
1950	88,807	30.48
1951	88,976	30.06
1952	89,601	29.62
1953	90,434	29.48
1954	92,561	29.47
1955	89,791	29.26
1956	90,698	29.23
1957	89,882	29.12
1958	89,011	28.96
1959	90,974	28.72
1960	94,548	28.53
1961	93,496	28.42

Source: U.S. Treasury Department.

TABLE 2.—*Barley malt: U.S. production, consumption, and inventories, 1950–61*

[1,000 bushels]

Calendar year	Production	Consumption	End of year inventories
1950	91,131	93,355	15,483
1951	100,916	96,534	19,865
1952	89,943	88,135	21,673
1953	87,246	88,826	20,093
1954	87,945	85,539	22,499
1955	85,325	86,328	21,496
1956	88,911	87,741	22,666
1957	88,618	86,286	24,998
1958	83,318	85,027	23,289
1959	86,765	88,412	21,642
1960	86,998	86,359	22,281
1961	83,675	86,716	19,240

Source: Internal Revenue Service plus estimates supplied by Barley and Malt Institute.

TABLE 3.—*Barley malt, U.S. exports, 1950–61*

Calendar year	Bushels	Value	Value per bushel
	Thousands	*Thousands*	
1950	3,574	$8,713	$2.44
1951	5,059	12,982	2.57
1952	4,978	12,721	2.55
1953	4,623	11,704	2.53
1954	4,158	9,731	2.34
1955	3,914	8,920	2.28
1956	4,767	10,544	2.21
1957	4,995	10,969	2.20
1958	4,237	9,221	2.19
1959	4,728	10,006	2.12
1960	2,987	6,448	2.16
1961	2,480	5,398	2.18

Source: U.S. Department of Commerce.

TABLE 4.—*Barley malt, U.S. imports, 1950–61*

Calendar year	Bushels	Value	Percentage change in quantity from year to year	Average value per bushel
	Thousands	*Thousands*		
1950	2,681	$4,753	....	$1.77
1951	2,247	4,461	−16.0	1.99
1952	1,894	3,884	−16.0	2.05
1953	1,764	3,659	−7.0	2.07
1954	1,775	3,576	+1.0	2.01
1955	2,087	4,137	+18.0	1.98
1956	2,262	4,405	+8.0	1.95
1957	2,630	5,303	+16.0	2.02
1958	3,201	6,205	+22.0	1.94
1959	3,309	6,546	+3.0	1.98
1960	4,032	7,348	+22.0	1.82
1961	4,027	7,396	−.1	1.84

Source: U.S. Department of Commerce.

Respectfully submitted.

Alan R. Graff, President, the Columbia Malting Co., Chicago, Ill.; Harry W. Eikenberry, Vice President, Operations, Froedtert Malt Corp., Milwaukee, Wis., Winona, Minn., Minneapolis, Minn., Detroit, Mich.; Russell E. Hamachek, President, Great Western Malting Co., Vancouver, Wash., Los Angeles, Calif.; Allan L. Burdick, President, Kreiner Malting Corp., Buffalo, N.Y.; Herbert C. Kurth, Chairman of the Board, Kurth Malting Co., Milwaukee, Wis., Minneapolis, Minn.; Herbert H. Ladish, President, Ladish Malting Co., Milwaukee, Wis., Jefferson Junction, Wis.; Donald A. Mensing, President, Minnesota Malting Co., Cannon Falls, Minn.; Danield T. McLaughlin, Vice President, Northwestern Malt & Grain Co., Chicago, Ill., Minneapolis, Minn., Waterloo, Wis.; Henry F. Perot, President, Perot Malting Co., Philadelphia, Pa., Buffalo, N.Y.; Stuart F. Seidl, Vice President, Rahr Malting Co., Minneapolis, Minn., Shakopee, Minn.; John H. Rickel, President, H. W. Rickel & Co., Detroit, Mich.; Robert L. Testwuide, President, Schreier Malting Co., Sheboygan, Wis.; C. R. Morris, Chairman of the Board, Wisconsin-Zinn Malting Corp., Milwaukee, Wis., Manitowoc, Wis.

Resolution Submitted by R. H. Wilcox, President, Agricultural Council of Oregon, Gresham, Oreg.

Foreign Trade and Tariffs

Whereas the Agricultural Cooperative Council of Oregon recognizes the need of maintaining a sound and healthy exchange in internationl trade of agricultural commodities produced in surplus by one country for which there is a demand by another country, it does at the same time recognize the right and necessity for the United States to protect the domestic market of its own agricultural producers against excessive and unduly competitive imports of agricultural commodities and products therefrom which already are being produced domestically in substantial quantities; and

Whereas a growing list of agricultural commodities grown in Oregon are being confronted and threatened with increasing imports in alarming quantities at prices which are ruinous and below the domestic producer's cost of production; and

Whereas Oregon farmers are already in a dilemma with rising costs and lowering returns disproportionate with all other branches of the economy; and

Whereas the loss of market outlet for one agricultural commodity due to cheap foreign competition of imports from low-wage countries throws the burden of surplus upon the remaining commodities when land usage is diverted to production of those commodities: Now, therefore, be it

Resolved, That this, the Agricultural Cooperative Council of Oregon, assembled this 12th day of December 1961 at its 40th annual membership meeting do hereby recommend and urge that Congress give the particular problems of agricultural producers more attention in foreign economic policy by taking action to safeguard U.S. agricultural products against any further tariff reductions, and to retain and strengthen the peril point and escape clause provisions of the Reciprocal Trade Agreements Act, if renewed, and further that "growers of any agricultural product used in the manufacture of a commodity involved in a peril-point or escape clause proceeding be considered a part of the domestic industry producing that commodity in such proceedings"; be it further

Resolved, That copies of this resolution be sent by the Secretary to Oregon's congressional delegation, the Secretary of Agriculture, USDA, and other interested parties, including the National Council of Farmer Cooperatives.

Unanimously accepted by the membership at the 40th annual membership meeting, December 12, 1961.

Statement of Joseph Kolodny, Managing Director of the National Association of Tobacco Distributors

Mr. Chairman, the National Association of Tobacco Distributors, at its annual convention on April 5, 1962, adopted unanimously the following resolution:

"The need is imperative to strengthen our Nation's economic relations with the European Economic Community and other countries through the development of an open and nondiscriminatory trading system in the free world.

"The growth of such a system serves to encourage progress among nations in the earlier stages of economic development and counter efforts at economic penetration by international communism.

"The rise of another great market in the Atlantic Community of nations will serve to stimulate the economy of the United States, maintain and enlarge the foreign markets for the products of the United States and make available to the people of the United States a greater variety of goods at lower prices.

"Our eagerness to participate in the vigorous competition that will result demonstrates the faith of the Nation in its democratic institutions and individual initiative. Be it therefore:

"*Resolved*, That the National Association of Tobacco Distributors, Inc., hereby records its unqualified support for the efforts of the President of the United States to enact and implement the Trade Expansion Act of 1962."

This association has for more than 30 years served the interests of tobacco distributors who presently account for more than 85 percent of the Nation's wholesale tobacco sales. As an association devoted in its very essence to the concepts of trade, we are fully cognizant of the advantages that have accrued from the lack of artificial trade barriers within the United States and from the great mobility of merchandise and people which this has engendered.

As purveyors of nearly $7 billion of consumer soft goods annually, wholesale tobacco distributors are eagerly anticipating the exciting prospect of the new products and quickened competition which increased foreign trade will bring and which is the heartbeat of expanding economy both for our Nation and for the entire free world.

The lowering or abolishment of artificial trade barriers and the ensuing expansion of international trade will also bring in its wake an economic cross fertilization and interchange of knowledge, techniques and practices which will inevitably enhance the abilities and potentials of all participating nations.

We must never forget that the so-called emerging nations, who are engaged at the present time in formulating economic and political philosophies, will closely watch the success or failure with which the free nations of the world meet the pressing problems of a shrinking world. We are, so to speak, on trial. If selfish and petty considerations by the few are allowed to deter or defeat our acceptance and exploitation of the opportunities presented, the propaganda value to the world's dictatorships will be inestimable.

The rapidity with which the nations of the Common Market are solving economic, political, and social problems which for centuries have defied solution, adds a sense of extreme urgency to your deliberations. For, if the economy of our own Nation is to continue to expand and prosper we must continue to look ahead, seeking out and quickly grasping new opportunities and challenges. The rewards for grasping and exploiting the opportunity of a burgeoning international market is breathtaking, the penalty for failure to boldly seize it, for whatever shortsighted reasons, is unthinkable.

It is our firm belief that our long-range self-interest requires unequivocal and wholehearted support for the legislation you are now considering, as embodied in H.R. 11970. We are convinced that it will provide the innovation and authority necessary for the President to deal realistically with the so-called Common Market and other growing trade areas of the world. Such across-the-board authority, coupled with decisive and imaginative negotiation, will not only assure the United States that its vital position in world trade will not be lost through inability to make mutually agreeable trading arrangements, but can also be a dynamic force to encourage more efficient, economical, and productive competition in our domestic market as well.

We respectfully request that this statement be incorporated into the public record of the hearing by your committee.

BUMBLE BEE SEAFOODS, INC.,
Astoria, Oreg., July 23, 1962.

Hon. HARRY F. BYRD,
Senate Office Building,
Washington, D.C.

DEAR SENATOR BYRD: We understand that the Senate Finance Committee is now conducting hearings on H.R. 11970, the Trade Expansion Act.

We are mindful of the need for balanced international trade and we are conscious of the pressures in support of this legislation. Nevertheless, we are deeply concerned that the passage of this bill in its present form may have disastrous effects on the U.S. canned salmon and canned tuna industries, as well as on other segments of the U.S. seafood canning industries.

Taken as a whole, this is a large industry and the record shows, particularly with respect to tuna, that over the years a number of hearings have taken place in Congress and before the Tariff Commission with respect to proper levels of duty and quotas on imported canned tuna. We believe that present regulations are working admirably.

The United States is by far the largest market in the world for canned tuna. At the present time nearly 50 percent of the U.S. demand is being supplied by imports of raw and canned tuna.

Raw tuna is imported into the United States duty free and quota free. This is as it should be because our domestic fleets cannot begin to supply the demands of the U.S. market. Furthermore, the same benefits accrue to labor from processing imported raw tuna as from processing domestically caught fish.

The present duty on canned tuna in oil is 35 percent and on canned tuna in brine 12½ percent ad valorem with an annual quota on the latter item equivalent to 20 percent of the prior year's U.S. pack. After this quota is filled, the duty on canned tuna in brine goes to 25 percent. If the duty on either canned tuna in oil or canned tuna in brine were reduced, or the quota restrictions modified or eliminated, this would encourage vastly increased imports of canned tuna into the United States at even lower prices than those presently prevailing.

At the same time, a reduction in duty on canned tuna would enable the foreign canner to pay more on the world market for his raw material without raising his U.S. sales price, thus, foreign canners could not only undersell us in the marketplace, but would also be placed in a preferential competitive position in purchasing raw tuna on the world market in competition with U.S. canners for the same production.

The result could be to drive virtually all tuna canning away from U.S. shores.

It would seem under these circumstances where imports are already being so generously treated that there is no sound basis for further tariff reduction or for expansion of canned tuna quotas. This is particularly true where, as in this instance, the raw product may be imported into the United States duty free and quota free.

Concerning canned salmon, any reduction in the present 15 percent ad valorem duty would be an invitation to other countries to further exploit U.S. spawned stocks of salmon on the high seas by means prohibited to American fishermen. This would nullify the conservation efforts of our various State and Federal agencies and nullify as well, the vast sums spent for research which have the objective of providing the basis for management of our salmon resources on a maximum sustained yield basis.

Considering the facts at our disposal we believe, at the very least, that H.R. 11070 should be modified to include strong peril point and escape clause provisions. We further believe that Congress should not transfer to the executive branch its historical authority over tariff matters. We feel that the readjustment provisions of this legislation would not adequately protect American industry and American labor and, as written, would result in severe inequities in the area of unemployment compensation.

Your consideration of our views concerning this legislation will be deeply appreciated.

Yours very truly,

JOHN S. MCGOWAN,
Executive Vice President.

STATEMENT OF GEORGE L. PRITCHARD, WASHINGTON REPRESENTATIVE, NATIONAL SOYBEAN PROCESSORS ASSOCIATION

This statement in support of the program for freer trade is submitted on behalf of the National Soybean Processors Association—the largest, most efficient oilseed processing industry in the world. For 1961–62, the U.S. Department of Agriculture currently estimates U.S. soybean processing at a record 435 million bushels. This is by far the largest market for U.S. soybeans, a crop with a phenomenal growth record. The phenomenal growth of U.S. soybean production has resulted in bountiful, but still far from adequate, supplies of soybean meal. This supply of high protein feed has been the major factor in expansion of poultry, livestock, and dairy production.

We favor free trade in oilseeds, oils and fats and protein meals on a truly reciprocal basis. The U.S. soybean processing industry is willing, and anxious, to compete with oilseed processors abroad on a basis of economics. It definitely prefers this free competition to any system of governmental preferences.

Our preference for free trade—on a truly reciprocal basis—has been proposed time and again before the International Association of Seed Crushers.

This international association is composed of oilseed crushers from all over the world, but its membership represents largely the countries of Western Europe. The IASC adopted resolutions in favor of free trade in recent years, but subsequent actions indicate that this association which is composed mostly of European crushers cannot, and will not, take any positive action for free trade. In fact European crushers indicate more and more evidence of action looking to a protectionist policy for crushers located in the Common Market.

In the last year or so the United States has suspended import duties (or processing taxes) on coconut, palm, and palm kernel oil. And, this action was taken without opposition from soybean processors, or in fact from any other oilseed processors in the United States.

On the other side of the coin, the Common Market proposals for edible oils have the net effect of doubling import duties for those member countries to which the United States has been exporting oils, although reducing duties for other member countries to which no shipments have been possible not only because of high tariffs but also because of Government controls. We fear that these latter countries by some means will continue to exclude U.S. oils. So far, no one gives us any assurance that such Government controls will be ended in these high oil tariff countries of EEC. Unless some concessions are obtained from the Common Market, then for the real concessions so far granted by the United States on imported oils, we face a doubling of duties on U.S. exports of soybean oil to the Common Market.

The International Association of Seed Crushers mentioned above contends on all occasions for freedom of access to raw materials. This they have in the United States. We contend that freedom of access to raw materials should be accompanied by equal freedom of access to the markets of such countries.

The alternative to obtaining exports of soybean oil free of duty from the United States to the Common Market may well be the further movement of processing operations from the United States to that area. Capital and know-how are remarkably easy to export, especially where preferential treatment is extended. Along with capital and know-how go jobs in primary and secondary processing, in shipping, handling, and all the attendant fields.

The National Soybean Processors Association urges the enactment of legislation and appropriate negotiations to attain equitable treatment in comparison with oilseed processors abroad. We believe the provisions of section 212 are needed to attain such equitable treatment.

Any legislation along the lines herein recommended should include opportunities for relief to the entire soybean industry in case equitable treatment is not afforded our products in comparison with oilseed industries located abroad.

Section 212 if authorized and used to obtain EEC zero duties on edible oils would be of real assistance in furthering export opportunities for soybean and other edible oils thus providing equal treatment for American labor employed in the processing and related industries as well as larger supplies of needed protein meals. Comparable reduction in U.S. duties of edible oils could be extended in return.

The U.S. soybean processing industry is a strong, competitive industry in world markets. We have no doubts as to our ability to compete in world markets provided only that the rules of competition are the same for processors abroad and obviously that our soybeans are available at competitive prices with other oilseeds.

Statement of Canners League of California

This statement is submitted on behalf of the Canners League of California, whose membership accounts for approximately 80 percent of the canned fruit and vegetable production in California. California annually produces over 75 million cases of canned fruits and juices and over 70 million cases of canned vegetables; this represents approximately 40 percent of the total national production. Of greater significance is the fact that California in 1961 produced virtually all of the canned cling peaches, figs, fruit cocktail, fruits for salad; 97

percent of the apricots; 67 percent of the freestone peaches, and 54 percent of the pears. In vegetables California produced approximately half the asparagus and tomatoes grown for canning purposes in the United States. During 1960, 9.2 percent of the total national production of canned fruits and vegetables were exported, with 6.3 percent of the total going to Western Europe.[1] The bulk of these exports originated in California.

Our members are acutely and constantly aware of the problems associated with foreign trade, and for this reason we have historically supported the reciprocal trade policies of the United States. When past extensions of the Reciprocal Trade Act have required congressional approval, our industry has unequivocally given its support. In doing so, our industry has been cognizant of the safeguard procedures incorporated in the act and each extension. In adopting a view as to any trade act bill, we have always looked at the overall proposal with respect to its possible effect on increasing foreign trade on products of our industry which may possibly find expanded foreign markets, but at the same time we have assured ourselves that proper negotiating safeguards have been incorporated to protect products of our industry equally susceptible to imports. We have, therefore, reviewed the proposed Trade Expansion Act of 1962 (H.R. 11970) against both these yardsticks and believe that changes are necessary in order to make this bill adequately protect this vital segment of the Nation's agriculture.

TITLE II, CHAPTER 1. TRADE AGREEMENTS NEGOTIATING AUTHORITY

Our industry does not take issue with the President's objective for expanded trade, particularly in view of our own accelerated drive to increase foreign sales of canned fruits, which we have been carrying on with considerable success over the past 6 years. These efforts of ours have been directed in a large degree toward relaxation of nontariff trade barriers set up by various countries primarily for the purpose of nullifying concessions negotiated under previous Reciprocal Trade Acts. We have misgivings about providing any President with the broad authority contained in section 201 to reduce duties to the extent indicated with virtually no checks or adequate assurance of reciprocity for our industry in trade negotiations.

For example, several years ago an agreement reducing the duty on canned tomato paste was made with Argentina, at its request. No reciprocity was obtained for any product of this industry. By application of the most-favored nation policy, the benefits of the lower duty were made available to all friendly nations. The resultant increase in paste imports are shown in U.S. Department of Commerce statistics, from which we have extracted for the last 3 years the figures given in the following table:

[In pounds]

Country	1959	1960	1961
Argentina	7,762	None	None
France	5,250	None	5,537,417
Italy	7,121,012	8,184,592	23,169,618
Mexico	10,200	320,400	3,675,365
Portugal	55,000	436,773	4,549,960
Spain	None	33,069	1,340,577

Despite this enormous increase in imports, at the recent round of GATT negotiations a further reduction of U.S. duty on tomato paste of 4 percent was granted, to take effect in two steps. This was a concession to the Common Market, primarily benefiting Italy, and France to a lesser degree. The only concession obtained for our industry was a reduction of 2 percent in the external fruit duty of the Common Market, with Benelux and Germany being our principal markets. From this example, our concern, obviously, is twofold: (1) Failure to assure reciprocity, and (2) lack of adequate prenegotiating safeguards.

In considering the impact on our industry by the Common Market, we have looked beyond its present membership. Members of the British Commonwealth,

[1] Table 9, "Prospects for Foreign Trade in Fruits and Vegetables, Tree Nuts," Foreign Agricultural Service, U.S. Department of Agriculture, January 1962.

some of whom represent substantial fruit production, presently enjoy strong Commonwealth preference. Will this preference be continued when the United Kingdom joins the EEC? If so, Commonwealth canned fruits would enjoy free entry to the EEC while our products, which now enter the United Kingdom at a tariff of 12 percent ad valorem, will face the EEC common external tariff of 25 percent ad valorem. Thus, for our industry the coin has two sides—increased EEC production of competitive products and higher external tariffs surrounding our best markets.

Section 211 providing for special negotiations with the Common Market to reduce tariffs to zero, is inapplicable to most canned fruits and vegetables because of the exception applying to articles referred to in Agricultural Handbook No. 143, U.S. Department of Agriculture, as issued in September 1959. Section 212 does affect our canned fruits and vegetables and would permit the reduction of U.S. import duties to zero when "the President determines that such agreement will tend to assure the maintenance or expansion of U.S. exports of the like article." This is of vital concern, particularly in respect to the treatment to be afforded to members of the British Commonwealth if, and when, the United Kingdom becomes a member of the EEC.

The situation becomes further complicated when one considers the future effects of agreements executed with the Common Market under section 212. There is a distinct possibility that some agreement could be reached with the EEC whereby the expansion of U.S. exports of peaches and fruit cocktail to EEC member countries could be markedly increased, while at the same time under our most-favored-nation policy similar treatment in U.S. markets would be accorded these same products from Australia, South Africa, and other countries. Even at the present U.S. duty rates a certain amount of fruit cocktail and other canned fruits, particularly peaches, is coming into the United States and competing in our home market. While our association is not directly concerned with pineapple, a similar situation exists—Malayan, Formosan, and Australian pineapple is coming into Hawaii and continental United States in considerable volume at lower prices and in direct competition with pineapple produced in Hawaii.

CHAPTER 3. REQUIREMENTS CONCERNING NEGOTIATIONS

Under section 221, the Tariff Commission is required to advise the President as to the economic effect of any proposed trade agreement action with respect to any article, but there is no provision for establishment of a specific peril point for each such article. In addition, under section 224 such advice, and any other advice or information obtained pursuant to sections 222 and 223, may be completely disregarded. Section 226 is so vaguely worded that in reporting trade agreements to Congress the President is not required to explain why he may have disregarded Tariff Commission advice as to any of the articles covered by an agreement.

We are greatly concerned with failure to include a peril point provision, such as has been incorporated in earlier Reciprocal Trade Acts. While in the past it has not been mandatory that the President adhere to this peril point limit in trade negotiations, it does provide a definite guide for bargaining and, more importantly, it acts as a danger signal to potential domestic injury. Furthermore, the President is now required, under the existing Trade Agreement Act if he goes below the peril point, to justify his actions (in writing) to Congress within 30 days. At this point, Congress may, if it deems necessary, immediately institute escape clause procedures which could eventually override the President's action. Without a peril point provision in H.R. 11970, no base for immediate congressional action is provided. Extensive review of the statements of the Members of the House, printed in the Congressional Record as part of the debate when H.R. 11970 was passed on Thursday, June 28, indicates that the omission of a peril point provision from the bill occasioned more objection than any other feature.

In the floor discussion, Congressman Mills, chairman of the committee authoring the bill, admitted there were certain deficiencies and omissions in the bill, and expressed willingness and, indeed, the need for suitable amendments to be drafted by the other body (Senate). (See Congressional Record, p. 11147, June 28, 1962.)

We consider it desirable that your committee adopt amendments to incorporate a peril point provision which would require that the President (prior to negotiating) have congressional approval before reducing the tariff below a point determined by the Tariff Commission.

TITLE III, TARIFF ADJUSTMENT AND OTHER ADJUSTMENT ASSISTANCE

Under the revised escape clause procedure, an investigation conducted by the Tariff Commission would be aimed solely at determining whether the article in question is being imported in such increased quantity as to cause, or threaten to cause, serious injury to domestic industry. The threat can turn to reality long before preventive action can be taken. Furthermore, after the Tariff Commission has acted and made an affirmative finding, the President does not necessarily have to provide tariff adjustment. Under section 302, he may, in the alternative, request the Secretary of Commerce for certification of eligibility to apply for adjustment assistance under chapter 2. How one would approach adjustment assistance to the canning industry, to the orchardist, or to the individual farmworker, is something which we have been unable to evisage. For example: To what other crops could you devote the displaced acres presently producing apples, peaches, pears, tomatoes, and the many other canning crops of our Nation? To what alternate use could you turn the vast, specialized canning production facilities of this country? What other employment could be provided for the displaced cannery workers and the permanent and seasonal farmworkers who harvest these canning crops?

CONCLUSION

Traditionally, this industry has unequivocally supported reciprocal trade legislation and would like to support the Trade Expansion Act of 1962. We firmly believe, however, that to make this bill adequately protect this vital segment of the Nation's agriculture, modifications should be effected in the following respect:

Strengthen prenegotiation safeguards by insertion of a peril point provision with congressional review and veto to be exercised within a reasonable period of time. This will eliminate the need for the assistance portion of title III.

STATEMENT OF TOBACCO ASSOCIATES, INC., SUBMITTED BY J. B. HUTSON, PRESIDENT, WASHINGTON, D.C.

U.S. growers and exporters of flue-cured tobacco are keenly interested in the enactment of foreign trade legislation now pending before the Congress. At the annual meeting of the membership of Tobacco Associates, Inc., March 1962, a resolution in this respect was unanimously adopted, as follows:

Whereas the 800,000 tobacco farmers of the United States depend on foreign markets for the utilization of around 30 percent of their annual crop, and a continuing healthy development of U.S. tobacco exports will strengthen our balance-of-payments position; and

Whereas it has become increasingly necessary for countries of the Western World to pursue policies that avoid discriminatory restrictions against trade in agricultural commodities, and that instead encourage freer and mutually beneficial trade among nations; and

Whereas the reciprocal trade agreements program of the United States has for more than a quarter of a century been one of the important elements of the Nation's foreign trade policy, contributing toward desired multilateral cooperation in the observance of fair rules and practices for trade; and

Whereas the recent emergence and progressive evolution of the European Economic Community (Common Market) have presented the United States with new opportunities and new challenges in the foreign trade field; and

Whereas U.S. legislative authority for the reciprocal trade agreements program is due to expire on June 30, 1962; and

Whereas the President of the United States has delivered to the 87th Congress a special message on foreign trade legislation; and

Whereas the Congress is actively considering an enlargement and a 5-year extension of the authority to negotiate advantageous trade agreements, as embodied in H.R. 9900 [bill subsequently replaced by H.R. 11970]: Now, therefore be it

Resolved, That, we, the membership of Tobacco Associates, Inc., representing the producers, warehousemen, exporters, bankers, merchants, and fertilizer manufacturers in the flue-cured tobacco producing area, do hereby recommend and urge the Members of Congress to enact such legislation.

More recently, there have been other gatherings of tobacco farmers, warehousemen, exporters, and business groups from the flue-cured area at which the pending legislation has been discussed. In every case, unqualified endorsement has been given to it, and the writer is unaware of a single instance in which a contrary view is held by any segment of the U.S. tobacco industry.

The stake of flue-cured tobacco producers and exporters in foreign markets is even greater than that of most other elements of the U.S. tobacco industry. Nowadays, 40 percent of the yearly production of flue-cured tobacco depends on overseas outlets, taking into account the volume which is exported as cigarettes and other manufacturers.

In all, about three-fourths of this oversea trade is with countries that are either members or potential members of the European Common Market. It follows, therefore, that adequate tariff bargaining authority is essential if future U.S. interests are to be safeguarded in that evolving new market.

On behalf of U.S. tobacco producers and exporters, and the welfare of the country generally, we respectfully urge the members of the Senate Finance Committee to sponsor and the whole Senate to enact appropriate foreign trade legislation. Such legislation is embodied in H.R. 11970, "Trade Expansion Act of 1962", as recently passed by the House of Representatives.

BULLOCK'S, INC.,
Los Angeles, July 11, 1962.

Hon. HARRY F. BYRD,
Chairman, U.S. Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: I should like the following statement regarding the trade bill to be entered in the record.

It is my conviction that the United States will further its own interests through the passage of the Trade Expansion Act.

It guarantees our share in the expanding market of the European Economic Community.

It will serve to strengthen the domestic economy through wider foreign trading and will therefore lend greater stability to the economy of the entire free world.

The authority granted to the President to adjust duties will serve to make such adjustments in a changing world with more flexibility and dispatch.

It can be particularly effective in expanding U.S. activity throughout the world in relation to agricultural products.

It means more domestic jobs through expanding markets for American goods of all types, and includes provisions for the alleviation of job dislocations if, as, and where they may occur.

It is urgent that the bill be given full support at the Senate level.

Sincerely,

P. G. WINNETT, *Chairman of the Board.*

LIBBY, MCNEILL & LIBBY,
Chicago, Ill., June 19, 1962.

Trade Expansion Act, 1962 (H.R. 11970).

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: Libby, McNeill & Libby has been engaged in world trade for over 75 years. It is one of the world's largest exporters of canned and frozen foods, with a substantial investment in production facilities overseas and with agents in practically all of the free countries of the world. We are presently engaged in extensive agricultural research and in marketing studies to increase our activity in the foreign field and, particularly, in the European Common Market countries.

It is our considered view that expanding trade among the free nations of the world, which we think will be encouraged by the enactment of H.R. 11970, is a sign of this Nation's increasing maturity in its approach to foreign trade. We firmly believe that the inexorable trend of history will demonstrate the economic necessity for and inevitability of freer world trade, so necessary to build the sinews and muscles of the free world in meeting the worldwide threat from the Communist bloc.

While H.R. 11970 has effectively overcome the basic objections we found in H.R. 9900, we should like to make what we regard as two important observations concerning this legislation. First, we are opposed to the concept of relief or subsidization provided in chapters 2 and 3 of title III. Not only does this Government not have these funds to further embark upon new programs of "relief," but the concept embodied in these chapters of the bill can only have the effect of helping the less efficient to survive.

Second, it would be unavailing to support freer trade throughout the world, as contemplated in this legislation, and then find American industry was rendered impotent or placed in a highly noncompetitive position by reason of foreign income being subjected to taxation contrary to long-established tax-policy, as contemplated under H.R. 10650. We are genuinely concerned with the restrictive provisions of H.R. 10650 seeking to tax the foreign income of American companies.

Without adding to the convincing testimony of careful students who have evaluated the effect of these foreign income tax provisions on our foreign trade, we should like, particularly, to invite your consideration of the statement of Mr. Gilbert, chairman, Committee for a National Trade Policy, placed in the Congressional Record by Hon. Thomas B. Curtis on May 10, 1962, as well as the excellent statement by Mr. Dan Throop Smith, professor of finance, Harvard Graduate School of Business Administration, at the hearing before your committee on April 27, 1962, on H.R. 10650.

We urge your favorable consideration of H.R. 11970 and that our views be made a part of the record before your committee upon its consideration of this legislation.

Sincerely yours,

ROBERT L. GIBSON, Jr., *President.*

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA, INC.,
New York, N.Y., July 16, 1962.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR CHAIRMAN BYRD: In connection with the hearings being held by your committee on H.R. 11970, the "Trade Expansion Act of 1962," we respectfully request that this letter be made a part of the record of your hearings, and that the views expressed herein be given consideration by your committee.

The Cigar Manufacturers Association of America, Inc., is a trade association composed of cigar manufacturers having plants in every cigar manufacturing center in the United States. Our membership collectively produce about 80 percent of the approximately 7 billion cigars sold in the United States each year.

We are unqualifiedly in favor of the objectives of H.R. 11970, and we urge that the bill be reported favorably.

This association has for many years supported the principle of lowering trade barriers through reciprocal trade agreements affording mutual benefits.

The American cigar manufacturing industry is especially interested in enactment of H.R. 11970 for the following reasons:

1. Imported cigar-filler tobaccos have always been an important source of supply in the manufacture of American-made cigars, accounting for about one-third of our total annual tobacco requirements. The remaining two-thirds of the tobacco we use is domestically grown.

2. Imported cigar-filler tobaccos supplement as well as complement the domestically grown cigar-filler tobaccos with which they are blended, thereby enhancing the marketability of our domestically grown cigar tobaccos.

3. Of the imported tobaccos constituting one-third of our total requirements, prior to 1959 close to 90 percent normally came from Cuba, about 8 percent from the Philippine Republic, and the remaining 2 percent from other countries, principally Indonesia.

4. The Cuban embargo, effective February 7, 1962, has completely eliminated this important source of supply insofar as the American cigar manufacturing industry is concerned. Replacement will therefore be required for approximately 30 million pounds per year of tobacco heretofore imported from Cuba.

5. The U.S. Department of Agriculture, in its November 1961 "Special Study on Cigar Tobacco," has estimated that domestically grown cigar tobaccos could be drawn upon only to the extent of 9 million pounds per year, leaving a gap of 21 million pounds per year, which will have to filled from foreign sources. The Department of Agriculture on page 3 of this special study, concluded that

"cigar consumption in this country would decline unless this gap were to be closed by bringing in additional suitable tobacco from foreign sources or developing acceptable blends that would permit even greater use of domestic tobacco."

6. To close this gap, American cigar manufacturers have begun to experiment with tropical and subtropical tobaccos, in order to obtain the aroma and flavor needed to replace the Cuban tobaccos and to develop the blends that would permit the expanded use of domestic types. Within the past 2 years American cigar manufacturers have tried increasing quantities of tobaccos from the Dominican Republic, Colombia, Brazil, Paraguay, Indonesia, and the Philippine Republic. These efforts to find substitutes for Cuban tobacco will continue.

7. Passage of H.R. 11970, with its authorization for duty reduction, therefore presents the United States with a unique opportunity for mutually advantageous trade agreements, whereby Alliance for Progress countries especially, as well as other free-world nations, would be encouraged to send us their cigar-filler tobaccos for blending with our domestically grown cigar tobaccos.

Also of importance to the American cigar industry are the provisions of H.R. 11970 with respect to reciprocal reductions, especially in the Common Market, of foreign import duties and import quotas on American exports. We are especially concerned with broadening the export market for cigar-binder-type tobaccos (for which there is at present excess productive capacity because of technological changes in the American cigar manufacturing industry), and for cigar-wrapper-type tobaccos, a substantial part of which has traditionally been exported.

We are similarly interested in expanding the export of cigars to all parts of the free world, and this also would be facilitated by virtue of the provisions incorporated in H.R. 11970 for obtaining reductions in the various foreign duties and in reducing other barriers to increased exports of American-made cigars.

We recognize that the United States cannot obtain the greatly needed concessions from the European Common Market on our exports of tobacco (including the important cigarette-type tobaccos as well as cigar-binder- and cigar-wrapper-type tobaccos) and our manufactured tobacco products (cigarettes as well as cigars) unless we are prepared to offer concessions in our duties. It is especially gratifying, therefore, that such concessions can safely be granted with respect to cigar-filler-type tobacco duties without jeopardy to domestic producers, and that the increased importation of non-Cuban cigar-filler tobaccos will be of mutual benefit to the United States and to our free-world allies.

We believe that H.R. 11970 is legislation that is in the best interest of our industry and our country, and we recommend that the bill in its present form be enacted.

Respectfully yours,

CARL J. CARLSON, *President.*

TOBACCO ASSOCIATION OF UNITED STATES,
Greenville, N.C., April 3, 1962.

Hon. HARRY F. BYRD,
U.S. Senator,
Washington, D.C.

MY DEAR SENATOR: I am enclosing herewith resolutions adopted by the Board of Governors of Tobacco Association of United States and the Executive Committee of the Leaf Tobacco Exporters Association endorsing H.R. 9900.

The members of these associations are leaf tobacco merchants who buy and sell leaf tobacco in unmanufactured form to almost every free country in the world. Our export trade in tobacco is vital to the economy of a large section of our country, and also plays a vital roll in our national economy. During 1961 approximately 500 million pounds of U.S. tobacco were sold in export markets.

Unless a new reciprocal trade agreement is enacted by the Congress by June 30, 1962, we know that tobacco exports will be adversely affected by increased tariffs, preferences, and import quotas. It is imperative that someone be delegated the power to negotiate trade agreements in order to protect the tobacco export business. We believe that the President is the logical person to handle these negotiations.

We therefore respectfully ask that you give H.R. 9900 your favorable consideration.

Very truly,

J. C. LANIER, *General Counsel.*

RESOLUTION PASSED BY THE BOARD OF GOVERNORS OF TOBACCO ASSOCIATION OF UNITED STATES AT A MEETING HELD IN RICHMOND, VA., ON FEBRUARY 16, 1962

Whereas there is now pending before the Congress H.R. 9900, which, if enacted into law, will give the President the power and authority to negotiate trade agreements between the United States and other countries; and

Whereas the United States today is the world's largest exporter of tobacco, and during the calendar year 1961 exported approximately one-half billion pounds at a value of over $300 million; and

Whereas in order to avoid further discriminatory restrictions against tobacco, it is necessary and essential that the President be granted authority to enter into reciprocal trade agreements that will encourage mutually beneficial trade among nations; and

Whereas the present Reciprocal Trade Agreements Act is due to expire on June 30, 1962, and unless renewed our foreign markets for tobacco will be seriously threatened to the disadvantage of nearly a million tobacco farmers who depend on foreign markets for the utilization of around 30 percent of their annual crop; and

Whereas the formation of the European Common Market, and the eventual elimination of tariffs as between the member nations, and the levying of an external tariff by the member nations will build a barrier against U.S. tobacco, unless through mutual and reciprocal trade agreements such barriers can be eliminated or minimized; and

Whereas the tobacco industry has always favored reciprocal trade agreements which contribute toward multilateral cooperation and a free flow of trade as between nations: Now, therefore, be it

Resolved, That the Board of Governors of Tobacco Association of United States, representing the leaf tobacco exporters, do hereby recommend and urge the Members of Congress to enact such legislation as is provided in H.R. 9900; and be it further

Resolved, That a copy of this resolution be forwarded to the Members of Congress from tobacco-growing States and that a copy be furnished to the Ways and Means Committee of the House of Representatives.

A. C. MONK, Jr.
President.
J. C. LANIER,
Executive Secretary.

RESOLUTION ADOPTED BY THE EXECUTIVE COMMITTEE OF LEAF TOBACCO EXPORTERS ASSOCIATION AT A MEETING HELD IN RICHMOND, VA., ON FEBRUARY 16, 1962

Whereas there is now pending before the Congress H.R. 9900, which, if enacted into law, will give the President the power and authority to negotiate trade agreements between the United States and other countries; and

Whereas the United States today is the world's largest exporter of tobacco, and during the calendar year 1961 exported approximately one-half billion pounds at a value of over $300 million; and

Whereas in order to avoid further discriminatory restrictions against tobacco, it is necessary and essential that the President be granted authority to enter into reciprocal trade agreements that will encourage mutually beneficial trade among nations; and

Whereas the present Reciprocal Trade Agreements Act is due to expire on June 30, 1962, and unless renewed our foreign markets for tobacco will be seriously threatened to the disadvantage of nearly a million tobacco farmers who depend on foreign markets for the utilization of around 30 percent of their annual crop; and

Whereas the formation of the European Common Market, and the eventual elimination of tariffs as between the member nations, and the levying of an external tariff by the member nations will build a barrier against U.S. tobacco, unless through mutual and reciprocal trade agreements such barriers can be eliminated or minimized; and

Whereas the tobacco industry has always favored reciprocal trade agreements which contribute toward multilateral cooperation and a free flow of trade as between nations: Now, therefore, be it

Resolved, That the Executive Committee of Leaf Tobacco Exporters Association, representing the leaf tobacco exporters, do hereby recommend and urge the Members of Congress to enact such legislation as is provided in H.R. 9900; and be it further

Resolved, That a copy of this resolution be forwarded to the Members of Congress from tobacco-growing States and that a copy be furnished to the Ways and Means Committee of the House of Representatives.

L. S. FICKLEN,
Chairman.
J. C. LANIER,
Executive Secretary.

STATEMENT OF REPRESENTATIVE JAMES C. DAVIS FOR INCLUSION IN THE HEARINGS HELD BY SENATE FINANCE COMMITTEE ON HOUSE BILL, H.R. 11970

Mr. Chairman, I asked for time before your committee in its consideration of H.R. 11970 because of the importance of this legislation to my district and the various industries operating there.

Since time for an appearance was not made available to me I request that this statement be made a part of the printed record of the hearings.

I feel that that the bill (H.R. 11970) as passed by the other body, of which I have the honor to be a Member, would not be to the best interest of my district. More important is my feeling that it would not be to the best interest of this country.

Why do I say this? There are several features of the bill that are objectionable.

I am inclined to believe that the most objectionable feature lies in the almost unlimited authority that it would vest in the President at the expense of Congress. As we all know, Congress has the authority under the Constitution to regulate foreign commerce and to make the tariff. We should not relinquish this power without the express direction of the people.

The bill proposes to pass these powers to the President with few guidelines or with guidelines that are too dim and uncertain. The President, for example, could negotiate the tariff down to zero on a list of very important farm products no less than industrial products.

To go to free trade on these items is something that should be proposed only in the manner that would bring the project out into the open. Those who make the proposal should list the industrial and farm products with respect to which free trade is proposed.

The items should be set forth by name, together with rates of duty.

So far as the farm products are concerned no list is furnished in the bill. The items are incorporated by reference. When the document referred to is consulted (Department of Agriculture Bulletin 143 of 1959), it is found that nearly all imaginable agricultural products are on the list. It includes not only raw products such as meat but meat products such as ham and bacon, sausage and canned meats; not only vegetables but canned and preserved vegetables. The same holds for fruits, grain products, dairy products, poultry, etc.

With respect to the industrial products there is again no list. The contents of such a list would in any case be uncertain. The duty rates that could be abolished are not set forth. The whole thing is left in a speculative position. If England joins the Common Market the list would be larger than if she does not join. The list will grow if Denmark and Norway join and again if Sweden, Austria, and Switzerland join.

Legislation based on such a speculative basis can only induce uncertainty and fear.

The question arises how we could in any case hope to compete with Europe on a free trade basis in most industrial products. The Common Market countries have wage rates about a third as high as ours and their productivity, as everyone knows, is rising more rapidly than that in this country. This rapid growth in Europe is the result of vast mechanization in recent years. This mechanization will be accelerated by the enlarged market opened to the Common Market members. They will enjoy all the advantages of mass production with wages far below ours.

I cannot imagine how we could be expected to compete. Already hundreds of our industries have opened branch plants in Europe or bought into going concerns in order to be more competitive. This outward flow of our capital would be greatly stimulated if we should open our market to imports without a duty or even with a duty cut in half.

The power to remove the duties, as proposed in H.R. 11970, seems to me to be excessive and intemperate. Those who propose it cannot have much concern for domestic industry. Otherwise they would not confront it with such a dilemma. They have even less concern for the American worker who cannot invest in Europe but who would have the prospect of being retrained or relocated if the bill should pass.

The power to reduce our existing tariff by 50 percent is also a far-reaching proposal. Since 1934 the protection afforded by our tariff has been reduced by 80 percent. In other words, we have cut to the quick in many cases, and what is left of the tariff is the minimum and this is often not enough to bring foreign costs up to ours. A further 50-percent cut would be much more disturbing than were previous cuts, injurious as many of them have been to our industries.

There are several other objectionable features of this bill. The 5-year extension is entirely too long. Two distinct Congresses would come and go in the interim. They might as well stay home as far as exercising their constitutional authority to regulate our foreign commerce is concerned. This represents contempt of our citizenry and their right to vote on matters that are of vital importance to them.

Three years is the longest extension of the trade program that should be tolerated. The suggestion that the extension be for 5 years comes from the executive branch. What would the electorate say to us if we in Congress undertook to bind two successive Congresses, not yet elected; i.e., tie them down to our present will? Yet that is exactly what the Executive proposes that we do.

It may be said that it will be a year or two before new negotiations can begin. It should be appropriate then to extend the existing act for a year or two and then give to the oncoming Congress a chance to express its will instead of tying its hands in advance.

We do not know yet what the Common Market of Europe will look like next year or the year after. It would therefore be imprudent to legislate so far in advance.

I have left to the last one of the bill's most objectionable features. This is the substitution of adjustment assistance for the present prevention and remedy of injury.

To go into this program with the avowed purpose of cutting tariffs even though it would cause serious injury to some of our industries seems very odd. It would mean turning our back on the policy of the past 28 years. It would also mean that we were investing imports with the right of eminent domain over our domestic industries. I doubt that there is another country in the world that would subscribe to such a philosophy. It verges on self-destruction or such a degree of self-depreciation as would invite destruction.

Do the export interests really demand such an unnatural sacrifice?

Far from throwing away the peril point provision and the escape clause these should be made more effective. The State Department has done all in its power to make the escape clause ineffective, thus thwarting the will of Congress as expressed in its legislation. The present bill would destroy the escape clause in favor of a Government dole or bailout system that would becloud the horizon.

To set out deliberately to adopt and enforce a policy that would admittedly hurt our industries would be to adopt a course that will drive our industries out of the country and leave the workers as wards of the Government. Certainly this is not the way to beget the kind of growth and expansion that we need today in this country.

I would urge this committee to take into account the probable consequences of passing H.R. 11,970 in its present form. The extension should be for a shorter period and should contain more moderate authority for the President. The supremacy of Congress in this field should be restored and preserved, and American industry and its workers should not be put on the block to be sacrificed to the momentary considerations of foreign policy. Our industrial strength is itself the mainstay of the so-called free world and we should not weaken it or put it in jeopardy as this bill would do.

Therefore I would recommend drastic amendments; changes that would reduce the powers that the bill would vest in the President, both as to length of the extension and the depth of tariff-cuts that could be negotiated. I would not only retain but strengthen the peril point and the escape clause and would eliminate the adjustment assistance completely.

American industry should be induced to expand here at home rather than tempted with emigration and foreign investment in lieu of expansion in this country. I feel that this Congress has no other bill before it equal to this bill in its impact on our economy; and trust that this committee will make the necessary changes in the bill.

STATEMENT BY DR. PAUL A. FABRY, MANAGING DIRECTOR OF INTERNATIONAL HOUSE IN NEW ORLEANS

Historically, New Orleans has served as one of this country's most vital links with world markets. To maintain the steady growth of this strategically and economically vital port as well as the entire Mississippi Valley area, a further extension of our traditional share in world trade must be secured. International House is the leading organization of New Orleans, and perhaps of the South in general, devoted to promoting increased trade and better relations with the rest of the world.

Beginning in the 19th century, agricultural production in the South, and particularly in Louisiana developed at an amazing rate in response to needs in Europe and other oversea markets. It was the income generated by these agricultural exports that enabled the economy of the South to absorb a growing amount of manufactured goods from abroad. It was natural for this area to become the chief advocate for maintaining a free flow of international trade hampered by as few artificial barriers as possible.

The creation of the European Economic Community has presented us with an urgency and recognition that a more effective, liberalized trade policy must be enacted by the United States in order to preserve and broaden the flow of trade with the rest of the world. Much has been said about the economic impact of this Common Market, and the 2400 business leaders represented in International House are fully aware of its potential impact on our trade.

In a statement before the Committee on Ways and Means of the House of Representatives on March 26, 1962, Dr. Alton Ochsner, president of International House, submitted a resolution of the organization that I represent regarding today's challenges and opportunities in world trade, particularly in view of the success of the European Economic Community and its impact on the economy of the Mississippi Valley area. I believe that the importance of the proposed legislation before you now demands an even greater urgency of action and is more broadly recognized today than just a few months ago.

I would only like to add one thought to Dr. Ochsner's statement—and that is the psychological factor that should be considered in your deliberations.

Although it is the concensus of European leaders that there will certainly not be a "United States of Europe" in exactly the sense as the United States of America, they agree that it has already created a unique state of mind, a psychological community of free men.

Many people have testified before your committee on the need for a forward looking trade expansion bill and its economic consequences. I would like to add to these statements that perhaps as important as the economic factors of this proposed legislation is the psychological impact it will have on our allies worldwide. A return to a protectionist-isolationist policy would not only turn the economic clock back and set off a chain of reprisals by foreign nations, but would also deliver an irreparable blow to the image of America held by our friends and trading partners throughout the world.

The failure of enacting a policy for freer world trade with a minimum of restriction would create a general disbelief in Europe and elsewhere in the sincerity of our intentions of wanting to become an integral part of the community of free men. Our lack of courage—or lack of willingness—to compete freely on a world scale would destroy, perhaps incorrigibly, the faith of our friends abroad in the strength of our free enterprise system and, indeed, their faith in our willingness to ally ourselves with them for a better common future.

Indeed, the Common Market tends to be wrongly thought of by most Americans as something almost entirely economic. On the other hand, no European leader today advocates an Atlantic Community in the sense of the European Economic Community. To them, community means what they already have: a tightly knit body with institutions of a quasi-supranational character, a partial merging of sovereignties. This is not the relationship that Europeans seek of Americans, nor that Americans seek of Europeans.

The United States and Europe, the two advanced industrial centers of the free world, must accomplish the great task of our time as economic partners as well as spiritual partners. The two are inseparable today.

Our relationship with Europe must not be based on a federal or political personality but on the realities of economic interdependence, based on competition where healthy growth and higher standards of living for all can be assured. This grand alliance for closer trade will bring about better political relations and will also become the greatest bulwark against Communist imperialism.

It is to these principles that International House was dedicated by forward looking citizens of New Orleans 18 years ago. Our dedication is still to "world trade, peace, and understanding." To accomplish this, the Trade Expansion Act of 1962 is a sine qua non.

STATEMENT OF JOHN A. BOUVIER, JR., REGARDING H.R. 11970

Mr. Chairman and members of the Senate Finance Committee, my name is John A. Bouvier, Jr. I am president of Knaust Bros., Inc., and K-B Products Corp., of Catskill, N.Y. These companies are the largest combined scientific growers and canners of mushrooms, we believe, in the world. In this matter I also speak for Fran Mushroom Co. of Ravena, N.Y., a formidable but very honorable competitor, who are great factors in the growing and canning of mushrooms.

The combination of these groups is a very important factor, the most important factor of the economy of the area from Ravena to Saugerties in the Hudson Valley. The loss of this business to this area would end the means of livelihood of hundreds of families affecting every line of endeavor in these communities. The Knaust Cos. are more than 40 years old.

You will be briefed in some detail by others in this industry. We, however, wish to add these thoughts and these facts because it means life and death to us whether we received relief from the existing situation plus not having it made worse by the passage of H.R. 11970 which may authorize the President to hasten our death.

(1) We believe in and support the Common Market. We believe trade barriers should be eased between the United States and those countries whose labor rates and standards of living approach ours. We lived with and could reasonably compete with imports from Western Europe even though their prevailing labor rates were one-fourth to one-third our rates.

(2) The daily wage rate for the agricultural worker (mushroom grower) in Taiwan is 50 cents per day (slave labor) while ours is $14.80 per day. We pay much more in fringe benefits than the Chinese receives for his day's pay. With all of our mechanization and 40 years' experience our at-plant cost is $3 per case of No. 10 tins higher than the Chinese grow, can, transport and pay duty to our customers doorstep. Granted, the quality is not equivalent to ours, but since the vast majority of all this product goes to restaurants, hotels and institutions, the ultimate user has no individual choice. The loss of this institutional business is something the U.S. mushroom industry cannot stand because without this volume we will be forced out of business.

(3) Let us examine this last statement. The total market in the United States is roughly 60 million pounds. For years the imports ranged below 4,500,000 pounds. We are advised that our own State Department in its zeal to save the rest of the world whether or not we survive, arranged to assist the Chinese in learning the art of mushroom growing and even aided them in securing the spawn (seed) of the Agaricus Campestris species. The irony or tragedy of this situation is that this species is not the species eaten in the Orient. It was given them for the purpose of exporting to the United States and other countries in the Occident.

We are now reaping the whirlwind. The Department of Agriculture estimated to me that in the year 1962 imports would soar to 12,500,000 or better than 20 percent of the American market. The China Post, page 20, estimates 15 million pounds (600,000 boxes a 25 pounds) for the year 1962. They say "canned mushrooms is now No. 2 item on the export list under the captioned category."

For the first 6 months of 1962 the import figures show: France—750,119 pounds, Japan—1,448,259 pounds, Taiwan—4,968,497 pounds, other countries—92,610 pounds. Total—7,259,485 pounds.

(4) Why the State Department or any part of our Government picked out an industry of only about $25 million gross to help the Orient to invade is inconceivable. This is a business in which the Americans were doing a reasonably good job and supplying a product to the public at a fair price. It is doubtful that any independent grower and canner can stay in business unless the flow of oriental mushrooms is stemmed.

(5) H.R. 11970 goes in just the opposite direction. Instead of increasing the import duty to protect the industry this bill threatens even lower tariffs.

(6) We have found a bit of sympathy for us in our plight but so far no real help. The only remedies suggested (please, Tariff Commission, let us set up under the escape clause) can't seem to help until the patient is dead. We have even been told in Washington that there is no relief for us from this creature of the Government's making; that after all we have to help the rest of the world, too. We have also been told that we must consider the resultant lower price to the consumer even though it destroys us.

Mr. Chairman and members of the committee, we implore you, (1) to give no power to the President to further lower our tariffs, and, (2) to seek an amendment which will increase tariffs in this area, or establish a quota, or both. Your most earnest consideration is necessary if we are to survive.

Respectfully submitted.

W. W. LEFEW'S SONS,
Richmond, Va., July 30, 1962.

Hon. HARRY F. BYRD,
Senate Office Building,
Washington, D.C.

DEAR SENATOR BYRD: Attached is a short statement in connection with a proposed amendment to H.R. 11970.

We are representatives of the Diamond Walnut Growers, Inc., and have been for many years. Our principal is in substantial agreement with the intent and purposes of H.R. 11970, however, they believe that this amendment will help regulate the flow of tree nuts.

We hope that you can see the sincerity of this amendment and that it will benefit everyone concerned.

With best wishes to you, we remain,

Yours very truly,

F. A. MCDONNELL.

STATEMENT WITH REGARD TO PROPOSED AMENDMENT TO H.R. 11970

Section 212 of the House bill provides for restrictions on the duty reduction authorizations contained in section 201(a) of the bill, in the case of certain agricultural commodities.

It is clear that this section is intended to benefit only those agricultural commodities which have existing export markets, the maintenance or expansion of which would be of significant benefit to the domestic industry.

Section 212 has no application to domestic agricultural industries which have little or no export market, but which must rely entirely upon domestic markets for their continued existence.

These industries are subject to constant competition from like articles from foreign countries which frequently produce these commodities in surplus quantities. Heretofore, some tariff protection has been allowed, which has the effect of controlling excessive inflow of such foreign commodities.

While not disagreeing with the essential purpose of H.R. 11970 with regard to duty reductions, these agricultural groups feel that it is imperative that these duty reductions not occur hastily, nor be made without some adequate substitute for control of inflow being at hand.

The attached amendment proposing a new section 203 will afford such existing protection until the executive branch has had an opportunity to work out international commodity agreements for the agricultural commodities, or products thereof, involved in these minimum export industries, under section 204 of the Agricultural Act of 1956, as amended.

In fact, the proposed amendment, by retaining such existing tariffs for the time being, would provide a significant bargaining element, which could aid the executive branch in its negotiation of commodity agreements under section 204.

It is estimated that the agricultural commodities described in this amendment, and under the formula stated on the face of the amendment, contribute substantially to the economy of at least 15 States across the country.

[H.R. 11970, 87th Cong., 2d sess.]

AMENDMENT Intended to be proposed by Mr. Engle to the bill H.R. 11970 to promote the general welfare, foreign policy, and security of the United States through international trade agreements and through adjustment assistance to domestic industry, agriculture, and labor, and for other purposes, viz:

On page 8, after line 20, insert the following new section:

"SEC. 203. EXCEPTION FOR CERTAIN FRUIT AND TREE NUT CROPS AND PRODUCTS.

"No proclamation made pursuant to section 201(a)(2) shall apply to any fruit or tree nut crop, or any individual product thereof, which is an article referred to in Agricultural Handbook No. 143, United States Department of Agriculture, as issued in September, 1959—

"(1) of which 5 percentum or less of the average annual production of such article produced in the United States in the most recent 5-year period is exported from the United States, and

"(2) for which the United States accounts for less than 50 per centum of the world's supply in the same 5-year period,

unless there is in effect a multilateral agreement with respect to such article negotiated by the President under section 204 of the Agricultural Act of 1956, as amended, with countries accounting for a significant part of the world trade in such article."

(Whereupon at 12:05 p.m., the committee stood in recess to reconvene at 10 a.m. Tuesday, July 31, 1962.)

TRADE EXPANSION ACT OF 1962

TUESDAY, JULY 31, 1962

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

The committee met, pursuant to recess, at 10 o'clock a.m., in Room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Douglas, Talmadge, Williams, Carlson, and Curtis.

Also present: Elizabeth B. Springer, chief clerk, and Serge N. Benson, professional staff member.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Carl A. Gerstacker, Synthetic Organic Chemical Manufacturers Association.

Take a seat, sir, and proceed.

STATEMENT OF CARL A. GERSTACKER, PRESIDENT, SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION

Mr. GERSTACKER. Mr. Chairman, I am Carl A. Gerstacker, president of the Synthetic Organic Chemical Manufacturers Association, and chairman of the board of the Dow Chemical Co.

Seventy-eight companies are SOCMA members and account for 90 percent of the organic chemicals manufactured in the United States. Synthetic organic chemical sales amounted to almost $7 billion in 1961 and total chemical industry sales to about $30 billion.

With me today are Mr. Richard Kithil on my immediate left, vice president of the Curwin Chemical Co., of North Avon, Conn.; Dr. Ernest May, president of the Otto B. May Co., of Newark, N.J.; and on my immediate right, Mr. James F. Connelly of Barnes, Richardson & Colburn, legal counsel for the association.

The CHAIRMAN. Without objection.

Mr. GERSTACKER. In examining the proposed trade program we find that although decisions on tariff cutting should depend on the U.S. industry's ability to compete, the proponents of the program have made no efforts to determine the relative ability of the U.S. industry to compete with companies overseas.

The meager information they have used has not been adjusted for changing conditions in Europe. In short, they have not been able to predict with any accuracy what will happen if sweeping tariff changes are made. The proposed legislation, under the dominant supplier concept, would permit the President to eliminate tariffs on organic chemicals between unequal economic systems in the unsupported belief that the United States automatically will be successful in its competitive efforts.

Most of the members of the group I represent are thoroughly knowledgeable in the intricacies of foreign trade. Not only are our chemicals sold all over the world but we have frequently participated in the building of foreign plants to supply foreign markets.

The experience and knowledge of SOCMA members in comparing United States and foreign competitive capabilities have convinced us that our industry would be seriously injured by further reductions in tariffs.

This conviction is supported by the findings of the well-known, independent research firm, Arthur D. Little, Inc., of Boston, who were asked by SOCMA to survey the impact of the proposed U.S. tariff changes on organic chemical imports. We have supplied copies of the full report in advance for your consideration.

This report shows that our industry will be seriously hurt by imports from Europe and Japan if U.S. tariffs are removed or significantly lowered.

Foreign producers, with a more favorable cost position based on significantly lower labor rates and lower investment costs, can substantially undercut the U.S. producer of synthetic organic chemicals.

If the proposed changes are enacted, imports into the United States of low-cost, foreign-produced organic chemicals will increase, our exports will decrease and the contribution that our industry now makes toward the balance of payments will become a deficit.

The Arthur D. Little study shows that Common Market sales of chemicals are about one-half those of the United States. When the chemical sales volume of Canada and Japan is added to that of Western Europe, including the United Kingdom, the total amounts to about 80 percent of U.S. chemical sales volume.

In spite of the very rapid growth rate of our chemical industry, the foreign chemical industries are growing even faster. Chemical industry growth in the Common Market and Japan has been more than twice as swift as ours in some cases. The growth of the Common Market chemical industry cannot be attributed solely to the lowering of internal EEC tariff barriers. There are other contributing factors, as attested by the rapid growth of the Japanese chemical industry, as this chart on my right indicates.

(A copy of the chart referred to follows:)

CHART I-A

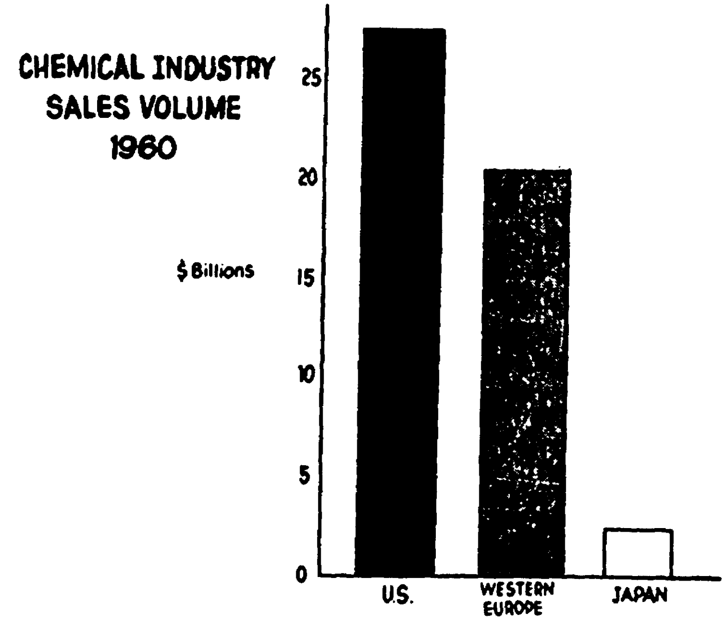
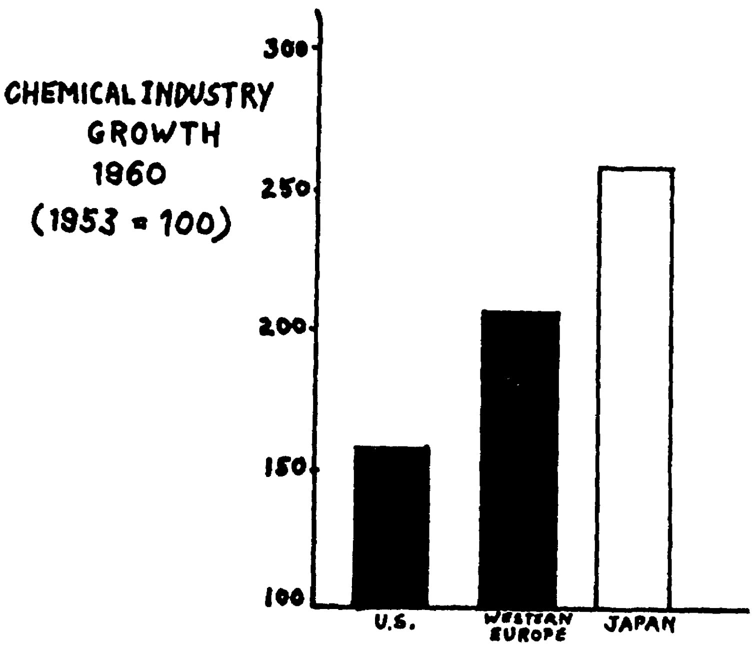


CHART I-B



Mr. GERSTACKER. The ability of the foreign producer to sell in U.S. markets is based almost entirely on his advantageous unit cost position. Accordingly, I would like to discuss the various cost factors in some detail.

The most important component of cost differential is the labor charge. The Arthur D. Little study shows that total labor costs in Europe and Japan, adjusted for productivity and fringe benefits, are only 30 to 50 percent of U.S. costs.

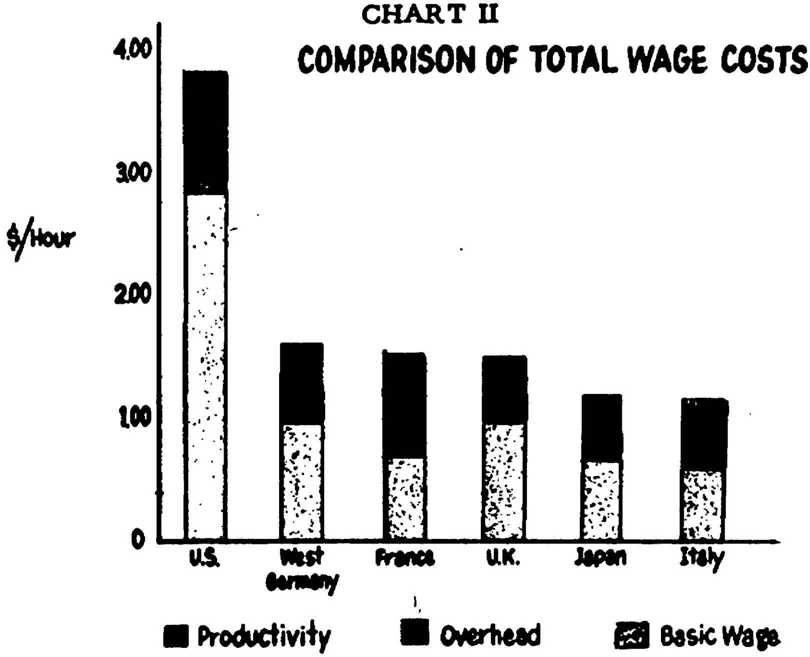
In assessing the impact of differences in labor costs on total costs, the important factors are these:

Variance in productivity—differences in productivity are diminishing as newer plant facilities are installed and the number of workers in modern plants in Japan and Europe tends to approach the U.S. level.

Labor rate trends—it is anticipated that the average rate of hourly wage increase for the United States will be 3 percent annually during the next decade, as contrasted to 6–9 percent in Europe and Japan.

Base wages average $0.70 per hour in Europe and $2.80 in the United States. While many people assume the European rates will approach ours rapidly, in cents per hour this average increase actually would lead to a change in wage difference of $2.12 the first year, $2.15 the second year and so on, increasing until the 7th, 8th, 9th, and 10th years, when it would remain relatively constant at $2.23. Not until the 11th year would the gap start to narrow, and not until the 30th year would their rates equal ours.

CHART II



The study shows that investment costs abroad are typically 80–95 percent of the cost of a comparable plant built in the United States. It will remain cheaper to construct chemical plants in Europe and Japan for the next 10 years.

Depreciation schedules in foreign countries allow a much faster writeoff of equipment than is possible in the United States, even under the new schedules.

In regard to raw materials, the Arthur D. Little study established valid contract prices in Europe, Japan, and the United States for a variety of products important as raw materials for organic synthesis.

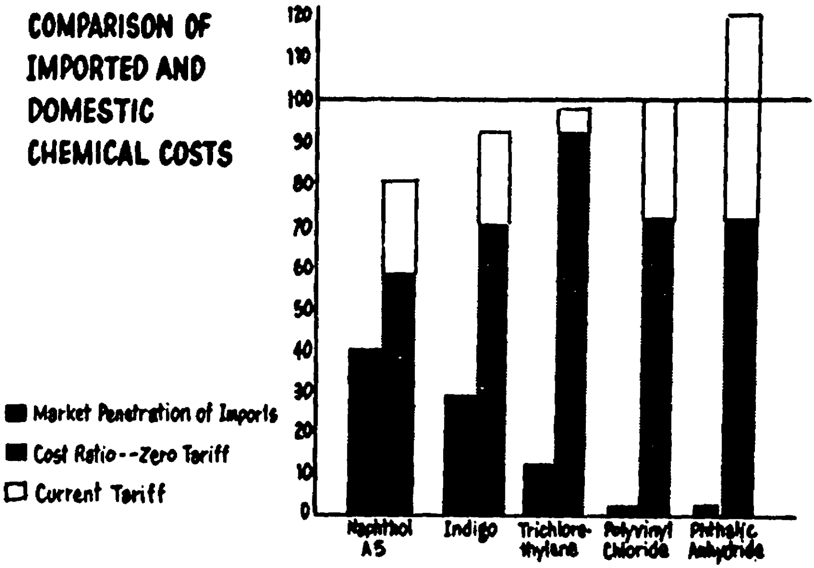
The study shows that many items can be purchased abroad at equivalent or lower prices than in the United States for comparable volume requirements.

In cases where U.S. costs are lower, the product is either tied directly to the cost of energy—natural gas, for example—or to some special situation such as salt in Europe versus brine in the United States. We expect that even in these cases the cost of organic chemical raw materials will become more competitive with ours, despite continued price declines in this country.

The only significant cost element in which the United States has an advantage at present is in energy, where U.S. costs now run 60–80 percent of the fuel or power charges abroad, but the trend is toward equalization and these costs are small, amounting to only 3–4 percent of total costs for most organic chemicals.

In the United Kingdom and the Common Market, marketing and administrative costs were substantially below ours for identical products—reflecting their lower salary schedules.

CHART III



The sum of all these cost factors results in unit costs in Europe and Japan which are 80–85 percent of the costs in an equivalent plant in the United States. Italy appears to be the lowest cost country for producing and marketing organic chemicals, by a slight margin, while Japan, the United Kingdom, France, and Germany are all approximately equal.

The relative costs of production of 18 representative chemicals in the Common Market and Japan have been studied. For brevity, only five of these are shown on the chart. The other 13 are shown in the full Arthur D. Little study of which you have a copy.

These costs are based upon such European plants as are now possible with the large volume market they serve. For two-thirds of the products studied, manufacturing costs are lower than in the United States in one or more of the countries chosen for analysis. The lowest cost competitor is, of course, the one that will be most active in export markets such as the United States.

The question we must now consider is the amount of U.S. market penetration possible in view of the capabilities of foreign chemical manufacturers.

The Arthur D. Little study shows that the Common Market and Japan can continue to increase their shares of the U.S. chemical markets considerably under current conditions because of their superior cost position.

It is apparent that their share will increase if tariffs are reduced or eliminated. The study estimates that with tariffs eliminated under the "dominant supplier" section of the Trade bill, approximately 10 percent of the U.S. chemical market would be lost to imports. Then, through the importation of upgraded products; that is, rubber footwear, textiles from synthetic fibers, plastic raincoats, and the like, they would take another 10 percent for a total of 20 percent.

This total effect, plus the estimated increase of imports of other chemicals, could change the chemical industry's $1.3 billion favorable contribution toward our balance of payments to a deficit balance of $1.3 billion. Our country's present balance-of-payments deficit, therefore, would be increased by $2.6 billion. The resultant gold loss could be an extremely grave consequence.

In the past, U.S. chemical companies have reduced prices to meet the imported prices. It is reasonable to suppose that they will continue to do this, but they will wind up losing 20 percent of their volume and retain the other 80 percent at lower prices—and along with the lost volume, U.S. costs will increase and profits will be further reduced.

Even under today's tariffs, we find that 41 percent of the naphthol AS consumed in the United States in 1960 came from foreign sources, 28 percent of the indigo dye—and I might add parenthetically that these imports have forced Dow Chemical out of the indigo business—14 percent of the trichloroethylene and 45 percent of the caffeine came from abroad in 1961.

It can be stated without qualification that reduction or elimination of Common Market tariffs would not appreciably increase U.S. chemical exports to Europe.

It is obvious that with a 15–20 percent advantage over us, we cannot export into their markets except on a spot basis when their capacity

CHART IV

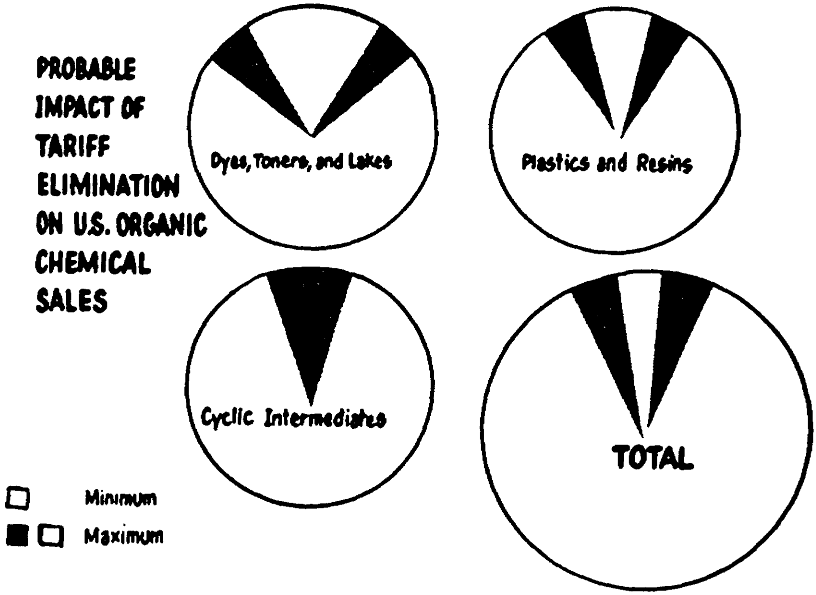
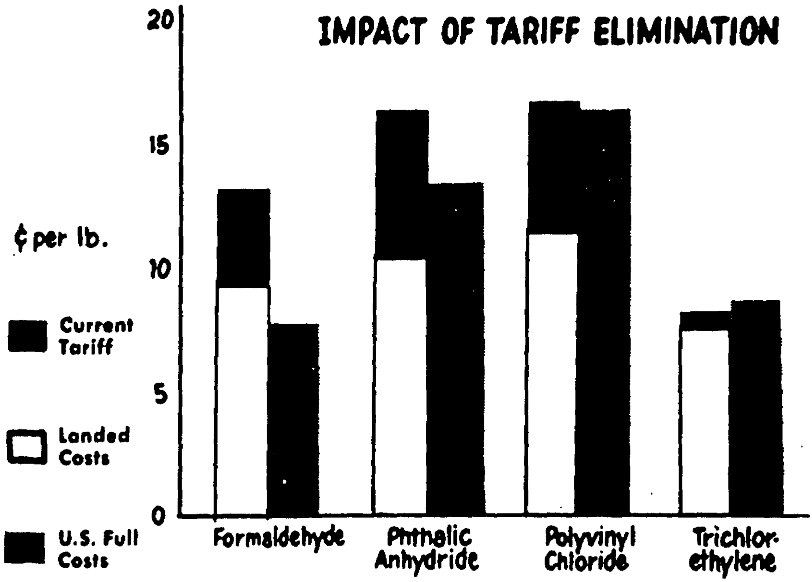


CHART V



might be temporarily inadequate. They are as knowledgeable as we and have high technical competence.

Since we cannot export commodity chemicals, we can only export our specialties. When a market has been developed to the point that a manufacturing plant can be justified, somebody, including perhaps American companies, will build plants to serve those markets. They will do this to take advantage of the lower cost of production abroad, and because of freedom from import quotas, currency restrictions, import duties, embargoes, and the like.

This has already happened, as witness Du Pont building neoprene and nylon plants abroad.

Hercules has built plants for fortified sizing for paper; Monsanto has built a plant for acrylic fiber and Dow has built polystyrene plants. These plants were built to serve the foreign market.

If the tariff bars are let down and it is a question of survival, companies with foreign plants can ship products here, utilize their established marketing organizations in this country, and serve the American buyer from foreign plants instead of U.S. plants. If our trade policy forces them into this, it will mean in effect the export of American jobs and the location of vital industries much closer to the Iron Curtain countries than we are in the United States.

In addition, the organic chemical industry is so complex and interrelated that the loss of one product along the line may eliminate a number of products made from it and jeopardize the profitability of several other lines of related products. These charts show the size complexity and interdependence of the industry.

(The four large tree of products charts accompanying Mr. Gerstacker's statement were too large to be legibly reduced for printing; therefore they were made a part of the committee files.)

Mr. GERSTACKER. The members of SOCMA believe that there is an obvious need for careful study of competitive conditions before a drastic trade policy bill is passed. In spite of the attention given this issue, there are few studies by qualified and respected experts which will serve as factual bases for a good trade policy for the United States.

We are asked to believe without evidence that exports will increase more than imports. In the light of this paucity of information, we oppose passage of H.R. 11970 as being an unrealistic solution to the trade problems the United States now has.

If the Trade Expansion Act is passed without significant change, we can expect our exports to decrease, with a resultant aggravation of the balance-of-payments problem.

Without tariffs, we face immediate erosion of chemical prices due to low-cost imports. This would result in a serious loss in industry earnings and a corresponding loss in Government tax revenues. We also face a potential $2.6 billion growth in import volume of chemicals alone. This must result in domestic unemployment and the deterioration of industries essential to the national defense.

We, therefore, suggest most strongly that the following minimum safeguards are essential to preserve the vitality of the U.S. organic chemical industry:

(1) Safe tariff limits should be established by the Tariff Commission after the necessary hearings, and any action of the President

in trade negotiations deviating from the recommendations of the Commission should be explained to the Congress.

(2) Any tariff adjustments should be made on a product or article basis and not on broad category groupings.

(3) Items essential to the national security should be listed by the Defense Department after the appropriate hearings and reserved from tariff negotiations.

(4) Concessions negotiated with one country or group of countries should not be extended automatically to other countries.

(5) The escape clause provisions of the existing law should be retained and the adjustment assistance provisions of the Trade Expansion Act eliminated.

After careful consideration we are impelled to urge these safeguards in the best interests of all industry and of the total economy. We reach this conclusion in full recognition that trade among nations is essential and that under the proper conditions, sound economic trade in the free world will grow.

What we are urging are minimum safeguards that will give the American producer a fighting chance to compete in his own market with foreign competitors. We are asking for the protection of American jobs and continued health for an industry that is vital to the welfare of the country in peace and in time of national peril.

Thank you.

The CHAIRMAN. Thank you, Mr. Gerstacker.

Any questions?

Senator CURTIS. I have one question.

Are you familiar with this study made by Arthur D. Little?

Mr. GERSTACKER. Yes, Senator.

Senator CURTIS. On the very same subject?

Mr. GERSTACKER. Yes, Senator.

Senator CURTIS. Do you concur in the finding?

Mr. GERSTACKER. Yes, sir, Senator.

Senator CURTIS. Mr. Chairman, I ask unanimous consent that this portion of the record, study to which you refer, may be printed in the record.

The CHAIRMAN. Without objection.

(The Chair subsequently ruled that the study referred to was too voluminous for reporting in the record of this hearing, and therefore the study will be made a part of the committee files.)

Senator CARLSON. Mr. Chairman, just one thought.

As I understand your testimony, Mr. Gerstacker, it is that you oppose enactment of H.R. 11970 but if we should approve it you have certain suggested amendments which you think would be helpful?

Mr. GERSTACKER. That is right, Senator.

Senator CARLSON. You have a great industry, and you have a very important segment of it out in Kansas in Spencer Chemical Co. and other plants that they have. I appreciate your testimony.

Mr. GERSTACKER. Thank you, sir.

Senator WILLIAMS. Have your suggested amendments—were they included in as part of your statement?

Mr. GERSTACKER. Yes, sir; they were. Thank you.

Senator WILLIAMS. That is all.

The CHAIRMAN. Thank you, Mr. Gerstacker.

Mr. GERSTACKER. Thank you, Mr. Chairman.
(The appendix to Mr. Gerstacker's statement follows.)

APPENDIX A

POINT I. ESTABLISHMENT OF SAFE TARIFF LIMITS BY THE TARIFF COMMISSION AFTER THE NECESSARY HEARINGS, AND ANY ACTION OF THE PRESIDENT IN TRADE NEGOTIATIONS DEVIATING FROM THE RECOMMENDATIONS OF THE TARIFF COMMISSION MUST BE EXPLAINED TO CONGRESS: AMEND THE BILL TO INCLUDE A MEANINGFUL PERIL POINT

Section 221 of H.R. 11970 is a substitute for the peril point provisions of existing law (sec. 3 of the Trade Agreement Expansion Act of 1951, as amended, 19 U.S.C. 1360–1361).

The peril point provisions of existing law are claimed to be cumbersome of administration and time consuming. It is also claimed that the net effect of the peril point remedy in existing law seriously and needlessly eroded the bargaining power of the United States in negotiations (testimony, Secretary of Commerce Hodges on H.R. 9900, Ways and Means Committee, pt. I, pp. 86–87). We submit that present law establishes minimum safeguards and suggestions for repeal and substitution of section 211 are without merit.

Under existing law, the Commission determines for each article listed for negotiation a point below which duties may not be reduced without causing or threatening serious injury to a domestic industry producing a like or directly competitive article. It seems to us that the broad authority vested in the President by H.R. 11970 to reduce existing duties by 50 percent, or in special agreements with the European Economic Community (Common Market) to eliminate duties entirely, requires that the President receive data and competent findings from the Tariff Commission in accordance with the criteria and safeguards contained in existing law.

Under section 221 of H.R. 11970, the fact-finding function of the Commission is drastically revised and that agency is downgraded to an ineffective role of furnishing the President with general advice as to probable economic effects of modifications in existing duties upon domestic industries. This general role prevents, the Commission from using its unique facilities and personnel to be truly informative and useful to the President. Under the concept of H.R. 11970, the function of the Commission is to furnish general advice on broad questions and not particularize effects of duty modifications upon the domestic production and sale of specific products. We suggest that section 221 purports to retain the name, but destroys the substance of the peril point safeguard. Our concern is intensified by the additional repeal of provisions in existing law requiring the President to inform the Congress of his reasons for breaching peril points. Clearly this requirement is not onerous or the report cumbersome.

Accordingly, we urge that the provisions of section 3 of the Trade Agreement Extension Act of 1951, as amended, be reenacted in H.R. 11970 and section 221 be deleted.

POINT II. ANY TARIFF ADJUSTMENTS SHOULD BE MADE ON A PRODUCT OR ARTICLE BASIS AND NOT ON BROAD CATEGORY GROUPINGS

Under sections 211, 221, 223, and 224 the President may, in special negotiations with the EEC (Common Market), utilize broad product groupings as a basis for negotiation or select articles from such groupings as items for negotiation. The interdependence of thousands of organic chemicals in their manufacture, and where marketed for end use make these provisions of H.R. 11970 a potential threat to the very existence of this industry in the United States.

Accordingly, it is urged that section 211 (b)(1), (b)(2), (c), and (d) be amended to provide that products of this complex, multiproduct industry not be listed for negotiation under an unspecified broad grouping based upon an international system of classification. To that end it is suggested that H.R. 11970 be amended to require that the Tariff Commission advise the President of a congressionally approved system of classification to deal with articles or products of this industry. The essential minimum identification is provided by the terms of Public Law 87–456, the Tariff Classification Act of 1962. Under Public Law 87–456, revised tariff schedules of the United States are established in accordance with a five-digit system of decimal numbering, which provides a separate and distinct item number for each rate of duty in a specific schedule.

Schedule 4 of the new tariff schedules of the United States covers the products of this industry in a manner which would permit domestic industry to be informed of the type and kinds of products listed for consideration in negotiation of trade agreements. Lists of products in terms less exact, or by applying international terminology, would constitute inadequate notice, or no notice, to domestic producers hat modifications of duty are contemplated on products like or directly competitive with their own.

POINT III. ITEMS ESSENTIAL TO "NATIONAL SECURITY" SHOULD BE LISTED BY THE DEFENSE DEPARTMENT AFTER APPROPRIATE HEARINGS AND RESERVED FROM TARIFF NEGOTIATIONS

Section 232 of H.R. 11970 is substantially identical to and continues in effect provisions of section 2 of the Trade Agreements Act of July 1, 1954, as amended, by section 8 of the Trade Agreements Extension Act of 1958 (the national security safeguard).

Section 232(a) provides that no action shall be taken to modify or eliminate duties on any article if the President determines reduction or elimination would threaten to impair the national security. The vital importance of organic chemicals to national defense and national security is well known to this committee; also the Department of Defense is aware of classified uses of products of this industry. In view of the extremely broad powers vested in the President to reduce or eliminate duties on broad groupings of articles, it is essential that the legislation contain standards to guide the President in making his determination whether national security would be affected by reductions or eliminations of duties on organic chemicals.

The provisions of section 232(a) should be amended to require the President, as soon as practicable after enactment of H.R. 11970, to direct the Office of Emergency Planning to investigate and determine, in accordance with the standards of section 232(c), the identity of articles or products which are essential to our national defense or security. OEP should also make findings and advise the President whether reduction or elimination in duties upon foreign organic chemicals, which are like or directly competitive to those produced in the United States, would be likely to impair or threaten our national defense or security. Its findings should be made public.

To the extent that OEP advises the President, articles or products shall not be included in a list of articles transmitted to the Tariff Commission by the President in accordance with the provisions of section 221. The legislation should provide that these articles shall be reserved from negotiation, until such time as OEP advises the President their listing for such negotiation and reduction or elimination of duties would not threaten to impair our national defense or security.

POINT IV. CONCESSIONS NEGOTIATED WITH ONE COUNTRY OR GROUP OF COUNTRIES SHOULD NOT BE EXTENDED AUTOMATICALLY TO OTHER COUNTRIES

Continuance of the most-favored-nation principle in section 251 of H.R. 11970 is unrealistic in view of the special authority vested in the President to negotiate elimination of duties with the EEC (Common Market). While trade agreements negotiated under H.R. 11970 are stated to be for a term of 3 years they are, for all practical purposse, permanent in tenure and are unlikely to be completely repealed or revoked. Under the 80-percent world export value concept of section 211(a), the Common Market countries may account for 78 percent and the United States for 2 percent of a product category. Changing trade patterns may eliminate the United States from world markets or cause its 2-percent share to decrease to a vanishing point. On the other hand, countries not members of the EEC may, together with the United States, become the principal or dominant supplier of articles for which a concession had previously been negotiated with EEC. Such other countries would, therefore, become principal beneficiaries of a duty-free status without furnishing the United States with equivalent concessions for our exports.

International trading conditions and principal suppliers do not remain permanent and fixed; a concession eliminating duties on an extremely broad category of products in negotiations with the Common Market, may well result in Japan or other countries outside the ambit of that market becoming the principal beneficiary. There is no requirement in H.R. 11970 that the President review concessions granted in order to determine whether market conditions have changed, or different principal suppliers have emerged, or that 80 percent of world trade value has shifted to others than the United States and the Common Market.

We therefore urge that section 251 be amended to require the President to review concessions made to the EEC at the end of each 3-year period and to withdraw or modify such concessions where different principal supplier countries account for 80 percent of world export value for an article or category of articles; also that such concession be modified or withdrawn whenever the U.S. share of world export value has decreased below the percentage existing at the time negotiations were concluded for any article or category.

POINT V. RETAIN THE ESCAPE CLAUSE PROVISIONS OF THE EXISTING LAW AND ELIMINATE THE ADJUSTMENT ASSISTANCE PROVISIONS OF THE TRADE EXPANSION ACT

Section 351 of H.R. 11970 purports to recognize tariff adjustment as an "escape" from injury or threat of serious injury to an industry arising out of reductions or eliminations of duties upon like or directly competitive products.

Section 7 of existing law is supplanted by the provisions of section 351 in conjunction with section 301(b), despite the fact that the "escape clause" continues to be the most important remedy available under the provisions of GATT (article XIX) and enable contracting parties to modfiy or terminate concessions. Under article XIX, Common Market countries as well as other GATT members may invoke these provisions to obtain relief from the impact of competing imports; however, under H.R. 11970, a drastically weakened escape clause is but one of several alternative remedies.

Other remedies in title III of H.R. 11970 in form of "adjustment assistance" to workers, firms or industries are of little or no use to a multiproduct industry such as producers of synthetic organic chemicals. To us, the escape clause is the only remedy which may afford some relief against the impact of low-cost imports.

Retention of the existing escape clause provisions would lessen any necessity for applying other forms of adjustment assistance contained in title III of H.R. 11970.

Accordingly, we urge that title III of H.R. 11970 be deleted from the bill and the existing escape clause provisions be reenacted.

The CHAIRMAN. The next witness is Mr. C. Kenneth Egeler, Dry Color Manufacturers' Association.

Take a seat, sir.

STATEMENT OF C. KENNETH EGELER, CHAIRMAN, INTERNATIONAL COMMERCIAL RELATIONS COMMITTEE OF THE DRY COLOR MANUFACTURERS' ASSOCIATION

Mr. EGELER. Chairman Byrd, Senators Williams, Carlson, and Curtis, this gentleman is James F. Donnelly, as you know, a member of the firm of Barnes, Richardson & Colburn, who are counsel also for the Dry Color Manufacturers Association.

I am C. G. Egeler, chairman of the International Commercial Relations Committee of the Dry Color Manufacturers' Association, DCMA from here on, on whose behalf I am appearing before you today.

I am a marketing executive in the Pigment, Color & Chemical Division of the Sherwin-Williams Co.

In addition to this oral presentation we are also filing a written brief which I should appreciate being made a part of the record, and request that it follow the oral presentation in the record.

Gentlemen, we realize you have a very tight schedule, and we have done our best to condense an original 15-minute presentation into about 10 minutes.

I may run over about half a minute and I hope you will bear with me.

First let me give you a thumbnail picture of just what DCMA is, and a brief description of the pigment industries of the United States.

DCMA is almost 32 years old, and its members include 23 U.S. producers of organic and inorganic pigment colors.

In 1960 sales in the United States of organic pigment colors totaled about $65 million and of inorganic pigments about $35 million, so we are talking about a $100 million business with a payroll of around $30 million.

Our pigment industry has over 4,500 production employees alone working in 57 plants located in 17 States: 19 being in New Jersey; 13 in New York; 4 in Pennsylvania; 3 in Ohio; 2 each in West Virginia, Maryland, Illinois, Rhode Island, and Wisconsin; and 1 each in California, Kentucky, Massachusetts, Michigan, Kansas, Delaware, Missouri, and South Carolina.

All pigments are made in batch operations, sometimes as small as 150 pounds per batch, and, as you would surmise, the cost of direct labor is a substantial factor in our overall unit costs.

We support the administration's desire to expand our country's international trade position; and believe that carefully selected and considered, mutually advantageous tariff concessions offer a sensible approach to the matter.

We view with great alarm, therefore, many of H.R. 11970's provisions. We very strongly object to negotiations being made on broad categories of products rather than on an individual product basis. We object to the elimination of product by product compulsory Tariff Commission hearings, which result in carefully determined peril points on individual products that are of tremendous assistance to our negotiators in their endeavors to prevent serious injury to American industry. We object to the idea of a "zero list" of product categories on which duties would be eliminated simply because the United States and the Common Market countries account for 80 percent or more of the aggregated world export value of all articles in that category, unless it is also stipulated that this would apply only when the U.S. accounts for at least half of this 80 percent.

Here are the facts, gentlemen, in support of our objections:

Secretary Hodges has already indicate that pigments qualify for zero-list treatment. Of the types of inorganic and organic pigments we produce, at least 90 percent of these types are now being sold by Common Market producers in the world markets at prices substantially below—not our U.S. prices alone—but below our cost to produce these pigments.

Within the Common Market countries and the outer seven countries, these same pigments are selling at even lower prices because substantial freight and insurance expense, agents' commissions, and so forth, are not involved here.

Even if tariffs on pigments were reduced to zero by the United States and the Common Market we could do little or no business there except at a considerable loss even after completely waiving overhead, and the inevitable result would be greatly increased imports of pigments into the United States to our serious injury.

In 1953 we exported approximately $10 million of organic pigments and a very small amount of inorganic pigments.

In 1961 our exports dropped to $4.7 million of organic pigments and almost to zero on inorganics. Imports into the United States of these same pigments have increased since 1958 from about $860,000 to about $1,500,000 to 1961. These figures clearly illustrate that foreign producers have already taken more than one-half of our former export volume and from the figures I shall quote later it is obvious that they will shortly take over 90 percent or more of it.

On the other hand, even with present tariff protection, they have doubled their sales to the United States and the Arthur D. Little report referred to by Mr. Gerstacker clearly indicates that, right now. Foreign producers have the excess capacities necessary to supply almost 30 percent of our market or roughly $30 million worth.

Let me illustrate.

Let's take the two largest volume organic pigment groups first. In 1960 total sales in the United States of these two groups were over $13 million or almost one-fifth of the total sales of organic pigments in the United States.

Phthalocyanine blues, the largest group, sell in the United States at from $3 to $4.20 per pound. These same pigments are selling in Colombia, South America, at $1.84.

In Holland they are selling at $1.81, and in Sweden at $1.58, and in Italy at $1.48.

Lithol reds, the next largest group, sell here for 98 cents to $1.03 per pound. They are selling in Holland at 75 cents; in France at 69½ cents; in Italy at 57 cents, and in Belgium at 77½ cents.

There isn't a producer in the United States, however basic and efficient, whose costs f.o.b. plant even approach these delivered selling prices, which include, presumably, a profit.

Now let's take two large-volume inorganic pigment groups, which represented 60 percent of the total U.S. sales of inorganic pigments in 1960.

Chrome yellows sell here for 34 cents per pound. In Colombia they sell for 23.7 cents; in Belgium at 23 cents; in Italy at 23 cents.

Iron blues sell here for 55 cents to 62 cents per pound. They sell in Colombia at 41.7 cents; in Belgium at 36 cents; in Norway at 42 cents.

Similar relationships prevail with at least 90 percent of the rest of the organic and inorganic pigments we produce.

With or without tariffs we cannot sell these organic or inorganic pigments in the world markets let alone into the Common Market or outer seven countries, as our costs in the package f.o.b. our U.S. plants are substantially higher than the prices at which these pigments are selling. Sherwin-Williams, the company I work for, their foreign paint manufacturing plants cannot afford to buy their pigments from Sherwin-Williams U.S.A.; they buy from foreign producers at no sacrifice in quality in the finished product.

We do not want protective tariffs that prohibit foreign competition. We do want tariffs that introduce an equalizing factor to offset the lower foreign unit costs. In spite of the fact that we cannot compete in markets outside the United States, we are willing that our domestic customers in the pigment-consuming industries be able to buy pigments from foreign or domestic sources at practically equal prices and let the factors of service, quality, and performance settle who gets the business.

If U.S. tariffs on pigments are reduced to zero or even materially reduced, we'll have to build plants abroad or export our know-how, and then "export" our products into the "duty-free" United States.

If we do this, we're exporting jobs, and we are exporting the taxes our companies and our workers pay to the United States on their incomes; also, the pigment-consuming industries of this country would have to depend on foreign sources for their colorants.

I'm sure you agree that the $250 million printing ink industry, the $2 billion paint industry, the multibillion-dollar printing and publishing, plastics, and automotive and truck industries would be extremely unhappy with this state of affairs.

Lead and zinc metal quotas have been established to protect U.S. lead and zinc producers. Chrome yellows and molybdate oranges, inorganic pigments, contain 64 percent lead metal by weight on the average; chrome green 40 percent lead; zinc yellows about 30 percent zinc metal.

If substantial quantities of these are imported, then substantial quantities of lead and zinc are being brought in ex-quota to the detriment of the American zinc and lead industries.

In World War II, millions of pounds of Napalm were produced in U.S. pigment plants; millions of pounds of pigments of many types went into primers, olive drab topcoats, camouflage finishes, and so forth, on war vessels, tanks, trucks, airplanes, cargo ships, uniforms, camouflage nets, and so forth.

There is an increasingly important use for Phthalocyanine—pigments in nonoxidizing, high-temperature, high-pressure lubricants for high-speed planes.

Both organic and inorganic pigments are used extensively in dope-dyed fabrics where the pigment itself becomes an integral part of the fiber, making the color of the dyed fiber and resulting fabric chemically resistant, light fast, and so forth.

This has important defense connotations.

Many of our high-quality organic and inorganic pigments, which are produced in small batches, are used for printing maps used by field commanders and bomber and fighter pilots because these pigments can resist strong tropical sunlight, salt sprays, heat, and so forth. Time does not permit my going any further along this track, nevertheless, present provisions of H.R. 11970 do not afford, in our opinion, adequate safeguards for key or national security industries.

If the provisions in this regard in section 232 were embodied in section 225, thereby making it mandatory that the President give adequate consideration to these key industries before negotiations, pigments essential to national defense would not be included in trading lists.

We would like to see incorporated into H.R. 11970 mandatory consultation with and participation by qualified industry experts both before and during tariff negotiations.

We feel that the provisions of H.R. 11970 for aid and assistance to workers in our industry would be ineffective and unworkable and would aggravate the unemployment problems. The realistic and practical solution is retention and strengthening of the present escape clause provisions. This would be the most direct and effective remedy available to multiproduct industries which are injured or threatened with injury from low-priced imports.

For us, the key point is, that, with regard to foreign trade policy, H.R. 11970 commits too much authority and latitude to the executive branch. The Constitution places that responsibility in your hands, gentlemen, and for very good reason, you are much closer to us, our problems, and our people.

Let's keep this responsibility with you.

Thank you.

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

Any questions?

Thank you, sir.

Senator CURTIS. May I ask one question?

What do they make these pigments out of?

Mr. EGELER. I beg your pardon?

Senator CURTIS. What do they make your pigments out of?

Mr. EGELER. The inorganic pigments are made from a variety of basic inorganic chemicals, such as sodium dichromate, lead metal, and so forth.

The organic pigments are made from a variety of organic intermediates of varying degrees of sophistication. By that I mean if you take simple organic pigments it might be made from beta naphthol or by an acid one step removed from naphthalene.

If you get into Pthalocyanine, it is several steps removed.

Senator CURTIS. I don't want to get involved but briefly what materials in layman's terminology are used to make pigments?

Mr. EGELER. Products of coal, oil.

Senator CURTIS. That is all.

The CHAIRMAN. Thank you very much, sir.

Mr. EGELER. Thank you, Senator.

(The statement previously referred to follows:)

STATEMENT OF DRY COLOR MANUFACTURERS ASSOCIATION IN OPPOSITION TO H.R. 11970

THE INDUSTRY

The Dry Color Manufacturers Association is composed of 23 U.S. producers of organic and inorganic pigments (dry colors).

The industry employs over 4,000 production workers in 57 plants located in 17 States:

New Jersey	19	California	1
New York	13	Delaware	1
Pennsylvania	4	Kansas	1
Ohio	3	Kentucky	1
Illinois	2	Massachusetts	1
Maryland	2	Michigan	1
Rhode Island	2	Missouri	1
West Virginia	2	South Carolina	1
Wisconsin	2		

Many of these plants are located in small towns and cities where the economic well-being of the localities is dependent in large part on the earnings of these workers. Many DCMA members could be considered in the small business category, and pigment production represents their entire product line; other pigment producers manufacture organic and inorganic chemicals as well as products utilizing pigments as raw materials.

The average hourly basic rate in 1960 was $2.50, and annual payroll is estimated to be $30 million per year.

In 1960 total sales in the United States amounted to approximately $100 million, divided into $65 million organic, and $35 million inorganic pigments.

Only a few of the many hundreds of pigment colors can be manufactured by continuous processing methods. Pigment manufacture does not lend itself, with some exceptions, to automation since quantities of specific colors are produced in small volume, and are the result of "batch" operations. Under these conditions the cost of direct labor is a substantial factor in overall unit costs.

Pigments have been listed by Secretary Hodges among the 26 broad category groups which could be placed on the "zero" list in negotiations with the expanded Common Market. Should the President, pursuant to section 211(b), select SIC category group 533, where the rate of duty is a low ad valorem equivalent of only 10½ percent, dry color producers would be virtually foreclosed from the market. Existing duties have not prevented imports of any pigment catgories. Imports of both organic and inorganic pigments have shown persistent increases each year, while exports of U.S. pigments have shown a persistent decline. In 1958 imports of pigments were $860,000; in 1961 they increased to $1.5 million. The export picture is the reverse. In 1953 exports of organics were $10 million and in 1961 declined to $4.7 million.

At the present time 90 percent or more of the types of pigments produced in the United States are being sold by foreign producers in world markets, at prices substantially below U.S. selling prices—in many instances below U.S. costs of production. For example, Phthalocyanine blues, the largest group, sell in the United States at from $3 per pound to $4.20 per pound. They are selling in: Colombia, at $1.84; in Holland, at $1.81; in Sweden, at $1.58; and in Italy, at $1.48.

Lithol reds, the next largest group, sell in the United States for 98 cents to $1.08 per pound. They are selling in: Holland, at 75 cents; in France, at 69½ cents; in Italy, at 57 cents; and in Belgium, at 77½ cents.

These foreign selling prices, which we assume contain a profit margin for the producers and distributors, are below f.o.b. plant costs of U.S. producers.

In the large volume inorganic pigment groups representing 60 percent of total U.S. sales in this group, the following world prices again demonstrate our inability to sell in world markets against foreign competition.

Examples are:

Chrome yellows sell here for 34 cents per pound; in Colombia they sell for 23.7 cents; in Belgium, they sell for 23 cents; and in Italy, they sell for 23 cents.

Iron blues sell here for 55 cents to 62 cents per pound; in Colombia they sell for 41.7 cents; in Belgium, they sell for 36 cents; and in Norway, they sell for 42 cents.

Under these circumstances, elimination or the drastic reduction of duties on pigments by other countries of the world will not increase our exports. Elimination of U.S. duties will certainly increase already large imports.

Pigment producers in the existing Common Market countries, and in the United Kingdom, have attained an even stronger world position in the pigment color field than they maintained prior to World War II. While U.S. exports of organic pigment colors have declined, our foreign competitors in Holland, West Germany and the United Kingdom have increased total exports to world markets by substantial quantities, particularly to dollar area countries.

According to publications of the OEEC, "Trends in Economic Sectors: The Chemical Industry in Europe," giving export data for 1954 and 1958, these foreign countries have substantially strengthened their world market positions in pigments and allied products. We have prepared the following compilation from statistical data contained in appendixes to these volumes showing the following trends:

[Thousands of dollars]

	Exports to dollar areas	Total exports
West Germany:		
1954	1,328	21,554
1958	2,644	34,245
Netherlands:		
1954	312	10,149
1958	645	17,701
United Kingdom:		
1954	6,785	50,346
1958	9,369	66,466

The decline in domestic production coupled with the increased exports of pigments from Western Europe to dollar-area countries have adversely affected the production and sales of organic pigments manufactured in the United States. U.S. exports have declined to the extent indicated solely by reason of price differentials. These price differentials not only have curtailed exports but demonstrate that domestic producers are vulnerable to increased imports at existing rates of duty. Further reductions in U.S. import duties, in view of this existing price differential, would widen the competitive advantage now enjoyed by Mexican, West German, British, and Netherlands producers as well as other Western European and Japanese sources.

THE INDUSTRY'S RAW MATERIAL AND PRODUCTS MANUFACTURED THEREFROM

Pigment manufacturers purchase millions of pounds of organic chemical intermediates, dyes, and lead, zinc, titanium, and iron compounds as raw materials. Through chemical reactions and physical manipulations involving considerable know-how, these raw materials are converted into dry colors or pigments.

These dry colors are produced and marketed in many varieties, strengths, and physical forms, and they sell at widely different prices. The product mix of the industry is extremely complex. For these reasons, in considering tariff treatment for the products of this industry, it is necessary that general terminology be avoided if any consideration is to be given to injurious effects on various segments of our production. H.R. 11970 should be modified to prevent reductions or eliminations of duties on broad product categories. Congress should incorporate in the law a system of classifications for industrial products similar to the provisions of section 211(e) as applied to products of agriculture.

From dyes, dye intermediates and similar organics, the industry produces hundreds of color shades in pigment form which are utilized by manufacturers of inks of all types, plastics, textiles, paper, electrical equipment, paints, resins, and hundreds of other products. In addition to the direct threat to the products we make, many of the products produced by customers of this industry have suffered adversely from the impact of imports under existing duty levels. Further reductions or elimination of duties on broad commodity groups which include these products of our customers, will cause a further shrinkage in our domestic sales.

As indicated above, the industry is a large consumer of lead and zinc compounds. We have noted with appreciation the interest of the Congress in preserving lead and zinc production facilities in the United States. According to the Business and Defense Services Administration publication "United States Industrial Outlook for 1960," pigment industries account for almost 11 percent of total lead consumption—estimated at 85,000 short tons. The average composition of lead chromate ranges from 40 to 64 percent of lead metal by weight. The tariff duty on chrome pigments was reduced another 20 percent in the recently concluded GATT negotiations.

Increased importations of zinc chromate will further restrict the sales of domestic zinc, since they contain approximately 30 percent of zinc metal by weight.

IMPORT COMPETITION

Chrome pigments are being imported in ever-increasing amounts: up 500 percent in the last 4 years.

Iron blue pigments, are produced in relatively small quantities, the average order being approximately 300 pounds. There are several hundred customers for these products in the United States. Manufacturing operations are conducted by "batch" methods and frequently 2 weeks or more are required to complete a production run.

Iron blue pigments of very fine quality are produced in the United States for special military uses. The same facilities are employed and the same techniques and know-how are used in producing these military pigments. Present military demand is not sufficient to sustain productive facilities and they must continue to be employed in commercial production and sale in the domestic markets if military grades are to be manufactured.

Imports of iron blue pigments have sharply increased, almost doubling in the last 4 years. Under low price pressure of imports originating in the United Kingdom, Holland, and Germany, within the last 8 to 10 years, two very large producers ceased manufacturing in the United States because of the impact of import competition.

Export markets for domestically produced iron blue pigments have drastically declined—solely on a price basis.

Trade information indicates that iron blue pigments of foreign origin are being sold in the markets of the United States in the types and varieties which constitute "bread and butter" items, after payment of freight, insurance, handling, customs duties, and importers' markups, at 43 to 44 cents per pound. The price range of domestically produced iron blue pigments is 52 to 54 cents per pound for the same types of "bread and butter" items. The existing rate of duty of 3.4 cents per pound does not provide adequate tariff protection in the face of this wide price differential between domestic and imported iron blue pigments.

Another pigment category, ultramarine blue, is subject to an import duty of 2.125 cents per pound. Only a single U.S. producer remains and recently sought relief from the Tariff Commission under the escape clause provisions of existing law. The Tariff Commission did not find that injury to the industry resulted from imports.

Imports increased from 644,000 pounds in 1954 to 2,155,000 pounds in 1960. In 1955 these imports accounted for 14 percent of apparent consumption; in 1960, 37 percent of apparent consumption.

Iron oxide pigments are synthetically produced by the DCMA members. A significant decline in domestic production has occurred in the 1954–58 period and imports have increased.

The same observations are applicable to other inorganic pigments not segregated in domestic production or import statistics, and to increasing importations of organic pigments.

U.S. FOREIGN TRADE POLICY

The Constitution places the responsibility in the Congress for determining U.S. foreign trade policy, through the enactment of tariff legislation. During the past 25 years, however, congressional functions in the trade field have been delegated to the President. In H.R. 11970, piecemeal transfers of congressional functions, begun in the Trade Agreements Act of 1934, are practically completed.

We believe that H.R. 11970 is an improvement over H.R. 9900 but continues to vest in the President unwarranted power and authority over tariff levels, import restrictions, and policy determinations in the tariff field, without prescribing adequate standards or controls over Executive actions.

The proponnets of H.R. 11970 recognize that injury is likely to occur through further reduction or elimination of tariff duties and propose that a system of doles to workers, and loans and technical assistance to affected firms and industries be provided to alleviate injury. The escape clause remedy is diluted and becomes an ineffective alternative. Under this system of doles and governmental assistance, decisions of administrators would affect American labor, agriculture, and industry, and compel them to accept or reject the offered handouts should the executive branch determine that escape relief and tariff adjustment is not a desirable remedy.

U.S.-PRODUCED PIGMENTS ARE ESSENTIAL TO NATIONAL DEFENSE AND SECURITY

As a key industry essential to national defense and security, we challenge the all inclusive value of H.R. 11970 as an instrument for keeping America strong. We note section 225 of H.R. 11970 permits the President to reserve articles from trade agreements negotiations which he deems are essential to our national defense or security. Said section 225, however, prescribes no standards by which the decision of the President in these vital matters is to be controlled or directed. If reference is intended to be made to section 232 of the bill, which provides discretionary relief from the impact of imports of competing products essential to our national defense and security, such procedure is ineffective if it continues to be administered in the same manner as section 8 of existing law. Of some 27 cases presented to OCDM and its successor agency, the Office of Emergency Planning (OEP), relief under the "national security" provisions of existing law has been granted in only one instance—namely, crude oil and residual fuel oil.

We believe that responsibility of the Congress to provide for national defense consists not only in appropriating moneys, but in regulating foreign trade to the end that key industries and key products should not be grouped in broad merchandise categories for trade agreement negotiations with foreign countries.

The pigment producers of the United States were, and are, suppliers to industries producing many products of direct military importance. Paints, coatings, dopes, and camouflage material for all types and kinds of military equipment, vehicles, ships, planes, and other armament are required as protective and/or camouflage coverings, coatings, etc. None of these coatings, dopes, or camouflage materials can perform their specific functions without the careful blending of pigments therein to control light refraction, reflection, and absorption, or to dissipate infrared rays, absorb ultraviolet rays, or otherwise permit specific pieces of military equipment and armament to function. In combining pigments in these coatings, coverings, etc., the services of highly skilled technicians are required, who are conversant, not only with manufacturing techniques, but also with the physical and optical principles of light, light refraction, light absorbency, and concealment. In World War II and the Korean crisis formulations were created which met the requirements and specifications of all branches of the Military Establishment. They are at present serving similar needs.

The industry is a direct supplier to all branches of the Defense Department, or services direct suppliers by furnishing pigment components, or ingredients in protective coatings or coverings, inks, camouflage materials, etc. In addition to essential pigment production, the facilities and know-how of these industries also were requisitioned during the World War II and the Korean crisis for the production of Napalm[1] products.

This last service of the pigment industries did not involve the production of pigments or similar products.

The ability of the pigment industries to fulfill defense and security obligations is inextricably united to their ability to produce and market pigments for commercial use. Facilities cannot be placed into operation overnight in time of emergency; know-how is available only by constant utilization of techniques, continued research and development, and daily applications to commercial products. The same raw materials, machinery, and techniques utilized in the production of "bread and butter" pigments are the means whereby the industries readily convert to wartime needs. In the present cold-war state, it is the same materials, facilities, and know-how which permit the industries to fulfill research contracts which are relatively small in dollar amount but extremely important to our defense posture.

It may be urged that this small industry is expendable in cold war or peacetime national interest, that duty-free imports of organic and inorganic pigments will enable the United States to export an increased volume of automobiles, machinery, and price-supported agricultural products. We do not equate such increased exports with long-range national interest. We believe that our role in time of war or national emergency requires that there be an integrated and full product line pigment industry in the United States. Our facilities cannot be maintained without commercial peacetime markets in the United States. We have practically given up attempts to compete in the export markets.

The few examples of price differentials set forth above are representative of overall disadvantages which cannot be overcome without subsidization or price support programs. Idle facilities cannot be quickly converted to meet wartime emergencies and, more importantly, know-how once lost or weakened from disuse is difficult to re-create.

PROPOSALS FOR A REALISTIC MUTUALLY ADVANTAGEOUS FOREIGN TRADE POLICY

We propose a foreign trade program which we believe would permit industries such as ours to continue to compete against foreign competition in domestic markets and to operate productive facilities at levels sufficient to meet our wartime or emergency responsibilities.

First, the national security provisions under section 225 should be expanded so as to require the President to apply the standards of section 232 of the bill in making determinations that articles or products be reserved from negotiation for duty eliminations or reductions whenever national security purposes require application of this reservation. To that end, the President should be required to designate an appropriate agency, such as the Office of Emergency Planning, to

[1] Napalm is a metallic soap composed of the aluminum soaps of napthenic acid, oleic acid, and coconut fatty acids. It resembles a dried granular, slightly spherical soap-powder and is of itself not hazardous. In combination with gasoline or other hydrocarbon which can be burned, it becomes the highly effective incendiary used in both incendiary bombs (ranging in size from 8 pounds to several hundred pounds) or flamethrowers (ranging from one-man units, to large tank-operated units).

solicit the views of industries and ascertain products which are likely to be required for future national defense or security needs, and acquaint the President and the Congress with evidence as to such needs. The bill should also require that the President, after such findings are made, not include any products of any such key industry in future trade agreement negotiations.

Second, we suggest that section 221 be modified to include provisions requiring the Tariff Commission to establish carefully determined peril points before the President enters into negotiations concerning the modification of continuance of any duty, reduction, or elimination of duty. This could be accomplished by incorporating into H.R. 11970 existing provisions of law by which the Tariff Commission establishes meaningful peril points. Section 221 substitutes general advice of the Tariff Commission for existing peril point provisions.

In appearances before the Tariff Commission in 1960, the value of the Commission's peril point findings was demonstrated insofar as products of this industry were concerned. A broad class of organic pigments was included for negotiations under the "basket clause" designation of "all full strength toners." We were happy to note that this all-inclusive category was not made the subject of concessions in the recent GATT negotiations, and attribute this to the careful and considered judgment of the Commission in its peril point deliberations.

It is suggested that the tariff schedules enacted by the Congress under Public Law 87-556, which are based upon a five-digit system of decimal numbering, should be the minimum classifiction system to be used by the President as a basis for negotiating concessions on industrial products. Classification systems which employ international terminology or deal in broad product categories would prevent this industry from receiving adequate notice of proposed tariff concessions and prevent the Tariff Commission from establishing meaningful peril points.

We further suggest that section 221 be amended to require the Commission to carry on, as a permanent function, a constant review of the impact of imports upon like or directly competitive domestic products. Armed with this data when future trade agreement negotiations are considered, the Commission would be in a position to advise the President whether it is a fact that existing rates of duties are a bar to imports. Time pressures on the Tariff Commission would be lessened should the Commission be vested with the authority and responsibility of continually reviewing and studying the flow of imports, their selling prices in the U.S. market, and comparing them with the selling prices of like or directly competitive domestic products.

As part of trade agreement negotiating procedures we submit that the complex nature and wide variety of pigment products require that qualified representatives of this industry be constituted as advisers to the U.S. delegation prior to and during negotiations with foreign delegations, who, in the past, have been ably assisted by astute and knowledgeable representatives of foreign organic chemical producers.

Third, in tariff matters, we believe the most direct and effective remedy which should be utilized first when multiproduct industries are injured or threatened with injury, is the escape clause provision contained in existing law.

We suggest that the present escape clause provisions be retained. It is the most direct and effective remedy available to multiproduct industries which are injured or threatened with injury from low-cost foreign imports. Existing escape clause provisions can be made more effective by requiring the Tariff Commission to find injury has occurred or is threatened whenever import volume of a product or category increases above or beyond a level which the Commission, in annual reviews, previously has determined may be imported without injury or threat of injury to domestic producers of like or directly competitive products.

Fourth, retention of the most-favored-nation principle in section 251 is, in our opinion, not realistic. Any trade agreement should be subject to cancellation or modification whenever the country with which an agreement has been negotiated ceases to be the dominant supplier, and the benefits of all agreements should be extended to other countries on a strict basis of mutual reciprocity.

Even though H.R. 11970 establishes the principle that trade agreements negotiated thereunder would be for a term of 3 years, in the light of past experience, it is highly likely such agreements will be of permanent duration. Elimination of duties in negotiations with the Common Market, based upon the 80-percent world export value concept in section 211(a) makes the continuance of the most-favored-nation principle in section 251 unrealistic. In view of the unlimited duration of trade agreements, the 80-percent concept may be radically altered and the dominant supplier be a nation or group of nations other than the United States and the Common Market. Under such conditions, a foreign country or group of countries would become the principal beneficiaries of a concession negotiated with the Common Market without being obligated to furnish the United States with equivalent concessions for our exports.

It is submitted that automatic extension of most-favored-nation treatment for an indefinite period of time of concessions granted to the Common Market should not be extended to all countries. A provision should be enacted to require modifications of Common Market agreements at the end of each 3-year period, and concessions should be withdrawn whenever other countries become principal suppliers and account for 80 percent of world export value for an article or category; such concessions should also be modified and most-favored-nation treatment be withdrawn whenever the portion of U.S. exports utilized in computing the 80-percent world value decreases below the percentage utilized as a basis for negotiating elimination of duties in an agreement with the Common Market.

Finally, we also suggest that zero concessions in Common Market negotiations should not be initiated unless the United States contributes at least 50 percent to the 80-percent world export value concept in section 211(a).

CONCLUSION

The foregoing suggestions constitute minimum modifications of H.R. 11970 to safeguard industries such as ours from serious damage arising out of duty-free or drastically reduced duties upon competing imports. We urge this committee to give careful consideration to these suggestions. They are submitted in the belief that they would help equalize competitive factors and prevent injury, or where injury exists or is threatened, could afford effective relief from low-cost foreign competition.

The CHAIRMAN. The next witness is Mr. Reuben L. Johnson, National Farmers Union.

Mr. Johnson, take a seat, sir, and proceed.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. JOHNSON. My name is Reuben L. Johnson; I am director of legislative services of the National Farmers Union. I appear here today as a representative of James G. Patton, president of the National Farmers Union, and speak in behalf of 250,000 farm families who are members of our organization.

Mr. Chairman, Farmers Union appreciates very much this opportunity to appear before your committee in support of President Kennedy's trade program as contained in H.R. 11970.

We have followed the hearings of the committee out of our interest in improving the economic position and bargaining power of farmers. We are desirous of maintaining exports of agricultural commodities at high levels, and policies of National Farmers Union relating to trade policy designed to accomplish this objective have been set forth in numerous hearings of the Congress in recent years.

THE NEW SITUATION

The 28-year-old Reciprocal Trade Agreements Act expires June 30, 1962. On January 1, 1958, the treaty establishing the European Common Market—more correctly known as the European Economic Community—entered into force.

Under this treaty six countries—France, Germany, Italy, Belgium, the Netherlands, and Luxembourg—started on the road to economic union.

These countries, which may shortly be joined by the United Kingdom and perhaps other European countries, are well on the way to establishing a common market providing for free movement of goods, capital, and labor among themselves, and harmonizing their commercial, labor, and social security policies.

In creating a common market the members will eliminate all tariffs among themselves and establish a common external tariff toward all other countries.

The Common Market members already have reduced their internal tariffs by 30 percent, and trade among themselves has increased significantly. The total gross product of the Common Market area increased by 7.1 percent from 1950 to 1960, while the U.S. gross national product increased only 3.9 percent in the same period. Thus, the Common Market is one of the most dynamic markets in the world.

IMPORTANCE OF EXPORTS TO AMERICAN AGRICULTURE

Foreign trade is crucial to U.S. agriculture. About 1 acre of every 6 of harvested cropland produces goods for foreign markets. About 15 percent of our total farm production was exported in fiscal year 1961.

Export sales absorbed about half of the rice, wheat, and cotton production; two-fifths of the soybeans; and almost one-third of the tobacco.

Our $20 billion of exports is extremely important to the American economy—it is nearly twice the factory sales of our entire automobile industry, our biggest durable goods industry.

It is estimated that several million Americans owe their jobs directly to industries producing exports.

If we are to have exports we must have imports. Foreign countries could not buy our goods if they did not first earn dollars by selling to us.

IMPORTANCE OF COMMON MARKET IN TOTAL TRADE

In the long run, an expanding and dynamic economy in Western Europe means a greater potential market for American goods. This already is a very important market for us, for in 1960 about $3.8 billion of our exports, or about 19 percent of the total, went to the Common Market countries.

Another $1.6 billion, or 8 percent, went to Britain, making a total of 27 percent to the combined Common Market-Britain area.

However as the Common Market members gradually eliminate all tariffs among themselves over a period of years and establish, again over a period of years, one single tariff for their entire area, competition of outside countries may be more difficult.

COMMON MARKET NEGOTIATIONS

We, as a nation, have made strong representations to the Common Market area. The President, the Secretary of State, the Secretary of Agriculture, their various spokesmen, and many others have talked repeatedly with the representatives of the Common Market.

Under Secretary of Agriculture Charles Murphy and Howard Petersen, special assistant to the President, have been in Brussels for discussions with the Common Market ministers. They have pointed out, time and again, that our support of the Common Market is based on the expectation that as it develops it will be trade expansive, not trade restrictive.

We have pointed out the reasonableness of our expectation that we continue to sell our efficiently produced agricultural products, on a competitive basis, in the prosperous market.

EXPANDING FREE WORLD TRADE COMMUNITY

We turn to consideration of the implication of the Trade Act as it may affect the destiny of our American democracy and representative democratic government in the developing nations.

We believe that passage of this legislation by the Congress would mark a historic moment for our generation. It would make possible a great breakthrough in the expansion of trade among nations of the free world.

Such a breakthrough would make it possible to meet perhaps the greatest moral challenge of our time. I refer, of course, to the vast discrepancy between the high living standards and modern development of the people of the rich nations compared with the grinding poverty of the people of the poor nations.

Barbara Ward in her recent book, "The Rich Nations and the Poor Nations," made this perceptive comment when she said:

> The talk of spreading freedom is "irrational" unless we do something to build a congenial environment for it.

Basic for this rapid creation of a genuinely unified West are not only common markets, but common banks, development funds, trade groups, and so forth.

Mr. Chairman, passage of President Kennedy's trade bill will show the world we desire to move in the direction of trade relationships which work to the mutual advantage of all concerned.

Also, we have come to realize that the resources of the United State alone are not sufficient to attack the basic causes of poverty in the less-developed two-thirds of the world.

We urgently need the help of Western Europe and the advanced nations of the Pacific.

Farmers Union has long contended that social and economic development can proceed only on the basis of trade policies which enable the least able members of the economic community to have access to their rightful and fair share of developing markets.

AID PROGRAMS ENHANCE TRADE PROSPECTS

It seems to us in recent years two major events have sharpened our thoughts as a country, and as free people, to the ultimate need for a democratic world economic union operating much as do our 50 States in exchange and trade matters.

First, the less-developed nations will for some time continue to require technical assistance and the other AID programs in initiating and implementing the social reforms without which the rich grow richer and the poor become poorer.

But without the opportunity to sell their products abroad, on a market favorable to their advancement, their efforts at self-help will be negligible.

Many of these nations are presently almost totally dependent upon the foreign sales of one or two commodities. Only broad-based trade relationships among the non-Communist nations of the Atlantic community, the countries of the Western Hemisphere, as well as the Near and Far East, can meet the peculiar trade needs of the developing countries.

For example, we should assist in negotiating additional international trade agreements for those commodities entering importantly into world trade.

Recognizing the difficulties in moving a worldwide program, James G. Patton, president of the National Farmers Union, urged that three regional efforts be made by our Government:

(1) Moving on a transitional basis toward ultimate integration into the Atlantic economic community;

(2) Facing up to our hemispheric responsibilities, particularly in relation to our Latin American neighbors; and

(3) Building responsible and far freer trade relations with the democratic nations of the far Pacific community, including Oceania.

One very important fact suggests that the American farmer will ultimately be best served by expanding trade in agricultural commodities.

Second, the social market which is now an AID problem in developing countries can, with economic growth and development, ultimately become a dollar market for the sale of U.S. agricultural commodities.

Looking toward this development the United States should fully utilize its unique opportunity to use food and fiber to promote widespread and more rapid economic development in order to raise living standards in less-developed regions and nations.

THE COMMONSENSE OF TRADE

Trade is a two-way street. It is best carried on where a well-defined set of rules governs the flow. Such a set of rules is necessary in a world where all the major agricultural-producing nations have domestic price support programs as well as restrictions on imports of agricultural and industrial goods.

It is a matter of commonsense to realize (1) that everybody would be better off if we produced and distributed more goods, and services, in the most economical manner possible and (2) that people all over the world have common aspirations, needs, and vested interests similar to our own.

In terms of the total economy of the free world, this means that each country should produce what it can produce most efficiently, trading the excess for goods produced more efficiently by other countries. This is the premise underlying the regional market arrangements.

We are cognizant of the fact, however, that in existing ways of conducting trade we have a network of human institutions such as laws, custom, investment in plant, and so forth.

Every nation has attempted to solve its own economic problem in its own way.

In agriculture, for example, the aim in every major agricultural producing nation has been to raise the relatively low income of farm families. In this connection, the justification for assisting farmers in the United States needs no amplification.

The Congress of the United States on many occasions has passed vitally needed and important legislation to give some measure of stability to prices and to income of agricultural producers.

In the United States this has been accomplished in various ways. Two examples of such congressional action on the trade front are section 22 of the Agricultural Adjustment Act, as amended, and section 8(a) of the Trade Agreement Extension Act of 1951.

The Congress has enacted laws also to protect other segments of the economy.

Members of this committee are thoroughly familiar with the programs developed in the United States to improve farm prices and incomes and contribute to their stability.

A major program in this field, of course, is the supply-diversion, price-support program of the Commodity Credit Corporation.

In spite of record high exports in fiscal 1961, farm families are not doing so well economically. Compared with other groups in the economy, farm family incomes are low. Nonfarm per capita income in 1961 was $2,345. Farm per capita income in this same year was only $1,373. Not only that but farm family incomes have been falling while other people's incomes have been rising.

The total net income of farm operations, including inventory change dropped 25 percent from 1947–49 to 1960. While farmers are worse off most everybody else is better off.

We hear a great deal these days, sometimes indirectly, about how a free domestic agricultural economy would promote trade and about the need to reduce the difference between domestic agricultural prices and world prices.

This talk does not emanate from agricultural interests or the sincere representation of agricultural interests.

The fact is that there is no such thing as an automatically operating free market system. Any market is free only within a framework of law, property rights, wealth distribution, including tax legislation, trade practices, and other rules of the game.

In this connection, as I have indicated already, every major agricultural nation in the free world has some kind of price-support program.

It is out of this need that the General Agreement on Tariffs and Trade was established and that the U.S. Congress has enacted the Reciprocal Trade Agreements Act and further simplified customs procedure.

It is due to the need for even greater economic cooperation that we in Farmers Union have supported an International Food and Raw Materials Reserve, or World Food Bank, additional international commodity agreements on the order of those in effect for sugar and wheat to buttress and operate in conjunction with the International Food and Raw Materials Reserve and U.S. membership in the Organization for Trade Cooperation, the administrative arm of the General Agreements on Tariffs and Trade.

Farmers want the United States to follow intelligent, enlightened, and humanitarian foreign economic policies. But they do not want to see the total cost of such policies loaded upon their already sore backs, or for that matter on the backs of coal miners or any other small group of the labor force.

In the case of both exports and imports, programs and policies should be established as they have been in the case of the International Wheat Agreement and the Sugar Act, to spread the costs to all the people instead of putting all of them directly on the small number of producers concerned.

Certainly present is the challenge to American agriculture from the developing Common Market of Western Europe which suggests that we proceed with initiative and good will but at the same time mindful of several underlying principles which should guide our negotiations.

(1) As a general principle, we urge that no U.S. farmer, or other producer, whom we expect to remain in production, be required to produce for export or to meet the competition of imports, at any price less than full parity.

(2) There are probably some industries in which the entire U.S. need and demand can be met continuously and safely through complete dependence on imports.

In such cases, we urge that these injured domestic industries be helped to make adjustments by means other than excluding imports, such as through conversion to other lines, extension of unemployment insurance, assistance in retraining workers, and outright purchase, where required. We know of no domestically produced agricultural commodity to which this applies.

(3) Program and policies affecting agricultural imports and exports should be designed to provide full parity returns to domestic producers in ways that will be consistent with minimum hindrance to international trade and economic cooperation, and preferably by methods that will spread the co·ts to all people in accordance with ability to pay, rather than through increased retail prices to consumers.

We urge the enactment of legislation to renew the Reciprocal Trade Agreements Act with sufficient safeguards to fulfill the objectives outlined above. But to be more specific; nothwithstanding any other provision of law, whenever a reduction in import duties negotiated under the act will result in decreased income and employment in a domestic industry or result in reducing prices received by farmers so that such prices reflect less than 100 percent of parity, we urge that the President be authorized and directed to direct the Secretary of Agriculture to initiate and put into operation a domestic farm price-support program for the affected agricultural commodities through compensatory payments in combination with other means of price support at a level reflecting 100 percent of parity.

We need to realize in full that the European Common Market is a reality. It would seem reasonable that the inevitable should be approached with creative vigor. We should not wait for time and events to drag us in—but that we move in at the greatest point of advantage.

Therefore, we believe it is in the interests of the American farm economy to enter with domestic price patterns which enable farmers to earn a fair economic return and, at the same time, enable transitions to proceed on an equitable basis.

Since World War II, we have known that an economic union of the free world community, whether we like it or not, is inevitable. It is high time that we move toward greater economic cooperation with other nations of the free world in ways that provide fair returns to domestic producers including family farms of our Nation.

The CHAIRMAN. Thank you very much.

Senator CARLSON. Mr. Johnson, do you believe the language in H.R. 11970 is so clear and so well written that it will protect agriculture in these negotiations not only with the Common Market countries but with other competitive markets in the world?

Mr. JOHNSON. Senator Carlson, I doubt whether the language in this bill is adequate and we urge that it be strengthened. We have other statutes, such as section 22, and section 8(a) that I referred to in my statement. These statutes would give farmers, at least, a measure of protection.

We feel very strongly that in any negotiation where imports would adversely affect farm prices, incomes, opportunity for employment in agriculture, that the President should direct the Secretary of Agriculture to institute corrective measures to see that farm families of the United States do not suffer any repercussion.

Senator CARLSON. As one member of this committee, and I know there are other members, I am greatly concerned about agriculture when it comes to negotiating in these trade agreements, particularly with the Common Market, and I think we have reason to.

The morning press carries two articles, one out of Paris, and, Mr. Chairman, I am not going to take time to read it, but I want it made part of the record, I want to read one section, here from Paris, July 30:

> France, this morning, published more than 80 decrees to implement the beginning of the Common Market agricultural program, which goes into effect at midnight tonight.
>
> The first step in the Common Market agricultural program affects grains, eggs poultry, fruit, vegetables, pork, and wine. It touches three of the six principal American agricultural exports as to the area, such as wheat, corn, and poultry, and the other three are tobacco, vegetable oil, and soybeans.
>
> As the Common Market area is a net importer of poultry, American poultry exports will probably not decline, but wheat and corn sales may be affected.
>
> French wheat, butter, and pork exporters will be able to sell within the Common Market at higher prices than now.
>
> There are two sets of equalization fees, one protective against outside countries and one designed to cushion the progress toward free trade between the Common Market. The first collects a fee on produce arriving from outside the area equal to the difference between the outside price and internal price. This is intended to be a permanent feature. The other compensates for the difference in prices between two members of the Common Market, but it is reduced progressively until prices have reached the same level everywhere within the area.

It seems to me that that agreement from France that they have reached on their own commodities within the Common Market should be of some concern to us when we deal in this field.

Mr. JOHNSON. Well, Senator Carlson, this points up the very serious problem that I have tried to indicate we have, in my statement.

I think we have to look realistically at the problems of other nations as they try to protect their primary producers.

Every major agricultural producing nation in the world has some type of program to protect the primary producer, and as long as the country remains a democratic country and the people have anything to do about who runs the country, I think we are going to have to face up to the fact that nations are going to continue to try to do that.

We, in the United States, try to do this. We have developed all kinds of programs which maintain some stability in agriculture and we in Farmers Union are not at all happy about where we are now incomewise. Incomes of farmers are still too low.

It looks like to us in Farmers Union we have to give considerably more attention to some of the negotiated-type instruments. It means that we may have to look to the development of more common trade areas.

We can do that here in North America. Maybe we ought to look at a common market here of the Americas. Also, Mr. Patton has suggested that we join in a pacific common market area, including Australia, New Zealand, Japan, the Philippines. We must have more agreements on the order of the wheat agreement and the sugar agreement. We must look at the coffee situation to see whether or not an international agreement for coffee wouldn't be a big asset to some of our Latin American neighbors. We feel very strongly that the United States should give leadership in this area to stabilize the economies of these one-crop countries in South and Central America.

There are other crops which we have to look at these kinds of instruments. We are going to have to do this until we are ready to accept a common market approach and move much faster in this direction than we have in the past.

Senator CARLSON. I think the Farmers Union has taken a very broad view and I think they have done some very fine work in this field.

But my point is that again we get back to negotiation with countries that have not hesitated to protect their own agriculture but also have been good traders.

I quoted from this dispatch from Paris this morning. Here is one from London and I am going to take just a minute here. This is following the meeting in Brussels of all last week where they tried to reach an agreement on agricultural policies as it affects the Common Market, the Commonwealth countries.

I will not read the entire article but one issue of the Brussels talk is the question of guaranteeing European markets for Commonwealth farm producers. "We must"—this is a statement by Macmillan—

> We must seek to strike a balance between the interests of farmers in an enlarged European community, including our own, and the interests of traditional exporters, in particular, the Commonwealth.
>
> Britain basically seeks advance quarantees that the market nations, France, Italy, West Germany, Belgium, Netherlands, and Luxembourg will admit Commonwealth foodstuffs and will fix prices to keep the Common Market food production down and will make adjustments if the Commonwealth market is hit.

That seems to me to be our concern if Great Britain enters the European Common Market with effect to assuring Australia, New Zealand, and Canada prior commitments to agricultural imports, and it is one of the things that concerns me and I say it very seriously.

Mr. JOHNSON. Of course, Senator, I think this is one of the real stumbling blocks to Britain getting in. From what I have read and I had a long visit from the agricultural economist for the National Farmers Union of England recently with regard to this whole area, I am not at all convinced that France, for example, is going to permit Britain to come in now and I don't think they are going to permit it at all if they want to bring in the whole Commonwealth trade area.

So we might take some solace out of this, in spite of the fact I know that our State Department—they haven't said this quite as loud as some people thought they said it—but nevertheless I think there is an indication that our State Department would like to see Britain move into the Common Market area.

All of these things are developments that have come on us rather fast and I think we have to maintain a kind of position of flexibility and be shifty on our feet as we face up to it.

There is one optimistic note that intrigues me quite a bit and that is that the growth of the economy inside the Common Market has been so phenomenal that people over there are going to start eating up a little "higher on the hog" and it might be that out of this, Senator, we are going to be able to supply a little more of the hog in the form of feed grains, and I think that this is one note of optimism that at least we can look to.

I have never been convinced, for example, I have been to the area, most of the countries in the Common Market, I have never been convinced that they can produce, surely not as efficiently as we can, the feed grains that they will require to take care of the increasing demand for meat products in the area.

So I think that this means that we can, at least over the long range, look to an increased demand, for our feed grains. Certainly, we hope so because we sure have the feed grains and the potential of additional quantities.

Senator CARLSON. Thank you very much, Mr. Johnson.

I ask unanimous consent that these articles be made a part of the record.

The CHAIRMAN. Without objection.

(The articles referred to follow:)

[From the Washington Post, July 31, 1962]

FIRM STAND ON MARKET URGED

(By Tom Ochiltree)

LONDON, July 30.—Prime Minister Macmillan was put under pressure on both political flanks tonight to stand firmly by Britain's terms for joining the European Common Market.

With membership negotiations deadlocked in Brussels, exhortations poured in from both Conservative rightwingers and Laborites against any weakening in the price for market entry.

The issue that split Britain from the six market nations in the climactic moment of the negotiations was protection of British Commonwealth trade.

Britain insisted on solid safeguards for Commonwealth trade outlets after the projected end of the preference period in 1970. The market nations declined to underwrite any post-1970 guarantees for Commonwealth exports.

URGES NO SURRENDER

While members of Macmillan's reshuffled government huddled over the problem, a no-surrender call was sounded by Laborite ex-Prime Minister Earl Attlee.

The 79-year-old Attlee, besides pleading for Commonwealth interests, said:

"We should not be justified in hastily handing over substantial power, now held by the British Parliament and electorate, to untried institutions mainly dependent on European countries with unstable political records."

The same qualms appeared to dominate 40 rightwing Conservatives who laid down a parliamentary motion urging the Government "to stand firm and insist on definite assurances for Commonwealth trade and on the continuance of the power of sovereign decisions by the British Parliament for our agricultural and horticultural policies."

In discussions in the House of Commons, Edward Heath, Deputy Foreign Secretary and chief British negotiator in the Brussels bargaining, said fair solutions must be found for insuring Britain's entry to the market.

ACCORDS POSSIBLE

He left the impression that while membership negotiations are in their most difficult stage, agreements can be worked out.

One issue of the Brussels talks is the question of guaranteeing European markets for Commonwealth farm produce.

"We must seek to strike a balance between the interests of farmers in an enlarged European Community, including our own, and the interests of traditional exporters, in particular the Commonwealth," Heath said.

Britain basically seeks advance guarantees that the market nations—France, Italy, West Germany, Belgium, the Netherlands, and Luxembourg—will admit Commonwealth foodstuffs, will fix prices to keep Common Market food production down, and will make adjustments if the Commonwealth is hit.

[From the Washington Post, July 31, 1962]

FRENCH MARKET DECREES AIM TARIFF BLOW AT UNITED STATES

(The Washington Post Foreign Service)

PARIS, July 30.—France this morning published more than 80 decrees to implement the beginning of the Common Market agricultural program, which goes into effect at midnight tonight.

Accompanying them was another decree demonstrative of the solidarity of Common Market members—a tariff reprisal against the United States which boosted duties on American plastics and synthetic textiles from 22 to 40 percent. This is in answer to U.S. increases of duties on carpets and glass.

This first step in the Common Market agricultural program affects grains, eggs, poultry, fruit, vegetables, pork, and wine. It touches three of the six principal American agricultural exports to the area—wheat, corn, and poultry (the other three are tobacco, vegetable oils, and soybeans—the last not yet involved in the present vegetable exchanges).

As the Common Market area is a net importer of poultry, American poultry exports will probably not decline, but wheat and corn sales may be affected.

French wheat, butter, and pork exporters will be able to sell within the Common Market at higher prices than now.

There are two sets of equalization fees, one protective, against outside countries, and one designed to cushion the progress toward free trade within the Common Market. The first collects a fee on produce arriving from outside the area equal to the difference between the outside price and the internal price. This is intended to be a permanent feature. The other compensates for the difference in prices between two members of the Common Market, but is to be reduced progressively until prices have reached the same level everywhere within the area.

Senator DOUGLAS. Mr. Chairman, I regret I was not able to be here when you presented your testimony, but I have read it hastily and I want to congratulate you on what to me is a very enlightened attitude and also a very commonsense attitude.

Mr. JOHNSON. Thank you very much, Senator.

Senator DOUGLAS. Now, along with the Senator from Kansas and many others, I have been somewhat concerned about the terrible agriculture policy of the Common Market which has begun to unfold, as of yesterday. I am not quite certain what this system of variable levies amounts to, but I can see that it probably means a high internal price for farm products and then a tariff equal to the difference between the domestic price and the world price for these articles, with the money probably used to help finance the agricultural programs inside these countries.

It seems to me that along with first the reduction and then the abolition of tariffs within the Common Market, and to the degree that Great Britain is able to get any of its Commonwealth countries in for preferred treatment, this inevitably will decrease the market for American farm products on the Continent of Europe. I have wondered, therefore, if it might not be a good plan for us to give to the President the power to increase tariffs which can be used to compel a decrease in the tariffs or barriers which the Common Market itself imposes.

I say that knowing the dangers of retaliatory tariff war, knowing the dangers that protectionist forces in this country would work upon the President, and so forth. But we are dealing with a very hard set of bargainers.

Mr. JOHNSON. Yes, we are.

Senator DOUGLAS. I wondered how you feel about it?

Mr. JOHNSON. Well, Senator, I concur with your sentiment in this.

Subject to the qualifications I have outlined regarding the interest of projecting farm families and their prices and income, I think the President should have some flexibility here. I have indicated that we need to be flexible, shifty on our feet, and the fact that the Senate of the United States and hopefully the Congress of the United States, would give the President this kind of authority would seem to me to be a kind of "ace in the hole" if attempts to negotiate fail. Hopefully they would not, but he would have this much license.

Senator DOUGLAS. Now, when I have suggested this in the past there has been some reply that these powers are already granted to the President in section 201 on page 3 of the bill.

Have you looked at?

Mr. JOHNSON. I would have to take another look at it, Senator, I would have to refresh my memory.

Senator DOUGLAS. Section 201, subparagraph (b), subsection (2) gives the President power to issue a proclamation which will increase any rate of duty by not more than 50 percent above the rate existing on July 1, 1934, and that, of course, was the Smoot-Hawley tariff which was already a high tariff.

Now, it has been argued this does give the President sufficient powers. But on the other hand, section 252, pages 19 and 20 of the bill, provide that if the President feels that a foreign country is discriminating by tariff or other methods against this country the President can withhold reductions which otherwise would have gone into effect.

Now, I think, Mr. Chairman, we ought to clear up before we act upon the bill whether the President's power under these conditions is limited by 252 to merely withholding decreases which otherwise would have gone into effect, or whether it is operative under section 201, which apparently gives the President the power to increase tariffs.

Now, have you been able to make up your mind in this matter as to which of these provisions is controlling?

Mr. JOHNSON. Senator, I think that it is the responsibility of this committee to make this determination. I have not been aware there was this conflict between these two sections of the bill.

I would certainly urge that the committee consider this carefully and clear up the obvious conflict that exists.

Senator DOUGLAS. Mr. Chairman, if it is not inappropriate, I would suggest that, before the remaining Government witnesses are called, they be asked to prepare themselves on the relative powers given in sections 201, 251, and 252.

The CHAIRMAN. I agree with the Senator.

Senator DOUGLAS. Mr. Johnson, in the informal conversations which I have had with European tariff authorities, when I have mentioned the fact that we were already being discriminated against on farm products and that the prospects were we would be discriminated against further by the European people, their reply has been this: "You have discriminated against other countries in farm products. You keep out Australian beef on the hoof-and-mouth claim which is not completely well-founded. You restrict by high tariffs the entrance of Australian and New Zealand wool. You limited the amount of Canadian hard wheat which can come in. You impose very severe restrictions on the amount of butter and cheese which can come in from Denmark."

Mr. JOHNSON. Some of our people don't think we are strict enough on cheese, Senator Douglas.

Senator DOUGLAS. That is the point I was coming to. Everybody is for putting pressure on the other nations to reduce their tariffs but they don't want to give on the restrictions which we impose from our side.

We had a representative from the National Council of Cooperatives here some days ago, and he made a very eloquent statement on the difficulties which his group has run into in the Common Market. I pressed him on some of these points and, while he was somewhat ambiguous in his reply, I think the general purport was clear that he didn't believe there should be any loosening of the barriers which we put up.

The Farmers Union has always been noted for being clear-headed and being able to face problems. If we ask the European nations to remove or reduce their restrictions against American products, won't we be compelled to offer something in return for that?

Mr. JOHNSON. Senator, this is a very perplexing dilemma for those of us——

Senator DOUGLAS. I certainly is.

Mr. JOHNSON (continuing). In the farm business.

Senator DOUGLAS. Let me say this, it is a perplexing dilemma for us all——

Mr. JOHNSON. A very important Senator on this committee told me a few years ago that as long as farmers were doing well, when prices reflected 100 percent of parity, he could go right down the line and vote for all this legislation which liberalizes our trade policy without any problem at home.

Senator DOUGLAS. Yes.

Mr. JOHNSON. But, Senator, as long as we have a situation in agriculture where we are getting about 79 percent of parity; that is the parity ratio, now. Farm income has gone up, expenses have gone up; so we just kind of rock along at about where we were. This presents an urgent problem and we are not going to develop the kind of support you need in the farm community for the abolishment or a substantial reduction of these protective measures that we have had in agriculture that have worked so well to help protect the income of farmers in the United States.

That is just a simple economic fact. It also has political implications, too, Senator.

Senator DOUGLAS. I am quite well aware of those. But let me ask this. Suppose the only way we can get a concession from the European nations on their restrictions on our exports of agricultural products is for us to make concessions in turn——

Mr. JOHNSON. Senator, I would just like to interject here—I think you raise an important problem—that I am a little bit concerned because of some of the things I see happening over at the Budget Bureau. They have started to try to figue out ways to whittle down on some of our export payments.

Certainly the question of a balanced budget is important. But we in Farmers Union know that in terms of our standard of living in the United States as compared to other areas that produce some of the same crops we do (and certainly rice is one of the best examples), we are not going to be able to export the rice that we ought to export, we hopefully can export, and maintain and even increase rice acreage. We have a serious problem unless we have some kind of program to make up the difference between the American standard of living and the price at which rice moves into the world market out of other countries that have different standards. I think we might as well face up to the fact we are going to need these kinds of programs if we maintain agriculture in a competitive position not only in rice but in wheat, and in cotton, and in other crops as well.

Senator DOUGLAS. Well, now, I know that there is a tendency in the farming groups to say that we can purchase greater entrance into the European market by making concessions on manufactured goods.

I am not opposed to that.

In some ways I would go even further. I would say that perhaps we can get the Europeans to make concessions on farm products by threatening to increase the tariff on European automobiles, which is just about the one weapon that we have, because their tariff against our automobiles is 22 percent and our tariff is 16½ percent. But in practice, I think, we won't be able to get concessions from Europe unless we make some concessions on our agricultural commodities.

I think this is the price which we will have to pay; we certainly will if Denmark comes into the Common Market, and I suppose if England comes in Denmark will come in.

Mr. JOHNSON. Senator, we probably, before this is all over, ought to take a look at some of the other means of protecting domestic producers' income.

Let's suppose we did decide to lower tariffs on cheese, and so forth. We from the United States are a wealthy nation, we can afford to free-up trade in cheese and protect producer income at the same time.

We can provide compensatory payments to producers of cheese to make it possible.

I like to look at some of these kinds of measures hopefully, as things that don't go on forever. We are moving toward a time when we are going to have a closer relationship tradewise and perhaps in other respects.

Senator DOUGLAS. That is what I thought you were anticipating in your statement.

Mr. JOHNSON. That is right.

We may look forward to the time when this Common Market community crosses the ocean; we are moving in that direction. The economic forces at play in the world make it mandatory that we begin to think in these terms. We can't be as provincial as we have in the past and maintain the high standard of living that everybody should look forward to in the future. But we have to in some way figure out the way to protect primary producers because, Senator, I think this committee will agree with me, that farmers or any other small group should not have loaded on their sore backs the costs of an intelligent trade program.

If trade is good, it is good for everybody, and it ought to be paid for out of general revenues instead of letting the farmers take up the shock, or the coal miners, or the pottery makers in West Virginia, or the glassblowers, or anybody else in the American economy.

We have to face up to these facts now and we have got to do something about it.

I made a strong point here in behalf of the provisions of this bill which would protect industries that are affected through various aids such as retraining programs, unemployment compensation. This is a must. If we are going to have a realistic position regarding lowering some of our tariffs any industry that may be adversely affected must have some kind of protection of their workers; otherwise it is not realistic politically or economically.

Senator DOUGLAS. I have always recognized that agriculture is in a somewhat different position than manufacturing in that the demand for farm products tends to be highly inelastic, whereas until recently the demand for manufactured products tended to be relatively elastic with an elasticity greater than unity. This means a fundamental difference between the effect of prices on production of farm products and the effect of prices on production of most manufactured goods.

Mr. JOHNSON. That is correct.

Senator DOUGLAS. But there is a principle in equity: if you ask for equity you must come to court with clean hands. Every time that I have started on the French they have reminded me of these barriers which we have against farm products of other countries.

Mr. JOHNSON. Senator, if I had been there I would have simply said we have a representative democracy in the United States, the farmers have lower per capita incomes than other people and it is just one of the economic and political facts of life that we do this. They are basically in the same position.

Senator DOUGLAS. That is their precise reply. I made that point; the demand for food products is inelastic in France and Germany as well as in the United States.

Mr. JOHNSON. Their farmers have been raising more cain than ours have.

Senator DOUGLAS. Pardon?

Mr. JOHNSON. I say, their farmers have been "raising more cain," agitating the Government more than ours have.

Senator DOUGLAS. They certainly have.

Mr. JOHNSON. So they have a problem.

Senator DOUGLAS. Let's abandon, for the time being, these immediate thoughts and turn to some ultimate suggestions which you threw out.

Suppose that Great Britain does enter the Common Market but is not able to bring the Commonwealth in with her.

Would you favor, under those circumstances, the United States offering a form of Common Market to Canada, Australia and New Zealand?

Mr. JOHNSON. Yes, I would, Senator, and Mr. Patton has already made a speech in which he proposed that we give serious consideration to such a Common Market, including Japan and the Philippines.

Senator DOUGLAS. Does that not carry with it the freedom of migration provisions which exist in the present market but could——

Mr. JOHNSON. Strictly on the basis of economic relationship with this area.

Senator DOUGLAS. Do you believe this should be widened to include Mexico and the Caribbean countries?

Mr. JOHNSON. Senator, I am not in position to support the inclusion of these nations at this time.

The important thing is that we have a beginning. Just as the popularity with outsiders—I mean the popularity of the Common Market in Europe with other nearby countries—has resulted in a kind of magnetic force. If we got started with some of the nations who have a similar economic base, that then conditions would be rapidly established for bringing in other countries.

Senator DOUGLAS. So if England were excluded, that is, not only the Commonwealth, but if England as well were excluded, would you favor a similar arrangement in connection with Great Britain?

Mr. JOHNSON. Senator, I have to think about that a little bit. I think just on the surface that I would agree with some of the thinking that I have heard expressed in Washington, that the proximity of Britain to the Common Market may mean that this is the logical step to take, but certainly I wouldn't want to shut the door on anything like that. Britain has a real problem.

Senator DOUGLAS. As a minimum, if the Commonwealths are excluded you would say we should try to create an English-speaking equivalent for the Common Market outside of Europe?

Mr. JOHNSON. Well, no, sir, I wouldn't want to say English-speaking necessarily.

I would say Japan ought to be——

Senator DOUGLAS. I mean those three Commonwealths are English speaking.

Mr. JOHNSON. Yes, they are; but I think in any kind of such arrangement we should include New Zealand and Australia.

Senator DOUGLAS. Yes, English-speaking, quite so, more English-speaking than England.

They have broader Oxford accents than the English.

Mr. JOHNSON. Yes.

Senator DOUGLAS. Australia, Canada, and New Zealand. There you would have probably well over 30 million people in those three Commonwealths; added to the 185 in the United States, that makes 215 million.

If England comes in the Common Market then that group will have 220 million.

You could have, could you not, a dumbbell, with each end of the dumbbell being a free-trade area and then a connecting, rather tenuously connecting, bar between them. That would be better, would it not, than complete isolation?

Mr. JOHNSON. It certainly could be so.

Senator, we have had very close contact with farm organizations leaders in both Australia and in New Zealand through the International Federation of Agricultural Producers.

We admire and respect these leaders very greatly. We have discussed some of our mutual problems in meetings of the International Federation of Agricultural Producers on numerous occasions. Agriculture, certainly in this area, has a big stake in developing some kind of trade relationship. They live by agriculture.

Senator DOUGLAS. Would you be willing to take their wool and their butter and they take our automobiles?

Mr. JOHNSON. Senator, I think this certainly suggests a rather exciting idea. I think it would be a great mutual advantage and perhaps in other commodities as well.

Senator DOUGLAS. These countries are too small for them to maintain effective automobile plants; isn't that true?

Mr. JOHNSON. That is right.

Senator DOUGLAS. Yes.

Mr. JOHNSON. And our American car is more adaptable to their terrain anyway, in a big country like Australia particularly. But let me say again, Senator, we still have to continue to face up to the fact that the farmers of the United States need more bargaining power, and we have to better these relations in such a way that we do not further weaken farmers in either country. If possible, through ways which do not raise prices to the consumers, but to further enhance the opportunities of farm people to earn a fair share of the gross national product.

Senator DOUGLAS. Thank you very much.

Senator CURTIS. Mr. Chairman.

The CHAIRMAN. Senator Curtis.

Senator CURTIS. The Common Market so far in its operation has resulted in an increase of tariffs imposed upon American agriculture, has it not?

Mr. JOHNSON. That is correct.

Senator CURTIS. And an increase of nontariff barriers?

Mr. JOHNSON. That is correct, quotas.

Senator CURTIS. Now, this power delegated in the bill to the President to increase tariffs, does he have power to increase a tariff after he has entered into an agreement to reduce them or to hold them at a lower level?

When can he exercise that power?

Mr. JOHNSON. Senator, it certainly would be an element of good faith here. I don't know the answer to your question.

Senator CURTIS. He would have to do it before he entered into the agreement, wouldn't he?

Mr. JOHNSON. I think the question of the length of the agreement, the conditions under which that was negotiated, qualifications that might be made a part of the agreement, I think you could protect the right of the President to make some change in these agreements.

After all, these agreements are not going to work unless they are mutually advantageous; and you can prepare them but if they don't conform to the mutual advantage of the nations involved, I don't think they are going to be very much help anyway.

Senator CURTIS. Then you would say that unless we reserve in an agreement the right not only to withdraw the concession but the right to increase tariffs——

Mr. JOHNSON. No, sir.

Senator CURTIS. We couldn't increase the tariff without abrogating the agreement?

Mr. JOHNSON. No, sir; I don't think I am suggesting any such thing as that. I am just——

Senator CURTIS. How could you do it? How can we enter into an agreement, lower the tariff to zero or halfway to zero or anything else on agricultural commodities, have the favored nation clause take effect, and then thereafter the President increase tariffs? You have no peril point and you have no escape clause.

Mr. JOHNSON. As much as I would like to have an answer for you, I don't have an answer, I think the simple reason is that until you get into negotiations you don't know what you are going to have, what conclusions you are going to have to reach.

You don't know what your provisions are going to have to be and that is exactly the reason why the President needs flexibility given in this bill.

Senator CURTIS. I don't want to impugn the opinions of or the motives of the many fine individuals and organizations who have supported this legislation. As I listen to it I can't help but obtain the view that what they are saying is "It is a good program. Sacrifice somebody else and give us some advantages in foreign trade."

Mr. JOHNSON. Senator, I don't think even if the bill said that—and it does not—it says that——

Senator CURTIS. I didn't say that is what the bill said, but it is the sum total of what the witnesses are saying who are supporting it.

Mr. JOHNSON. I don't think that basis for proceeding in any negotiation would work, and I don't think that that is what we are saying at all.

I think what we are saying is that we have to face up to the fact that we are moving in this wonderful era in which we live, toward some inevitable closer relationships with other countries, and in order to make this possible, the President needs flexibility to negotiate on such matters.

I think it is just as simple as that. If we don't give him this flexibility we are going to be caught sticking to a mid-Victorian policy, and just get left out of the flow of the direction in which the free world community is moving.

Senator CURTIS. I don't think that follows at all.

The whole objective of all of our farm programs in a sense is restricted production and lesser production, isn't it?

Mr. JOHNSON. Senator, of course, in a situation where we have more commodities than we have been able to consume domestically or export, we have said that we need to give consideration to this approach.

Senator CURTIS. But what I mean, our existing farm program, if one participates, is a program to raise the level of agriculture by restricting the production; isn't that right?

Mr. JOHNSON. That is the basic principle to which we——

Senator CURTIS. When you restrict your production you restrict the domestic producers in the amount of goods which they can put into our domestic market.

Mr. JOHNSON. Yes, sir; that is one of the effects, certainly.

Senator CURTIS. Yes.

Now, how do you couple another program which says while we will restrict domestic producers in the amount of goods they can put into our domestic market, and we are going to bring the millenium by allowing foreign producers to add to the domestic market.

Mr. JOHNSON. Senator, this is a very general statement that you make. But I just pointed to two good statutes here in my statement which would prevent any disruptive importation of any commodity which would threaten a price support program. So we don't have any worry about having any competition from abroad for these commodities that are price supported because we have specific legislation in section 22 that prohibits these commodities from coming in and we have used this in the past.

It is a workable statute. It has been applied before and undoubtedly will be applied again.

Senator CURTIS. That wouldn't help in the case of pork or beef or sausages or cured meats.

Mr. JOHNSON. We have taken care of this situation in other ways. Now, some people don't think——

Senator CURTIS. Have you?

Mr. JOHNSON. Some people don't think we have gone far enough in the case of beef imports. Maybe we ought to take another look at this one.

But I think you have to narrow down to the commodity that you are discussing and you have to get all the facts relating to it.

Senator CURTIS. But this bill abandons the product-by-product approach, doesn't it?

Mr. JOHNSON. I don't think it does as far as agriculture is concerned. It doesn't repeal section 32.

Senator CURTIS. Well, if you have more of something than you can use anyway, what is so evil about restricting the importation of more?

Mr. JOHNSON. Well, Senator, I have just made the point that we, in agriculture, felt that in any program that we go to that we must have programs to protect farm families.

Senator CURTIS. But you are suggesting governmental programs.

Mr. JOHNSON. What other kinds would be effective?

Senator CURTIS. By governmental, I mean, as I interpreted your statement, it would be payments to farm families.

Mr. JOHNSON. Well, we suggest that as one means.

Senator CURTIS. I do not think that would be satisfactory to the farm families.

Mr. JOHNSON. Well, Senator, it would be a lot more satisfactory than having to take a cut in income because we happen to increase our imports of butter or cheese.

Senator CURTIS. The farmers I know would rather have an opportunity to sell all the butter in this country than to have tremendous increases in the importation of butter and then receive a Government check to make up the loss.

I don't believe that is the voice of agriculture.

Mr. JOHNSON. Well, Senator, you are kind of oversimplifying a pretty complex problem when you say we could sell all the butter, when you imply we could sell all the butter we have produced in the domestic market.

Certainly we haven't been able to do that.

Senator CURTIS. I didn't say that. You oversimplified it a bit. You say we are moving in a greater era and the President wants flexible power and the thing to do is give it to him.

If that isn't generalizing and simplifying, I wouldn't know how to do it. I would like to see the proponents of this bill become specific and state what they proposed to increase to import.

Mr. JOHNSON. Senator, I believe this would be wholly impossible to try to put into legislation. This would be completely unrealistic.

Senator CURTIS. Not to put it into legislation. I ask that they state what they propose we increase?

Mr. JOHNSON. Our negotiators are not going to know until they get to a meeting with Common Market people some of the commodities that will be involved in these negotiations.

Senator CURTIS. I agree with that but the Common Market negotiators will know and they will have their industry representatives and agricultural representatives sitting beside them.

Mr. JOHNSON. And we will know and we will have our same kind of representatives sitting beside our negotiators.

Senator CURTIS. They haven't in the past.

Mr. JOHNSON. Senator, I want to say to you——

Senator CURTIS. Have they in the past?

Mr. JOHNSON. Howard Peterson, Charles Murphy——

Senator CURTIS. They don't represent industry.

Mr. JOHNSON (continuing). Are toughminded negotiators. I have full confidence in the people we have working in this.

Senator CURTIS. Is it true that in the past that industry——

Mr. JOHNSON. I am sorry.

Senator CURTIS (continuing). Has accompanied Government to the negotiating table?

Mr. JOHNSON. Senator, we have had access to them any time we wanted to get to them while they were there, before and after.

Senator CURTIS. That is not my understanding of the operation. One of the things that has developed in the past has been the negotiating teams of foreign countries are surrounded and made up of industry representatives directly affected, and that American industry, and I included in the broad term agriculture, sometimes can't even find out what is going on let alone participate.

Mr. JOHNSON. Senator, you have to recognize there is a little different form of government in some of these European nations. This economist for the National Farmers Union of the United Kingdom said they just march down and sit down with some of the officials of the Government and work out their price support policies; just kind of in a little informal huddle.

This is the way these things are done.

So they do things a little differently in their systems than we do. Certainly, I am not apologizing for the system of government we have. It is just a different approach.

Certainly, this is an example right now of the opportunities that we have in the United States to sit down and talk to Senators about some important issues. We have many avenues to do this, and we take full advantage of all of them in the Farmers Union.

Senator CURTIS. I think the proponents of this legislation through the years have engaged in some claims that I could never understand in their drive for free trade.

Probably no two countries in the world have imposed tariffs against each other to the extent that the United States and Canada have done; isn't that true?

Mr. JOHNSON. Certainly we have them.

Senator CURTIS. It is the longest peaceful boundary line in the world, isn't it?

Mr. JOHNSON. But, Senator——

Senator CURTIS. Well, isn't it the longest peaceful boundary line in the world?

Mr. JOHNSON. We also carry on a mutually advantageous trade with Canada, too.

Senator CURTIS. We do but in the past each nation has protected their interests and it hasn't caused any ill will; it hasn't disrupted it.

Mr. JOHNSON. Well, Senator, I guess that we would all like to just sit here and imagine that we could turn the clock back——

Senator CURTIS. I am not suggesting that.

Mr. JOHNSON. To a former period. If I had my druthers, I would turn it back to 1910–14 when farmers were getting 100 percent of parity or back to 1951.

Senator CURTIS. That is an argument but no one is suggesting it. We are looking to the future and we wanted to know what increased foodstuffs and agricultural stuff you propose that this country have, what increased imports, sir.

Mr. JOHNSON. Senator, in my statement, I said three underlying principles ought to be considered. First, as a general principle we urge no U.S. farmer or other producer whom we expect to remain in production be required to produce for export or meet the competition of imports at any price less than the full parity price.

Second, there are probably some industries in which the entire U.S. need and demand can be met continuously and safely, with complete dependence on imports.

In such cases we urge that these injured domestic particular industries be helped to make adjustments by means other than excluding imports. Such as through conversion to other lines, extensive unemployment insurance, assistance in retraining and outright purchase of the plant where required——

Senator CURTIS. By whom?

Outright purchase of the plant by whom?

Mr. JOHNSON (continuing). To protect the investment of people who are driven out of business.

Senator CURTIS. Purchase by whom?

Mr. JOHNSON. By the Government.

Senator CURTIS. And operated?

Mr. JOHNSON. Oh, no, retire it. Where we formerly depend entirely on production of a plant and we decide to import the goods that were produced in that plant, the Government in order to protect the investment of the people who operate it would buy the plant outright.

Senator CURTIS. What happens to the people who sell the raw products to them?

Mr. JOHNSON. The adjustments that have to be made must be made across the board to anybody who is affected. Conceivably we might want to retire a small industry and rely on imports. If we do—we are not proposing this, we are just pointing out it is a possibility but we should protect the investment of people who are in the affected business.

We know of no domestically produced agricultural commodity to which this applies.

Third, programs and policies affecting agricultural imports and exports should be designed to provide full parity returns to the domestic producers in ways that would be consistent with minimum hindrance in international trade and economic cooperation.

And preferably by methods that would spread the costs on all people in accordance with the ability to pay. We do that on the wheat agreement and you are a strong supporter of the wheat agreement.

Senator CURTIS. You are suggesting for us to go ahead and if some get hurt reimburse them out of the Federal Treasury?

Mr. JOHNSON. I am suggesting this is one of the ways in which we can eliminate a real serious problem where we decide to import an item which is being produced in the country.

This is one of the ways. I am talking also about retraining of workers who may be thrown out of work, if it comes to that.

If we have workers thrown out of work because of imports we should provide for retraining. We have, certainly the institutions, vocational institutions to do this. We ought to give them help to get retrained to take another job. These are all things I think we have to do in conjunction with the kind of world in which we live in today where we have to negotiate these——

Senator CURTIS. I am waiting for some witness supporting this legislation to come in here and say this is a good program, it will help the American economy, it will give us more jobs. Instead of that they come here with a negative attitude and say, "Yes, sir, this will hurt but we will put some people and industries on Government dole," that is what it amounts to. You can accuse me of oversimplifying——

Mr. JOHNSON. Senator, I don't think that we——

Senator CURTIS (continuing). But that is the essence of your testimony.

Mr. JOHNSON. I don't think that is the essence of my testimony. It is just one of the points I made that we should look to in trying to stay in the main flow of where we are going in the world.

Senator CURTIS. If you stay in the main flow, that does not mean anything to me.

Mr. JOHNSON. Well, we ought to be ahead of the flow. We are the leader of the free world.

Senator CURTIS. The main flow so far as quite a section of the world economy goes is in areas of communism.

Mr. JOHNSON. I don't consider communism the main flow, I said democratic or free nations.

Senator CURTIS. I said in some areas of the world communism is the main flow.

Mr. JOHNSON. It is certainly not the part of the world I have been directing my comments to.

Senator CURTIS. But witnesses come in here and say, "Yes, this program will hurt, but we favor a Government dole to take care of the hurt."

Mr. JOHNSON. Senator, we are not talking about a Government dole here as the main solution to an intelligent trade policy. As a matter of fact, I think if we do develop an intelligent trade policy and move toward the time when we can form a more common economic tie to Western Europe, that we will all have a higher standard of living in the long run because, look at the growth that has already taken place in the Common Market area, over 7 percent, more than twice our rate of growth, which means a higher standard of living for everybody. How do they do this? Every country produces those goods that it can more efficiently produce. That is their goal. This means a lowering of the cost, it means more jobs for everybody, and while there may be some temporary setbacks in some industries which we have to take care of, I thing the future is bright, because of the fact that you can look already and see what is happening in the Common Market.

Senator CURTIS. I think the future is bright. I don't think I agree with your particular description.

Mr. JOHNSON. Would you be more specific. I will try to answer your questions.

Senator CURTIS. Yes.

The people who question this are accused, such as you accused me, of looking backward and wanting to turn the clock back. Well, the program that you have advocated here has been carried out and advocated for 25 years. It is the proponents who aren't coming forth with any new ideas. It is the proponents who are singing the old songs——

Mr. JOHNSON. Senator, I don't think——

Senator CURTIS. That we were singing in the thirties and forties and fifties.

Mr. JOHNSON. I don't think that this program can be pinned to anything that we talked about 25 years ago. I think this is a dramatic step forward.

Senator CURTIS. It certainly is not a new program.

Mr. JOHNSON. It certainly doesn't have any relationship to the Smoot-Hawley days.

Senator CURTIS. No, it has definite relation to the Trade Agreements Act which started about 1935, which has been about a quarter of a century or more.

Mr. JOHNSON. Senator, if this is not a forward step, not a realistic forward step, then I would like to hear somebody come out with what they think is a realistic forward step.

Senator CURTIS. So would I.

Mr. JOHNSON. If it goes further than this legislation, I expect we would be able to buy it.

Senator CURTIS. I would like to have somebody come in here with a trade program that didn't have to hedge it with putting a lot of industries and workers on Government dole.

Mr. JOHNSON. Well, Senator, the thing that amazes me is that we shy away from Government as much as we do. One thing in Farmers Union—we don't shy away from Government because we think we are the Government. We think that we have access to our negotiators. We feel that we have a responsible Government, a Government that is responsive to the people and will live up to its obligations to the people. We have seen many, many instances when this Congress has passed good farm legislation, for example.

If it hadn't been for all the things that Congress has done over the years to help agriculture we would be in a sad state of affairs today.

As it is we do have many healthy farm families. But we have some real serious problems to face up to in this whole area.

Senator CURTIS. I don't want to prolong this, but wouldn't you say that one of our most successful programs is the sugar program.

Mr. JOHNSON. Well, certainly in terms of protecting the income of sugar processors.

Senator CURTIS. How about the sugar grower?

Mr. JOHNSON. Well, as far as I am personally concerned it has certainly protected the income of sugar growers at a higher level than would have been possible without the Sugar Act. There is no question about that.

Senator CURTIS. That is the objective of farm legislation.

Mr. JOHNSON. Well, certainly it is one of the objectives, but, of course, the Sugar Act has far broader implications. It has done much to help us maintain——

Senator CURTIS. It is not a free trade program.

Mr. JOHNSON. A good foreign policy relationship with other nations.

Senator CURTIS. It is not a free trade program.

Mr. JOHNSON. Of course, it is not.

Senator CURTIS. No.

It stands out as the most successful part of our farm legislation, and controls.

Mr. JOHNSON. And it is negotiated by Government.

Senator CURTIS. And it controls imports.

Mr. JOHNSON. And it is negotiated by Government. You see, Senator, in my statement I pointed out we need more of these kinds of consciously negotiated international agreements for the simple reason that we can't in the short range solve all the problems when we have every major agricultural nation in the world putting in the programs which are designed to protect their primary producers.

We have to have more agreements along the lines of the Sugar Act and the wheat agreement if we are to maintain producer income in the United States, and this involves the use of Government.

Senator CURTIS. We have a long program here and I don't want to prolong this but, of course, the sugar agreement is made pursuant to an act of Congress that specifically restricts imports, ironclad restriction.

Mr. JOHNSON. It sets quotas, as a matter of fact.

Senator CURTIS. Yes. Ironclad restriction of imports and it is the most successful of our agricultural programs.

That is all, Mr. Chairman.

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

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

The CHAIRMAN. The next witness is Mr. John Marshall, National Association of Dairy Equipment Manufacturers.

Mr. Marshall, take a seat, sir.

STATEMENT OF JOHN MARSHALL, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF DAIRY EQUIPMENT MANUFACTURERS

Mr. MARSHALL. Mr. Chairman and members of the committee, I don't have any of the rose-colored glasses on today that some of the previous witnesses were using.

My name is John Marshall. I am the executive vice president of the National Association of Dairy Equipment Manufacturers, Inc., with offices at 1012 14th Street NW., Washington, D.C.

This is an association of manufacturers of dairy plant handling, processing, and packaging equipment. The 42 member companies produce approximately 85 percent of the Nation's annual supply of such equipment. This equipment is used in all types of dairy processing plants including milk plants, ice cream manufacturing plants, milk drying plants, and butter, cheese, and evaporated milk manufacturing plants.

Most of the members of our association qualify as small businesses.

On March 23, 1962, I appeared before the House Committee on Ways and Means to express the opposition of our association to H.R. 9900, the predecessor of H.R. 11970. There was almost nothing about that bill which we liked or approved of. In fact, we disapproved of that bill in its entirety.

H.R. 11970 eliminates some of the more obnoxious provisions of H.R. 9900, but it is still far from an acceptable bill. H.R. 11970 still is built around the basic plan of authorizing the President to lower tariffs and remove other import restrictions without requiring that he secure corresponding concessions in return.

We are opposed to this. We strongly believe that reciprocity is the only fair and safe policy, and we strongly urge that reciprocity be made mandatory.

Relative to the restraints on trade imposed by many European and South American countries on equipment manufactured by our members, I would like to refer to page 1631 of the hearings before the Committee on Ways and Means of the House of Representatives on H.R. 9900.

Following my presentation, Congressman Curtis asked me to obtain a list of the trade restrictive practices that the above-mentioned countries have employed recently and made reference to the fact that he had been unable to obtain any help from Secretary Hodges on this subject other than a statement from Secretary Hodges when testifying, and I quote from page 1631 of the record:

Mr. CURTIS. * * * I asked Secretary Hodges to just list the kind of restrictive trade devices that have been employed.

He said:

We are watching it closely.

Since that time I have been able to locate an official report of the Subcommittee on Foreign Economic Policy of the Joint Economic Committee entitled "Trade Restraints in the Western Community With Tariff Comparisons and Selected Statistical Tables Pertinent to Foreign Economic Policy."

This report was transmitted to the members of the Joint Economic Committee December 1, 1961, by Hon. Wright Patman. I trust this report has been brought to the attention of the members of the Senate Finance Committee.

It clearly shows, for example, in section B beginning on page 11 the quantitative trade controls for each of the countries, and subsequently points out that the United States is one that has relatively few items subject to control.

It gives a number of tables showing the average tariffs on selected agricultural products and representative industrial products. It segregates the countries studied into 3 groups: high, medium, and low.

On agriculture products, the United States is in the low classification. On industry goods, the United States is in the medium group.

It is important to note that these average tariffs are the maximum tariff rates to all member countries of GATT. It should be particularly noted that the tariffs of the European Economic Community countries to members of the community (see column marked "No. 2" of the tables shown on pp. 3 to 9) are nonexistent.

That is, there is no tariff on exports or imports of the items listed from one member of the EEC to another. But the United States are the same, which again indicates very clearly how we are placed at a disadvantage which could not be corrected by using the authority which would be granted to the President if this bill is enacted.

One more reference: The United States has no internal control on imports from any of the GATT countries on any of the machinery and equipment manufactured by our members.

I commend the above-mentioned report to the attention of this committee.

Let's refer to Canada. I am sure most of the members of this committee believe there is free and fair movement of trade of all kinds from Canada to the United States and the United States to Canada, but let me just point out a recent action of the Canadian Government this year which has made it most difficult for our members to continue to export to Canada, and made it conversely more favorable for Canadian manufacturers to sell in the United States.

On January 15, 1962, the Tariff Board of Canada dismissed an appeal on a stainless steel sink for washing milk handling equipment on a dairy farm which equipment had been imported from the United States by the appellant, ruling that it was not "equipment for milking parlors" and is, therefore, subjected to the tariff rates of 20 percent under item 433.

(NOTE.—A 10 percent surcharge was made effective June 25, 1962, on everything covered by item 433 of the Canadian tariff. This is an increase of 50 percent in the tariff on this farm equipment.)

Such equipment can come into the United States from Canada or any other GATT country as agriculture machinery and is duty free.

In addition, Canada, effective June 25, 1962, raised its tariff rates on many items manufactured by our members and in addition devalued their money in relation to ours by about 8 percent effective May 2, 1962, thus in effect decreasing the prices of their goods by that amount in relation to any imports of similar U.S. goods.

Others appearing before you will doubtless deal at length with this fundamental deficiency of the bill and with the revisions that are necessary to correct it. In addition, we wish to discuss two somewhat more specific matters.

In the first place, we dislike this proposed assistance because, with the exception of the extension from 3 years to 5 years of the net operating loss carryback, this assistance is only a duplication of forms of governmental assistance to business which are already available under other laws. We have reference to the Small Business Act, as amended, and the Small Business Investment Act of 1958.

We have pointed out above that most of the constituent members of our association are small business firms, as defined, and we believe the small business firm would be most apt to be seriously injured, if this bill were enacted.

We are here talking about an injury that is not sufficiently widespread to justify assistance to an entire industry, and if only a portion of an industry were injured, we believe it would be the small business firms, which are apt to have less diversification of products.

I call your attention to page 28 of the bill, section 301(c), in which it very clearly, if you study it, points out that no individual firm can get any help, you have got to prove by the Tariff Commission study injury to the industry. Before that can be done, Mr. Chairman, our small businesses would be out of business and gone.

Yet it is these small business firms that the existing legislation I have mentioned is specifically designed to assist and these are in fact the only firms that can qualify for such assistance. An examination of this existing legislation reveals that both technical assistance and financial assistance are available thereunder.

H.R. 11970 provides for various kinds of assistance, we call it dole, to be given if the Tariff Commission makes a determination that as a result of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like, or directly competitive with, the imported article.

The first kind of assistance is assistance to an industry, mind you, an industry, in the form of tariff adjustment, and we are very much in favor of this traditional and proven device.

The second kind of assistance is assistance to firms. We believe this is illusory and unhelpful, and our first suggestion is that chapter 2 of title III, which provides for assistance to firms, be deleted from the bill in its entirety.

The third kind of assistance is assistance to workers. We believe this to be discriminatory, and our second suggestion is that chapter 3 of title III, which provides for this kind of assistance, also be deleted from the bill in its entirety.

We will first consider assistance to firms. This proposed assistance may be of three forms: Technical assistance, financial assistance, and tax assistance. They may be furnished singly or in combination. However furnished, we dislike the entire idea.

Indeed, as we read the Small Business Act and the Small Business Investment Act, there is no kind of technical assistance and no kind of loan that could be made under H.R. 11960 that is not already specifically authorized under these two acts.

Furthermore, while a loan to supply working capital could be made in only an exceptional case under section 314(b)(2) of H.R. 11970, there appears to be no such limitation upon this type of loan under the Small Business Act.

It is not without significance, we feel, that section 313(b) of H.R. 11970 provides that technical assistance shall be provided, first, through existing agencies and that section 314(c) provides that—

> To the maximum extent practicable, the Secretary of Commerce shall furnish financial assistance under this section through agencies furnishing financial assistance under other law.

In the second place, we dislike and oppose the assistance to firms which H.R. 11970 purports to provide because we believe it would constitute a crutch for a possibly lame job of negotiating to lean on.

We feel that the purported availability of assistance to firms that would be injured by trade concessions would cause our negotiators to do a less careful job and a less vigorous job than they would otherwise do. We fear that it would provide an easy way out, and we oppose any easy way out.

It is our view that the bill should do everything possible to put a premium on skillful and effective negotiating. We have been outmaneuvered in every negotiation in the past to my knowledge—and to put a penalty on poor negotiating—and in our opinion the provisions for adjustment assistance to firms have the opposite effect.

We now turn to the provisions of H.R. 11970 dealing with adjustment assistance to workers:

Chapter 3 of title III purports to provide assistance to those workers who shall be found to be totally or partially separated from their employment as a result of increased imports.

It purports to do this in two ways: First, it establishes what is in effect a special system of unemployment compensation but which is called a trade readjustment allowance and, second, it establishes a system of job retraining.

Each of these kinds of assistance to workers is already given either by the Federal Government or by State governments under existing law.

Chapter 3 provides for the payment to an adversely affected worker, for each week of unemployment, of a basic sum equal to 65 percent of his weekly wage or of the weekly manufacturing wage, as defined, whichever is less.

Chapter 3 also provides for retraining and retraining allowances for the adversely affected worker.

The payment of the trade readjustment allowance may continue for 52 weeks, and if the worker is engaged in retraining, it may continue for an additional 26 weeks.

It will be readily seen that, as stated above, the trade readjustment allowance is only a special kind of unemployment compensation, such as, in one form or another, is already in force everywhere under State law.

Furthermore, it will be seen that the retraining benefits constitute a special program, the like of which, in general form, was established in the Manpower Development and Training Act of 1962, encated by the Congress as recently as 4 months ago.

There are two reasons why chapter 3 should be stricken from H.R. 11970.

The first reason is that to the extent to which these proposed provisions for assistance to workers parallel assistance extended under existing law—Federal and State—they are obviously only a duplication and obviously add nothing to the protection of the worker and hence nothing to the value of this bill.

But the proponents of the measure will point out that H.R. 11970 does not just duplicate existing law but goes far beyond existing law. And this brings us to the second reason for opposing these provisions for assistance to workers: To the extent that they provide greater assistance for workers separated from their employment, because of increased imports than is provided for workers separated for all other causes for which they are not responsible, these proposed provisions are grossly unfair to the great mass of American workers and grossly discriminatory against them.

These so-called trade adjustment allowances are, in fact, unemployment compensation, and there can be no justification in logic or in commonsense, for establishing different rates and periods of compensation for unemployment attributable to this particular cause.

If we are to begin making this kind of distinction, we shall, in time, have a different program of unemployment compensation for each of the innumerable causes of unemployment.

The same is true of retraining benefits. Workers who require retraining because of unemployment due to increased imports should receive the same benefits, no less and no greater, than those whose unemployment is attributable to other legitimate causes.

This concludes my testimony for the National Association of Dairy Equipment Manufacturers.

I am also employed by the Beverage Machinery Manufacturers as their executive vice president, and I made application but was told that I could only make one appearance.

This is an association of manufacturers of machinery and equipment for the beverage and brewing industries. The 15 member companies produce in excess of 80 percent of the Nation's annual supply of such equipment. The equipment our manufacturers produce is used in the processing, handling, and packaging of all types of carbonated and soft drinks in beverage plants and breweries.

Most of our members would be classified as small businesses.

We endorse the foregoing statement made in behalf of the National Association of Dairy Equipment Manufacturers, and in addition would like to add the following information:

The brewery exposition is being held in Chicago this fall, and, for the first time in history, foreign-manufactured machinery used in the brewery industry will be exhibited at this show.

I am advised that both the Holsteim & Kappert Co., of West Germany, and the Seitz Manufacturing Co., of West Germany, will exhibit items of equipment they manufacture, such as bottle fillers.

The new tariff rates made effective in Canada June 25 also applied to brewery and beverage equipment, increasing the rates on those items of equipment not manufactured in Canada from 7½ to 12 percent, an increase of over 50 percent in the effective rate. Where similar equipment is manufactured in Canada the increase is from 22½ to 27½ percent.

The trade restraints employed by many European and South American countries referred to earlier are very effective in preventing our members from selling beverage and brewery equipment in many of these countries.

I believe, therefore, the members of this committee can understand why we believe it so important that this bill include mandatory requirements that these restraints in any country be removed before the President may reduce any tariff on imports from the country that employs such restraints, and that true reciprocity be maintained.

It seems to me, Mr. Chairman, that some of these people, as I said, not facetiously, are looking through rose-colored glasses.

Thank you for your attention.

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

Any questions?

Thank you, sir.

The next witness is Mr. Paul Du Brul, United Furniture Workers of America, AFL–CIO.

Take a seat, sir, and proceed.

STATEMENT OF PAUL A. DU BRUL, RESEARCH AND PUBLICITY DIRECTOR, UNITED FURNITURE WORKERS OF AMERICA, AFL–CIO

Mr. DU BRUL. Mr. Chairman and members of the committee, my name is Paul A. Du Brul. I am research and publicity director for the United Furniture Workers of America, which is affiliated with the American Federation of Labor and Congress of Industrial Organizations.

I submit this statement on behalf of the UFWA, and especially those men and women whom we represent in the musical instruments industry. I am also speaking on behalf of several of the major firms in this industry who are cooperating fully in our attempts to protect the jobs of their employees.

While our international union is fully in accord with the purposes outlined for the necessity of the pending legislation (H.R. 11970) and the statements of AFL–CIO President George Meany in support of this bill, we feel that several of its provisions give inadequate consideration to the needs and plight of certain workers whose jobs will be threatened by an increased flow of low-wage foreign goods into markets traditionally served by American manufacturers.

We feel that if these provisions are adopted as currently proposed, they will cause severe injury to employees in the musical instruments industry, especially the men and women who produce pianos and organs.

Our international is concerned about the impact of increased imports in several other industries as well, including plywood, toys, bicycles, and veneers. However, because of the limited time available, I will confine my remarks to the provisions of the proposed legislation in relation to the problems of the piano and organ industries.

While there are several differences in the production, retailing, and use of pianos and organs, there are essential similarities which allow us to group them in discussing their problems in relation to imports.

Many of the firms in both industries began as family enterprises and are still under the management of relations of the original founders. Although pianos and organs are manufactured throughout the country, the firms tend to be located in small and medium-sized cities. They play a major role in maintaining the economies of these towns and cities.

The production of pianos and organs requires a high labor input, because of the many varied hand and machine operations which are necessary in producing these high-quality instruments. The workers in these industries are usually highly skilled, sometimes belonging to the second and third generation of piano and organ craftsmen.

As one employer commented to a recent hearing of the House Ways and Means Committee:

> Our employees, for the most part, have been with us for many, many years and all of them have developed unique skills usable only in the production of pianos.

One final word is in order about the nature of the markets for these products. By and large this market has been relatively stable in recent years. Despite a decline in individual participation in home music, plus television and other media, our rapidly rising population growth has maintained the market. However, this is not a field where any great expansion can take place in the near future. And given the continuation of current trends in home amusements, further declines may well take place.

As noted above, this is a market where little expansion can take place. Yet a recent study by the U.S. Department of Labor shows that musical instruments industry is fifth among the 27 U.S. industries most seriously affected by imports.

Let's take some specific examples in major segments of the industry:

The importation of assembled pianos has more than tripled in both number and value since 1956. Japan alone sent 1,874 units worth almost half a million dollars into this country in 1961. The previous year she exported 3,873 units into the United States, valued at $674,455.

In the organ industry, the value of imported instruments has doubled since 1955. In 1961, imported organs had sales equal to almost 10 percent of total annual sales into this country, I am referring primarily to pipe organs, the large instruments you find primarily in cathedrals and public places.

Preliminary figures released by the U.S. Tariff Commission show that in the first 5 months of 1962, Japan has exported more than two-thirds of the total number of pianos it sent to the United States in 1961.

Total imports of pianos from all sources in the first 5 months of the year equal almost 70 percent of last year's total imports. Projected to the end of 1962, these figures indicate that we will import a record number of pianos this year. These figures come on the heels of recent dispatches from Japan reporting that the piano industry there has undertaken a massive expansion program.

The Tariff Commission's reports on imports in the pipe organ industry in the first 5 months of 1962 also point to a repeat performance of last year's recordbreaking number of imports of completed instruments and even steeper increase in the amount of organ components manufactured abroad.

Here I would just point out, out of the testimony, that we find that many of the figures on pipe organs are inaccurate, because what is being done is that the companies are making completed instruments, knocking them down and shipping them into this country in parts rather than as completed organs and reassembled when they enter the United States, so these figures are more severe than they already account for 15 percent of total sales in this country.

The composition of the work force in these industries presents the greatest challenge to what we feel are the inadequacies of this legislation. While it is a highly skilled work force, it is also a much older work force. This condition prevails in both industries, but is more pronounced in the organ field. Let's take one example from each field:

M. P. Moller Organ Co., of Hagerstown, Md.—the average age among its 350 production workers is 47.

Steinway Piano Co.'s figures show an average age of 49 among its production workers.

It should also be noted in this context that 10 percent of the employees in the piano industry are specially trained blind workers.

Should substantial unemployment result in these industries because of foreign imports, what will these highly skilled men and women do? Recent studies show that while workers of all ages can be retrained, it is particularly difficult for anyone over 40 to find a new job, even at his original trade.

In addition to the generally high level of unemployment persisting throughout the country, many of the major plants in these industries are situated in areas of current substantial unemployment—the so-called depressed areas.

Let us for a moment translate the unemployment of this group of older, skilled workers into more human terms. Reduced to a maximum weekly income of $61 during the retraining and unemployment period, this job displacement means mortgage foreclosures, repossessions, canceled college educations, and a continuing series of disheartening misfortunes for these men, women, and their families.

Under the provisions of the pending legislation, these workers would receive approximately half of their average earnings for varying periods of time.

When this aid expires they will be forced to apply for relief—skilled craftsmen, willing and able to work, yet obsolete in their late forties for one reason alone, low-wage foreign imports.

We feel that the answer to this problem lies in the revision of this bill.

Congress should declare a moratorium on the reduction of tariffs on products whose increased importation will adversely affect our already serious unemployment problem.

In industries such as piano and organs the character of the work leaves little doubt that reemployment possibilities are almost nil.

The current escape clause proposals should be expanded to specifically include considerations of work force composition as to age, sex, and so forth, in the determinations of the Tariff Commission.

The likelihood of success in retraining and relocating displaced groups of workers must become an important factor in recommendations for the reduction or increasing of tariffs to the President.

There is one further revision we would ask the committee to consider incorporating into this bill. That's the adoption of the standard international trade classification as the basis for future negotiations. This classification lists the various articles subject to negotiation in relatively homogeneous categories and subdivisions.

Without this stipulation, negotiations may take place on categories, such as musical instruments, whose various subdivisions are in reality totally dissimilar in nature of their productions, use, sales, and so forth.

To illustrate this point, I refer the committee to the recent testimony of Commerce Secretary Hodges on this bill. Mr. Hodges placed musical instruments, including pianos and organs, in the same category with sound recorders and other products, and stated that under the previsions of the proposed legislation, since 80 percent of total production takes place in the United States and the Common Market countries, they would be subject to total abolition of tariffs.

Actually, the only thing which they have in common is that they all produce a noise.

Only by considering each individual item and its problems of production can the Tariff Commission make adequate judgments on whether or not these products should be placed in negotiation.

In closing, I only wish to reemphasize one element of my statement. The problems of the piano and organ industries in relation to tariff decreases and/or an increased flow of foreign instruments is not adequately met by the provisions of this bill designed to soften the impact of foreign competition. These industries are not subject to increased mechanization or automation; in both, labor input and consequently, labor cost, exceeds 50 percent of production cost—making them particularly vulnerable to low wage for imports.

The labor force has an average age of 45, the majority of employees are extremely skilled, and have long tenure in their industry. Unfortunately, many of their skills are useful only in the production of organs and pianos.

Should imports inflict the serious damage on the domestic industry which we project with any substantial decrease in tariffs, the skills of these craftsmen as well as their jobs and earning power would be lost to the American economy.

Retraining and relocation of a work force grouped in the older age brackets offers little hope of success, as well as placing severe burdens on these men and women and their families, many with generations of roots in the same town and industry.

The solution we urge is an expanded escape clause in H.R. 11970 which should state that the age composition of an industry's work force should be a basic consideration in granting relief to industries or firms facing increasing competition from foreign imports.

Thank you.

The CHAIRMAN. Thank you very much.

The next witness is Mr. A. E. Mercker, National Potato Council.

STATEMENT OF A. E. MERCKER, EXECUTIVE DIRECTOR, NATIONAL POTATO COUNCIL

Mr. MERCKER. The National Potato Council appreciates this opportunity to present its views with regard to H.R. 11970, the Trade Expansion Act of 1962.

The National Potato Council is a nongovernmental, voluntary, nonprofit organization, designed to develop all segments of the potato industry.

The Trade Agreement Act has been discussed at the meetings of the National Potato Council. At the 13th annual meeting, held November 14, 1961, Resolution No. 11 was adopted, reading as follows:

Resolved, That we authorize the executive director of the National Potato Council to appear in opposition to the renewal of the Trade Agreement Act in its present form.

I want to call to your particular attention the last four words—"in its present form."

The National Potato Council heartily supports section 252, foreign import restrictions. We believe that the adoption of this section would eliminate many of the inequities imposed when trade with other nations is developed.

We also heartily approve section 241, special representative for trade negotiations. We believe that such a representative would be impartial, accelerate action, and make prompt decisions.

We will give three illustrations of what happens to the potato industry.

Potato processing in the United States has grown very rapidly, so that now about 26 percent of the potato crop is processed. Many countries in Europe have embargoes restricting the importation of fresh American potatoes.

Processed potatoes, because of their good quality, were exported in rather small quantities during the calendar year 1959. The amount increased during 1960, and increased still more in 1961.

The first inequity we present is the action of Switzerland. In 1960, 232 metric tons of U.S. dehydrated potatoes were exported to Switzerland. During the first 3 months of 1961, 293 tons were exported to Switzerland, and for the first 6 months over 500 tons were received in Switzerland. These potatoes were used for human consumption, including food preparations, particularly infant food.

The Federal Alcohol Monopoly Administration of the Swiss Government, on July 14, 1961, enacted provisions under licenses restricting imports to a total of 12 tons per month from all countries. We protested this action, and received a very nice reply from our State Department, but the restrictions were not removed.

The second example of inequity is the action taken by Sweden. American processors increased their imports to Sweden so that over 1,000 tons of dehydrated potato flakes and granules were exported during the calendar year 1961 together with lesser amounts of frozen french fried potatoes. The 1961 European potato crop was small, and therefore, exports were appreciable. The King's Council decided to place potato flakes and granules under agricultural regulations. This was approved by the Swedish Parliament effective July 7, 1962.

This was bad news, as the regulation assesses a fee on dehydrated potatoes at eight times the fee for fresh potatoes plus 2 percent of the fee for dry milk, making a total import fee of around 10 cents per pound, which compares with a former import duty of 2¼ cents per pound.

The frozen french fried import fee is based on four and a half times the import fee for fresh potatoes plus 15 percent of the import fee on the fat content. This amounts to about 5 cents per pound.

The third example of inequity is the action taken by the Dominion of Canada. At about 11 a.m. on August 4, 1961, potato producers in the far western part of Canada telephoned their Government at Ottawa asking for the imposition of the dump duty on potatoes. At 4:30 p.m., the Government of Canada publicized that the dump duty would be imposed at 12:01 a.m., August 5, of 78 cents per hundredweight plus the regular duty of 37½ cents per hundredweight making a total duty on potatoes entering Canada from Port Arthur west, of $1.15½ per hundredweight.

The Canadian potato growers should be congratulated on the rapidity of protective action accorded to them by their Government. This is a good example of a government protecting its citizens.

Although we protested all of these actions and presented them to the State Department, we received expressions of concern over the restrictions but did not receive remedial action.

We know that these presentations caused deep concern among the American authorities, and therefore we strongly believe that the adoption of sections 241, 242, and 252 is a means whereby those affected by similar actions in the future may present their case and receive fair treatment.

We urge the passing of these sections in this legislation.

Thank you.

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

The next witness is Mr. I. J. Silverman, W. F. Schrafft & Sons Corp. Take a seat, sir.

STATEMENT OF I. J. SILVERMAN, PRESIDENT, W. F. SCHRAFFT & SONS CORP., BOSTON, MASS.

Mr. SILVERMAN. Mr. Chairman, I thank you for the opportunity of presenting our story to you and the members of your committee.

I am I. J. Silverman, president of W. F. Schrafft & Sons Corp. of Boston, Mass. Our company has been engaged in the manufacturing of fine confectionery products, principally boxed chocolates, for 102 years. It had its beginnings in the Civil War when the founder of our business supplied the Union Army with candy.

Yesterday the president of the National Confectioners' Association, Mr. Douglas S. Steinberg, appeared before you in behalf of the U.S. confectionery industry and our company which is a member of that association supports strongly the statements he made.

Therefore, you might wonder why I have asked to appear before you today. We are not in the habit of running to the Government for aid or for alms. My appeal to you in this instance is a desperately defensive one because H.R. 11970 would have such extremely adverse effects on our company and its people.

I daresay we have the distinction of having more people in our employ who have served more than 25 years, some as long as 50 years, in proportion to the total number employed, than any other company.

I felt I had to appear before you personally to express my opposition to H.R. 11960 as presently drafted, not only for the protection of our company, but for the security of our people. If I am able to convey properly to you the far-reaching injury which I am convinced this bill will do to our business and our people if the powers it would grant are used, I believe that you will not let these provisions of the bill be reported favorably by this committee.

Our company favors hard but fair competition including competition with foreign competitors. Our view is that the companies which offer to the public the finest quality products should succeed and gain in the market place and it is only fair competition which we desire.

The confectionery industry in competing with imported confections has not been in a fair competitive position. This is because while our Government after establishing price support and other programs which increase the prices of our domestically produced agricultural commodities in relation to world market prices for the same commodities, has acted to protect these raw agricultural commodities, and at the same time has pursued a policy which does not protect the manufactured food commodities from which the protected raw agricultural commodities are produced.

In the United States we pay approximately 2½ times the world market price for sugar and as a rule in the Northeastern part of the United States we pay a price higher than is paid even in other parts of this country.

The candy industry uses about two-thirds of the domestic almond crop and our company is one of the principal users of these almonds. There is a high duty on the almonds of 16½ cents per pound which is equivalent to approximately 33 percent ad valorem so you can see it is virtually prohibitive for us to import the almonds.

However, foreign confections which contain almonds may be and are imported in large quantities at a low 14-percent rate. We have a similar problem concerning other nut meats which we use such as filberts and walnuts and a similar situation exists in the case of peanuts.

Our company uses a vast quantity of dairy products and here again our Government has the same protective policy which requires us to pay high prices for dairy products.

As I am sure you can appreciate, our wages are several times those paid in the principal foreign countries abroad which ship confectionery to the United States.

Just as many manufacturing firms of other industries which formerly were located in Massachusetts have moved south, or have liquidated, many of them involuntarily, when they were forced into an unfair competitive situation, I feel that if the confectionery duty is further reduced or eliminated, much candy manufacturing in the United States in turn will be eliminated. I fear the consequences for our people and our proud company.

In this connection, I could talk to you for hours concerning only some of the regulations and the laws which affect our conduct as good citizens.

I am forced to be brief even though they affect our very existence and do not, except perfunctorily, affect competition.

(1) Robinson-Patman Act.

(2) The Sherman Act.

(3) Commodity price favoritism enjoyed by foreigners.

(4) Local, State, and Federal food and drug laws—and may I say parenthetically while none of us condone the act of the electrical manufacturers such as General Electric, I ask this question. I asked myself this question, If General Electric is going to pay eventually $50 million as a penalty for what it did, what chance would this Government, I ask you, to collect any such fraction of any such figure as against foreign manufacturers in similar situations.

Now, with respect to the local State and Federal food and drug laws, our company, over a quarter of a—spends over a quarter of a million dollars a year, just for sanitation to insure a pure product, free of contamination, made by healthy people, in a clean, decent plant.

With a copy of my brief talk I am attaching a chart published by Food and Drug Administration of its import activities in 1961 showing the number of lots inspected as compared with the total number of shipments imported into the United States—only 6 percent, of the lots that were imported, as you will see by looking at the chart, were inspected; of those 6 percent, the number of lots found violative of the department were perfectly astounding, and as you will note, Mr. Chairman, they run all the way from 9 to 70 percent. We are now witnesses of the harm resulting from the importation of certain durgs which only by God's grace and the FDA did not flood the country.

I submit that wiping out the tariff on food items, of which candy is an important item, will not only flood the country with candy and ruin the industry, but will flood the country with deleterious and harmful foods, unless we mobilize an army of food inspectors at the ports of entry and require the same rigid inspections under which we operate, in every factory abroad by another army of our own inspectors.

The mere suggestion will only cause the State Department to cry out in alarm out of fear that we hurt the foreigners' sensibilities. Can we do less, however, if we are to protect the consumer?

We do not complain of the strictest enforcement of the food and drug laws as they apply to us. But we do complain if the rules of the game are not equally applied to both sides. This is simply equity. To hobble us, the American people, whose tax burden is crushing, and bind not only our feet but our arms as well, and unfetter our foreign competition, giving them a free ride, through cheap sugar, dairy products and cheap labor, and on top of everything wipe out the already too low tariff, and expect us to compete, pay taxes, and provide security for our people, is altogether more than we can humanly accomplish. We do not want help, our people are too old to be trained in other skills; we want no alms, neither do they.

We give alms gladly. All we want is a chance to compete on an even basis. We ask you not to enact this vicious law which can only destroy our way of life.

We consider our company to be a progressive company. Not only are we concerned with continuing to market quality chocolates but we are interested in improving our processes, in installing new equipment and in expandig our markets, although we have little hope for a export market in view of our higher costs in the United States and high tariff walls abroad.

As for example, Canada, 30 percent; England, 30 percent; Germany, 30 percent; that is the tariff that they impose and exact from us, and in return at the present time our tariff is either 10 or 15 percent, depending on the content of the amount of chocolate.

However, the development and expansion within our company costs money. It costs a lot of money. Such expansion not only would be in the interest of management, but also of employees.

Bluntly, if you pass the bill in its present form, and give the President the power to eliminate the low current 14 percent duty on confectionery, we do not plan to go forward in an attempt to increase production and expand sales.

As you have already been advised, confectionery imports have increased tremendously in recent years. We are unhappy but convinced that they will continue to increase even with the current 14-percent rate of duty because of the tremendously unfair economic advantages which foreign competitors already enjoy.

We implore you, consider well the effect of further reduction on us, our people, and the American public.

There is very little, if anything, in my opinion, to recommend in H.R. 11970. Perhaps we do need new trade agreements and tariff legislation, but the matter should be studied carefully to determine what we really need. I am convinced it is not H.R. 11970, as it affects the confectionery business.

Foreign manufacturers can deliver candy and pay the freight and the present low tariff substantially less than we can do now. For proof all one needs do is visit the various 5 and 10 cent stores. Without the tariff the only result can be what happened to the watch industry—chaos and ruination.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Silverman. You made an impressive statement.

Mr. SILVERMAN. Thank you, Senator.

(The chart previously referred to follows:)

Import activities, 1961

	Name	Total number of shipments imported into U.S.A.	FDA lots inspected	Percent of lots found violative
01	Beverages, beverage materials	94,222	2,186	10.0
02	Bakery, cereal, macaroni	6,273	364	15.7
03	Grain, flours, meals	6,311	81	18.6
05	Chocolate, sugars, etc	17,243	1,457	21.7
06	Butter	116	11	9.1
07	Cheese, other dairy	9,813	256	9.8
09	Eggs, egg products	524	12	
10	Fish and shellfish	90,424	2,859	16.5
12	Flavors, spices, condiments	11,567	5,739	16.1
13	Fruits, fruit products	33,449	2,695	13.3
14	Grains, feed—animal	23,115	6	
15	Meat and meat products	1,092	21	19.0
16	Nuts, nut products	8,837	966	15.0
17	Oils, fats, shortening	4,379	103	4.9
18	Vegetables, vegetable products	42,003	891	13.5
19	Miscellaneous and multiple foods	4,791	170	6.5
31	Foods for special dietary use	75		
32	Vitamins	901	17	64.7
43	Drugs, human Rx	1,412	1,332	75.1
46	Devices	3,082	208	61.1
48	Miscellaneous and multiple drugs	5,654	1,413	9.1
70	Cosmetics	2,138	40	55.0
71	Hazardous substances	1,509	3	66.7
81	Miscellaneous chemicals	66	116	42.2
	Total	368,996	20,943	19.24

The CHAIRMAN. The next witness is Mr. Nelson A. Stitt, United States-Japan Trade Council.

STATEMENT OF NELSON A. STITT, DIRECTOR OF THE UNITED STATES-JAPAN TRADE COUNCIL

Mr. STITT. I am Nelson A. Stitt, director of the United States-Japan Trade Council, an association composed of 580 firms mainly engaged in exporting to and importing from Japan. Our membership is interested in legislation which will promote a healthy growth in this trade in both directions.

We want to express our strong endorsement of H.R. 11970.

It is, in some respect, an improvement over H.R. 9900, the original bill before the Ways and Means Committee. There were changes, such as the expanded reserve list provision, which are undesirable in our view.

As a whole, however, the bill represents a substantial improvement over present law. It grants the President authority which is essential if the United States is to expand its trade, not only with the Common Market but with Japan and the rest of the free world.

Like others, we are concerned with the manner in which the President's authority will be used and with the administration of the pre- and post-negotiation provisions.

We are conscious, however, that negotiations cannot be conducted by legislation, nor can laws be self-administering.

The bill, while granting substantial authority, maintains a number of important safeguards and sets adequate standards and criteria for administrative action. This is as much as can be hoped to be accomplished by legislation.

An important amendment of the original bill was the deletion of special reference to the European Economic Community in the statement of purposes, and the substitution of language reflective of our broader interests—

> to strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world.

Certainly our trade relations with the Common Market are of great importance, but we must bear in mind that 80 percent of U.S. exports are to countries outside the European Economic Community.

In his testimony before this committee the Secretary of Commerce pointed out that—

> Japan, our second greatest customer, is expected to triple her purchases of foreign goods in the next decade and we must get a share.

He added that Japan—

> bought $1.7 billion from us last year—$700 million more than she sold us. In the next decade her economy is expected to double and her imports to triple. Here is an attractive and profitable potential business for us.

As a matter of fact, the gross national product of Japan has grown at a much more rapid rate in the last 10 years than that of the EEC. Between 1950 and 1960 Japan's GNP has doubled.

In addition, since 1955 U.S. exports to Japan have grown at a much faster rate than U.S. exports to the EEC. In fact, in the last 3 years they have grown faster than exports to all our other major trading partners, such as the United Kingdom, Canada, Latin America, or the European Continent.

The "consumer revolution" has spread not only to Europe but to Japan as well. For example, in Japan 9 out of every 100 people have a television set as compared with four in the EEC; the official Japanese development plan for 1970 projects an increase in the number of television sets to 23 out of every 100 persons.

A similar situation exists with regard to refrigerators, washing machines, and other durables. In the last 10 years there has been a striking growth in the export of such U.S. products to Japan as agricultural commodities, fuels, machinery, and chemicals. This growth is likely to continue during the 1960's.

The Japanese market is especially promising for those products in which the United States is strongly competitive, such as heavy machinery, advanced electronic and scientific equipment, consumer durables, and agricultural products.

Some legitimate concern has been expressed in this committee with respect to the European trend toward restrictions on agricultural imports from outside the Common Market. This situation only emphasizes the importance of Japan as an expanding market for American farmers.

At this point, Mr. Chairman, I would like to refer you to the recent council publication entitled "Japan, the American Farmer's Best Export Market."

I would appreciate it if this publication could be reproduced in this record.

The CHAIRMAN. The staff will look at it.

Mr. STITT. Last year, Japan was our best foreign customer for cotton, soybeans, tallow, nonfat dry milk, and raisins. During the past decade, the United States sold more farm products to Japan than to any other foreign country.

U.S. agricultural exports to Japan in the 10-year period 1952–61 totaled $4.2 billion, as compared with a total of $4 billion for the United Kingdom, $3.4 billion for Canada, and $3.1 billion for West Germany.

In 1961, Japan alone accounted for more than 11 percent of total U.S. farm exports. Farm exports to Japan are cash exports.

I would like to point out the farm exports to Japan are cash exports very little of which are financed by Public Law 480.

By 1970 Japan's imports of food stuffs are expected to increase by 61 percent over current levels, and imports of cotton and wool by 45 percent. The United States can maintain its position as by far the largest supplier of Japan's farm imports—provided we are willing to accept imports from Japan.

Whether we will be able to maintain or increase our relative share of the Japanese import market for all goods—now at approximately one-third—depends in part upon Japan's ability to earn dollars and other hard currencies.

In addition, progressive liberalization of Japanese exchange restrictions will expand the types of goods imported, thus benefiting U.S. products which enjoy high prestige in Japan.

By October of this year, Japan will have liberalized 90 percent of its import trade. It is significant that in the recent crisis in its balance of payments Japan has not resorted to specific import controls.

Instead, generalized measures such as a tightening of credit requirements and internal monetary measures have been used to rectify the situation.

Removal of currency restrictions focuses attention on Japan's tariffs. The United Staets-Japan Trade Council favors a reduction of Japan's tariffs—as well as our own—through reciprocal negotiations. We are confident that such negotiations can be successfully conducted in the near future, assuming H.R. 11070 is enacted without crippling amendments.

There has been some discussion in the Congress of nontariff restrictions on trade. The recently concluded International Cotton Textile Agreement may have been a realistic concession to political pressures in the United States. In economic result, however, it is nothing less than the first international cartel in manufactured items subscribed to by the United States.

Since the textile agreement was negotiated under the auspices of GATT, and on a multilateral basis, it has been defended in official quarters as a unique solution to a unique problem.

It now appears that there is yet another "unique problem" requiring a "unique solution"—lumber imports from Canada.

We believe there is an irreconcilable conflict between use of the trade agreement process to lower trade barriers, as authorized by the bill being considered by this committee, and the erection of nontariff restrictions on trade, as authorized by section 204 of the Agricultural Act of 1956 as amended.

It seems clear that the use of such trade barriers is inconsistent with, and would prevent the full attainment of, the objectives sought by the trade agreement process.

H.R. 11970 provides adequate procedures whereby all parties are heard before duties are reduced. Formal investigations with notice and hearings are conducted before duties can be raised or quotas imposed on the ground that a domestic industry is being injured.

To accomplish the same result through international agreement circumvents the procedural safeguards so carefully erected, even if the foreign governments were willing, because there is a U.S. public and private interest in imports quite separate from the interests of the foreign countries.

If the international agreement is accepted by other countries only under heavy pressure, with threats of unilateral U.S. action under the provisions of section 204, then the so-called international agreement becomes a naked subterfuge for a serious breach of international law and long-standing U.S. trade policy.

At the very least, due process requires that the finding of market disruption, if that is the premise, be made after notice and hearings and not on the basis of ex parte presentations through political channels.

The developments in respect to cotton textiles worry all those concerned, not just with trade principles, but with constitutional rights of due process in governmental determinations. To extend this exceptional treatment now to lumber and other commodities would seem to be in diametric opposition to the principles and procedures so carefully set forth in the proposed Trade Expansion Act of 1962.

It is most important that the special authority in H.R. 11970 to reduce duties to zero in bargaining with the EEC should not be used in a discriminatory manner.

To the extent that export commodities of Japan and other third countries are included within the zero list categories, they should not be arbitrarily reserved from negotiations either by the EEC or by the United States.

Instead, the United States and the EEC should bargain with Japan and other third countries for reciprocal concessions. This is the only course compatible with the spirit of GATT and with our own tradition of a nondiscriminatory and open trading system.

There has been some question, in hearings before this committee, concerning the most-favored-nation principle, particularly insofar as it relates to the special zero authority.

Fears have been expressed that third countries might benefit from negotiations between the United States and the EEC without making concessions of their own, and thereby obtain a free ride.

Not only is the announced policy of the administration opposed to such an eventuality, but the bargaining techniques under the GATT make such a result unlikely.

Third countries, such as Japan, were put on notice by the President's trade message that they would have to pay for concessions resulting from our negotiations with the Common Market.

The era of the dollar gap and the long, hard struggle to recover from war damage is over. In this atmosphere the United States should and will bargain hard and press for meaningful concessions from Japan and other third countries, not only to compensate for incidental benefits which might accrue by virtue of bargains struck by the United States with the Europeans, but pursuant to the general authority in the bill.

Furthermore, under the bargaining procedures of the GATT, any appreciable benefit to a third country must be compensated for by such third country. If not, the country offering the concession may withhold its offer.

The dominant supplier principle, which governs the selection of those categories subject to the special negotiating authority, is in itself intended to preclude substantial benefits to countries other than the United States and the EEC.

The competitiveness of the United States and Europe against third countries in the "zero categories" is manifested by the fact that together we now dominate over 80 percent of world trade in the categories.

Even if at some future time other countries, such as Japan, should develop the capacity to export industrial items within the categories subject to the zero authority, our head start, continued growth, and industrial strength in each overall category should certainly enable the United States to withstand competition.

Of utmost important is the time element involved. It is expected that the negotiations contemplated by this bill may not be completed until 1964. Pursuant to the staging requirements of the bill, full concession rates would not come into effect for 5 years, probably sometime in 1969.

Thus, we are really talking about competition 7 years from now.

Abandonment of the most-favored-nation principle would violate treaties of friendship, commerce, and navigation with about 75 foreign countries. It would complicate and confuse our customs procedures. It would make international tariff negotiations a nightmare of complexity. The "zero authority" is our response to European bargaining techniques on broad categories of goods, a technique which was adopted to simplify what had become unwieldy and cumbersome item-by-item negotiations.

It would be ironic if our response were to include a discredited and infinitely more complicating element—bilateralism. The abandonment of the most-favored-nation principle would signify a retreat to the discrimination and bilateralism of the Schachtian era. It would be a tragic mistake.

The political and psychological impact on Japan and the other nations of Asia and South America would be devastating, and would be quickly capitalized upon by the neutralists and the Communists. We can rest assured that such a step would make our trade policy subject to epithets such as the "rich men's club."

The United States must negotiate out of confidence in its own capacity for economic growth and for effective competition in world markets. Other countries such as Japan, although at present going through difficult stages in economic development, must also take a calculated risk on their own growth and open their own markets to world competition. For neither the world trading system nor the internal economic adjustments contemplated by the proposed legislation before the committee can be accomplished in the absence of accelerated economic growth in the United States and the free world.

Mr. Chairman, I thank you for the privilege of appearing before this committee.

The CHAIRMAN. Thank you, Mr. Stitt.

(The tables and pamphlet referred to follow:)

TABLE 1.—*U.S. trade with Japan*

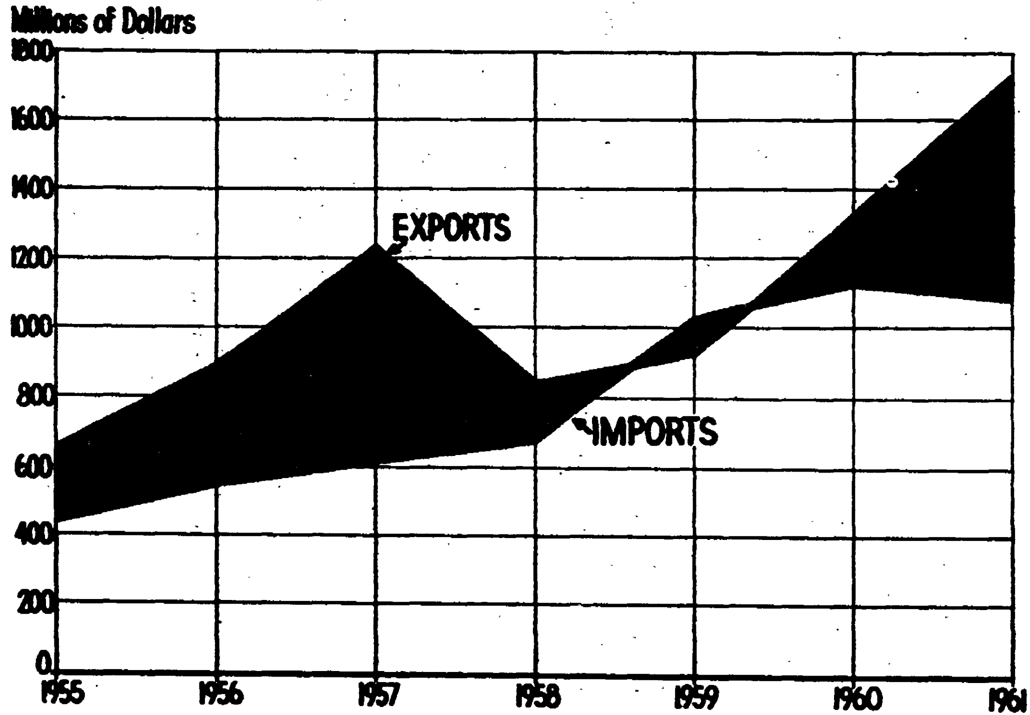
[In millions of dollars]

Year	Exports	Imports	Export balance
1955	650	425	+225
1956	887	548	+339
1957	1,227	602	+625
1958	829	674	+155
1959	931	1,018	-87
1960	1,325	1,127	+198
1961	1,731	1,076	+655

Source: U.S. Bureau of the Census, Repts. FT 410 and FT 420.

Chart 1

GROWING U.S. EXPORTS TO JAPAN



UNITED STATES EXPORTS* TO JAPAN, 1956-~~1960~~ 1961

By Selected Commodity and Commodity Groups

(thousands of dollars)

Line	Commodity Group	1956	1957	1958	1959	1960	1961
	ANIMAL PRODUCTS						
1	Edible animal products	$ 8,608	$ 9,959	$ 5,053	$ 3,530	$ 6,820	$ 8,814
2	Hides and skins	17,674	15,652	13,464	14,584	23,530	29,690
3	Animal oils	17,665	19,683	18,977	20,816	26,109	29,237
4	Other inedible animal products	970	1,032	849	1,485	4,521	4,420
	Subtotal**	44,917	46,325	38,344	40,416	60,980	72,161
	VEGETABLE PRODUCTS						
5	Grains	96,351	111,933	110,416	82,875	71,311	97,754
6	Other edible vegetable products	7,827	8,725	8,220	6,793	11,330	27,107
7	Tobacco and manufactures	5,163	3,434	10,506	11,292	19,764	25,264
8	Rubber and products	6,736	9,557	10,718	24,353	26,068	26,876
9	Oilseeds (mainly soybeans)	53,915	62,993	71,881	95,453	104,803	107,767
10	Other inedible vegetable products	2,555	3,447	3,832	7,625	13,178	12,351
	Subtotal**	172,547	200,088	215,574	228,391	244,453	297,118
	TEXTILE FIBER AND MANUFACTURES						
11	Raw cotton	180,240	217,333	118,089	92,629	217,039	221,584
12	Other textiles & products	8,927	15,425	8,205	10,775	9,048	11,304
	Subtotal**	189,167	232,758	126,294	103,404	226,087	232,888
	WOOD AND PAPER						
13	Unmanufactured wood	2,410	3,661	5,486	9,197	12,328	30,265
14	Paper pulp	12,233	15,389	4,764	9,476	24,278	29,555
15	Other wood and paper products	4,210	5,682	4,204	6,589	7,070	14,564
	Subtotal**	18,853	24,732	14,454	25,262	43,676	74,384
	METALS, MINERALS AND MANUFACTURES						
16	Coal	32,271	54,100	35,290	40,660	53,404	64,139
17	Petroleum and products	37,764	61,653	46,005	56,281	77,868	81,675
18	Other non-metallic minerals	6,490	5,941	6,245	9,190	11,380	15,232
19	Iron ore	9,313	10,532	5,044	5,240	8,623	9,510
20	Iron & steel scrap	106,635	126,526	20,096	105,071	119,704	237,025
21	Copper scrap & copper-base alloy scrap	23,431	32,128	4,777	9,941	43,697	51,564
22	Other metals & products	77,259	166,975	26,182	28,410	77,952	108,545
	Subtotal**	293,163	457,855	143,640	254,793	392,628	567,690
	MACHINERY AND VEHICLES						
23	Electrical & power generating machinery	24,081	27,586	43,046	34,036	29,140	32,336
24	Construction machinery and equipment	4,575	9,862	10,107	7,567	9,129	10,141
25	Metalworking machinery	6,509	43,572	58,309	34,588	60,857	102,484
26	Industrial machinery	26,457	46,618	47,306	39,303	36,816	65,053
27	Office, accounting and computing machines	8,935	11,759	11,329	19,604	27,074	47,077
28	Other machinery	5,375	6,742	4,068	4,143	6,221	7,670
29	Aircraft and other vehicles	8,049	17,193	20,450	9,889	35,497	37,147
	Subtotal**	83,981	163,332	194,615	149,130	204,734	301,908
	CHEMICALS						
30	Chemical specialties	30,743	36,681	33,410	54,148	54,622	67,935
31	Industrial chemicals	8,176	10,363	9,927	15,352	17,797	20,302
32	Phosphate rock and potassium chloride	14,078	16,070	14,923	16,090	24,548	25,800
33	Other crude and processed chemicals	17,406	21,000	22,288	26,954	29,935	39,228
	Subtotal**	70,403	84,114	80,548	112,544	126,902	153,265
	MISCELLANEOUS						
34	Miscellaneous products	14,284	17,387	16,020	16,582	23,301	31,291
	Subtotal**	14,284	17,387	16,020	16,582	23,301	31,291
	Total**	$887,315	$1,226,592	$829,489	$930,522	$1,324,762	1,730,705

* Exports exclude re-exports and "Special Category" shipments (military items).
** Items may not add to totals or subtotals because of rounding.

Source: Compiled from the United States Export Statistics, U. S. Bureau of the Census, Reports FT-410 and -420.

UNITED STATES IMPORTS* FROM JAPAN, 1956-~~1960~~ 1961

By Selected Commodity and Commodity Groups

(thousands of dollars)

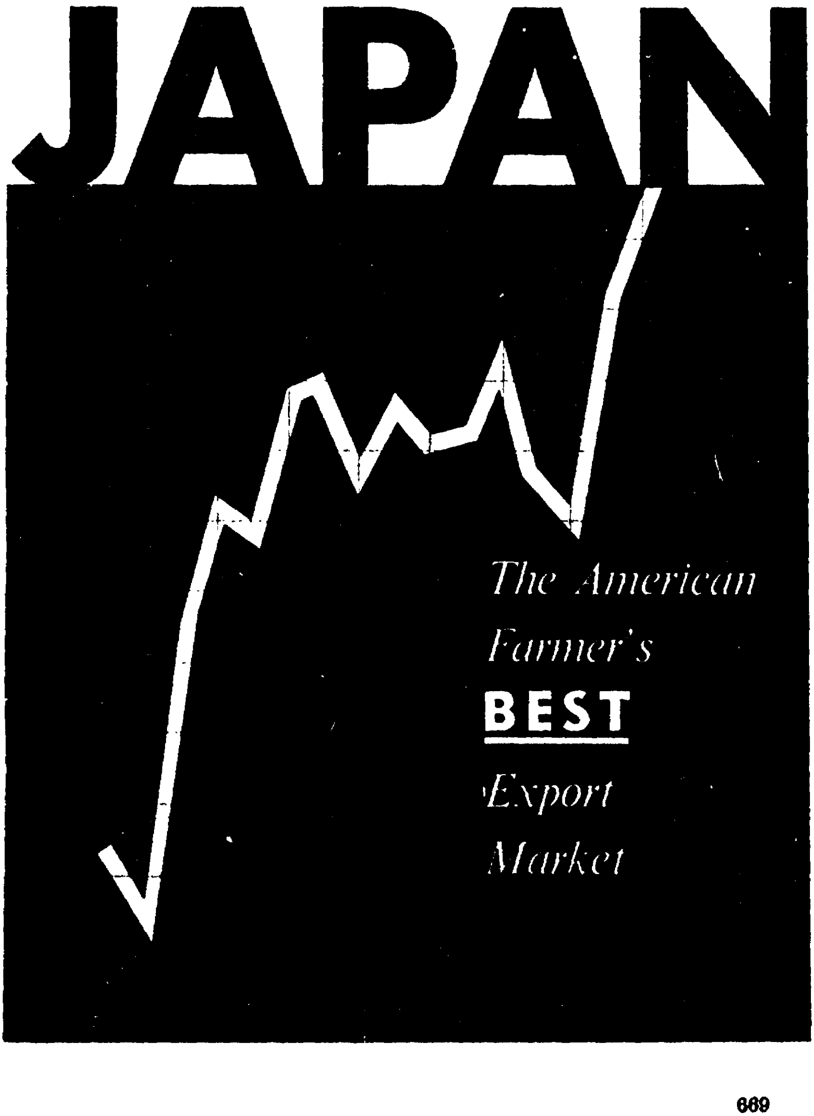
Line	Commodity Group	1956	1957	1958	1959	1960	1961
	ANIMAL PRODUCTS						
1	Fish and products	$ 45,035	$ 49,176	$ 53,573	$ 58,355	$ 52,769	$ 52,466
2	Shellfish and products	9,109	10,377	10,959	17,342	11,284	11,496
3	Other edible animal products	1,047	1,042	655	458	680	783
4	Leather & related products	3,916	5,335	10,266	15,751	19,890	23,148
5	Other inedible animal products	5,869	5,934	8,652	8,782	7,409	7,426
	Subtotal**	64,976	71,864	84,105	100,689	92,031	95,320
	VEGETABLE PRODUCTS						
6	Fruits & fruit products	2,438	2,917	2,372	6,468	7,401	8,716
7	Other edible vegetable products	4,093	4,799	5,016	5,489	7,016	7,661
8	Rubber products	2,110	4,521	13,104	53,989	94,099	72,827
9	Other inedible vegetable products	5,000	5,093	3,807	3,491	3,566	3,286
	Subtotal**	13,640	17,330	24,299	69,437	112,082	92,490
	TEXTILE FIBER AND MANUFACTURES						
10	Cotton manufactures and semi-manufactures	84,044	65,873	71,561	76,810	73,508	69,696
11	Wool manufactures and semi-manufactures	33,762	36,467	44,249	61,082	72,044	61,014
12	Raw silk	32,529	25,111	14,752	23,657	26,019	24,794
13	Silk manufactures	30,112	36,664	40,488	54,099	49,590	34,284
14	Man-made fibers manufactures and semi-manufactures	6,976	8,644	11,195	28,966	33,468	28,634
15	Other textile products	16,286	17,117	18,913	21,304	24,565	20,404
	Subtotal**	203,709	189,876	201,158	265,918	279,194	238,826
	WOOD AND PAPER						
16	Sawmill products (lumber)	10,512	6,829	8,103	12,256	9,962	7,451
17	Plywood	33,921	44,433	44,231	59,321	50,251	44,034
18	Other wood products	13,035	15,177	18,308	27,860	26,822	24,780
19	Paper and manufactures	8,410	7,098	6,784	9,306	10,241	9,046
	Subtotal**	65,878	73,537	77,426	108,743	97,276	85,311
	METALS, MINERALS AND MANUFACTURES						
20	Glass and products	6,632	5,437	6,513	11,079	11,439	12,740
21	Ceramic products (chinaware & earthenware)	26,811	28,995	31,406	40,700	50,281	41,639
22	Cultured pearls	7,882	9,417	10,240	12,875	13,627	16,136
23	Other non-metallic mineral products	896	975	7,100	6,088	8,198	9,070
24	Steel mill products	9,743	7,828	30,530	82,856	90,788	86,439
25	Iron & steel manufactures	12,937	17,953	20,877	34,695	44,627	38,221
26	Ferroalloys & similar metals	18,168	30,037	18,796	17,566	12,576	9,630
27	Jewelry, plated ware, etc. (mostly costume jewelry and lighters)	10,008	10,239	10,743	17,203	20,724	19,345
28	Other metal products	20,067	11,463	14,459	20,843	23,090	17,385
	Subtotal**	113,144	122,344	150,664	243,905	275,250	250,605
	MACHINERY AND VEHICLES						
29	Radios and parts	2,482	5,590	16,040	55,153	71,424	84,976
30	Other electrical apparatus	5,587	10,456	12,202	18,810	30,661	39,199
31	Sewing machines	13,082	18,798	20,334	25,697	20,764	20,637
32	Other machinery	1,535	2,968	4,483	8,431	10,303	20,991
33	Vehicles (except agricultural)	868	1,599	3,618	8,223	10,132	10,988
	Subtotal**	23,554	39,411	56,677	116,319	143,284	176,791
	CHEMICALS						
34	Industrial chemicals	2,535	2,052	5,113	12,084	9,881	12,212
35	Other chemicals and related products	1,370	1,841	2,540	5,202	5,718	6,347
	Subtotal**	3,905	3,893	7,653	17,286	15,599	18,559
	MISCELLANEOUS						
36	Photographic goods (mostly cameras)	5,082	8,916	8,623	10,138	***14,411	17,245
37	Scientific instruments (mostly binoculars, telescopes, microscopes)	7,603	9,844	11,805	14,512	16,492	15,321
38	Toys and sporting goods	23,631	27,370	27,291	39,522	45,776	45,263
39	Miscellaneous products	11,649	24,627	17,924	22,443	23,742	27,408
40	Estimate for low-valued shipments	10,791	13,144	6,325	8,981	11,292	12,799
	Subtotal**	58,756	83,901	71,968	95,596	111,713	118,036
	Total**	$547,562	$602,156	$673,951	$1,017,893	$1,126,529	1,075,938

* Imports are imports for consumption and are in foreign values.

** Items may not add to totals or subtotals because of rounding.

*** The 1960 import figure is not comparable with figures for years prior thereto, since it includes new import classifications covering flash guns, exposure meters, and other electrical photographic equipment. Imports from Japan of these commodities were valued at about $1,920,000 in 1960.

Source: Compiled from the United States Import Statistics, U. S. Bureau of the Census, Reports FT-110 and -120.


JAPAN
The American
Farmer's
BEST
Export
Market

JAPAN *The American Farmer's*

Introduction

Most American farmers are aware of the importance of foreign markets, but not many realize that their best overseas customer is Japan.

They may know that almost half of the U. S. wheat, cotton and soybean crops is exported every year. But few are aware that Japan buys more American cotton, soybeans, hides and skins, and tallow than any other country in the world.

- During the past decade the United States sold more farm products to Japan than to any other foreign country. U. S. agricultural exports to Japan in the period 1952-1961 totaled $4.2 billion, as compared with a total of $4 billion for the United Kingdom, $3.4 billion for Canada, and $3.1 billion for Western Germany.

- In 1961 Japan alone accounted for more than 11 percent of total U. S. farm exports. Agricultural exports to Japan rose by 14 percent over 1960 to a total of $554 million.

- By contrast, sales of agricultural products to the United Kingdom declined by 16 percent in 1961. At the same time U. S. farm exports to the Common Market countries (excluding Italy, which had a wheat crop failure with resulting abnormal import requirements) declined by 2 percent. Such decline may be accentuated in the future as a result of the European trend toward restrictions on agricultural imports from outside the Common Market. This situation emphasizes the importance of Japan as an expanding market for American farmers.

Japan, with one of the largest textile industries in the world, is the United States' best export market for cotton. In 1961 [illegible] sold to Japan 1,688,000 bales of cotton [illegible]

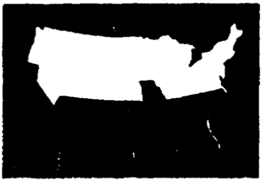
[illegible] 1960 to $884 million in 1961.

BEST *Export Market*

The United States supplied [illegible] of Japan's cotton imports [illegible] one-quarter of the entire U.S. crop of cotton goes to Japan [illegible]

- Unlike farm exports to many other parts of the world, a substantial portion of which is financed by the U.S. Government under Public Law 480, less than 4 percent of such exports to Japan were so financed in fiscal 1960-1961.

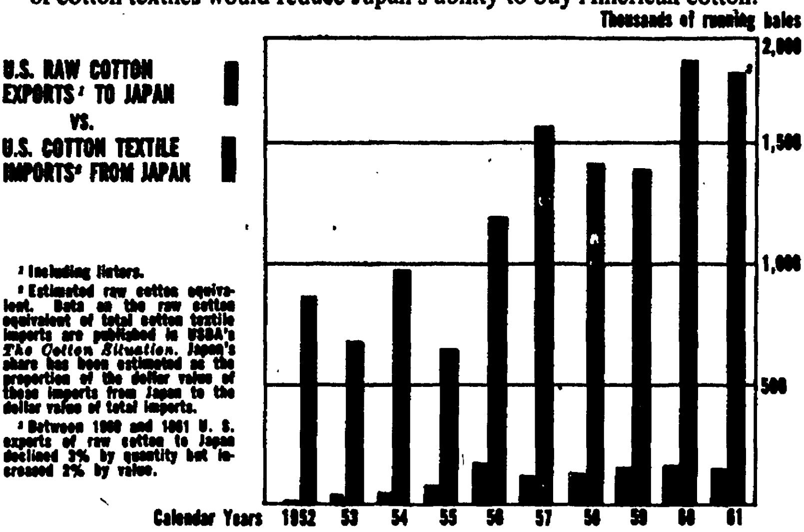
BEST AVAILABLE COPY



COTTON

Japan, with one of the largest textile industries in the world, is the United States' best export market for **cotton.** In 1961 American cotton growers sold to Japan 1,688,000 bales of cotton and 85,000 bales of linters. Their value came to an all-time high of $222 million. At the same time, total U. S. foreign sales of cotton declined from $988 million in 1960 to $884 million in 1961.

- The United States supplied 52% of Japan's cotton imports last year. One out of every four bales of *export* cotton is destined to Japan. In fact, over one-tenth of the *entire U. S. crop* of cotton goes to Japan year in, year out.
- The bulk of U. S. cotton exports to Japan comes from Texas and California. The Southern and other Southwestern states also ship substantial quantities of cotton to Japan.
- Naturally, Japan's ability to buy American cotton is dependent upon export earnings. A significant share of these exports consist of cotton textiles. (However, only 7% of the raw cotton the United States ships to Japan comes back here as finished textile products—see chart.) For this reason, additional U. S. restrictions on imports of cotton textiles would reduce Japan's ability to buy American cotton.

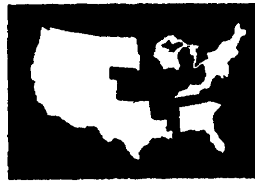


[1] Including linters.

[2] Estimated raw cotton equivalent. Data on the raw cotton equivalent of total cotton textile imports are published in USDA's *The Cotton Situation*. Japan's share has been estimated as the proportion of the dollar value of these imports from Japan to the dollar value of total imports.

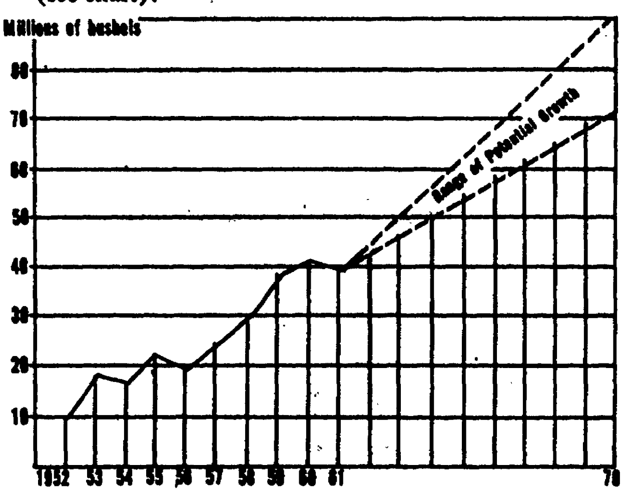
[3] Between 1960 and 1961 U. S. exports of raw cotton to Japan declined 3% by quantity but increased 2% by value.

SOYBEANS



Japan is the best U. S. customer for soybeans, purchasing $100 million worth in 1961.

- Since 1956, American soybean producers have doubled their sales to Japan, from 19.1 million bushels to 38.8 million bushels in 1961. Japan's trade liberalization program, in July 1961, freed from exchange control the importation of soybeans and other oilseeds, along with hundreds of other import commodities.
- At present Japan imports over three-fourths of its annual consumption of this important oilseed, used for producing Japanese food items such as miso (soybean paste), shoyu (soy sauce), tofu (bean curd), and Ajinomoto (monosodium glutamate) as well as for use as livestock feed.
- Before the war mainland China was the principal supplier of soybeans to Japan, but the United States now has this huge market almost to itself. Last year this country supplied 95% of Japan's soybean imports.
- Under the long-term plan of Japan's Economic Planning Agency, soybean import requirements will triple by 1970 from the 1956-1958 level. If the U. S. maintains its present share of 95% of Japan's imports, U. S. exports should reach 75 to 90 million bushels by 1970 (see chart).



SOYBEANS—
U.S. EXPORTS
TO JAPAN

WHEAT

Japan is the world's largest wheat importer after Britain, buying annually 80 to 100 million bushels from abroad. The United States and Canada are the principal suppliers of the Japanese market. In recent years Canada has been enjoying an increasing share of this trade, providing 50% of Japan's total wheat imports in 1961. The U.S. share in this market has slowly declined from over 50% in 1955 to 30% in 1961.

From evidence at hand, however, it appears that total U.S. wheat sales to Japan in 1962 will increase by more than 25% over the past year. This forecast is based on the import plans of the Japanese Food Agency and the expert opinion of Wheat Associates, USA, an organization of U.S. wheat growers which has been conducting market development programs in Japan for the past six years.

JAPAN'S SHARE IN TOTAL U.S. EXPORTS OF SELECTED AGRICULTURAL COMMODITIES — 1961

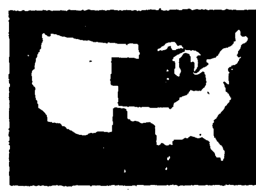
The increase will come from larger sales of U. S. hard red winter wheat (produced mainly in the Great Plains states), which will be used in Japan for bread and for livestock feed. In the past Japan had been purchasing mostly soft white winter wheat from the Pacific Northwest.

In 1961, American wheat farmers exported to Japan a total of 31 million bushels of wheat, valued at $51 million. The state of Washington supplied 15.9 million bushels, more than half the total. The remainder came from the following states (in millions of bushels): Oregon 4.8, Idaho 4.3, Kansas 2.0, Nebraska 2.0, Montana 1.0, and Colorado 1.0.

Anticipated increases in exports of the Great Plains varieties will boost annual U. S. wheat exports to Japan to the level of 42 million bushels in 1962. As Japan's standard of living has improved, the consumption of rice as a staple food has declined and the demand for wheat products such as bread and noodles has increased.

Japan also buys a steady volume of U. S. wheat flour (made wholly of U. S. wheat). During the period 1957-1961, U. S. flour mills shipped to Japan an annual average of $3.8 million worth of wheat flour.

FEED GRAINS



In recent years Japan's fast growing livestock industry has taken an increasing amount of U. S. feed grains.

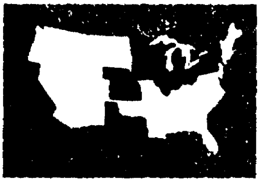
U. S. exports of **corn** (excluding canned or seed) doubled from 12.5 million bushels ($16.9 million) in 1957 to 25.6 million bushels ($33.1 million) in 1961.

Grain sorghums are the latest entry in U. S.-Japan farm trade. These exports rose from zero in 1957 to 6.1 million bushels ($6.8 million) in 1961.

Soybean oil cake and meal increased from about 1,000 short tons a year in 1957-60 to 65,000 short tons ($4.4 million) in 1961. Exports are expected to rise to 90,000 short tons in 1962.

Other feeds and fodder (including wheat feeds) amounted to 95,000 short tons ($5.3 million) in 1961.

The market for feed grains is especially promising in view of the Japanese Government's policy of encouraging the domestic livestock industry to provide the people with more meats, poultry and dairy foods. Under the Government's long-term plan, the relative weight of the livestock sector will increase from 14% of all agriculture to 30% by 1970. As a result, corn imports will increase fourfold in order to provide feeds for poultry, while soybean imports will roughly triple.



LIVESTOCK PRODUCTS

Japan is the most important market for U. S. **hides** and **skins**, taking 42% of U. S. cattle hide exports in 1961.

A record 7.6 million **cattle hides** were exported to all countries during 1961, an increase of 11% over 1960. Almost half of these, 3.2 million hides, worth $25.5 million, were shipped to Japan. This was 33% above the 1960 level and more than triple the 1959 level. Fast rising consumption of leather goods in Japan and liberalization of hide and skin imports by the Japanese Government were responsible for the sharp increase. As a result, the United States now supplies two-thirds of Japan's imports of hides and skins.

Japan also bought more U. S. **calfskins and kipskins** than any other country—600,000 skins or about a quarter of total U. S. foreign sales.

The year 1961 was also a record year for exports of **inedible tallow and grease**, which reached 1,814 million pounds. Japan continued to be the best single customer, taking 402 million pounds (valued at $23 million) or 22% of the total. Japanese imports of tallow and grease were liberalized in April 1960, and the U. S. share in the Japanese market rose from 82% in 1959 to 91% in 1961.

Japan is the best U. S. customer for **non-fat dry milk**. In 1961 the United States exported 55.5 million pounds to Japan—about 22% of total U. S. dry milk exports. A contract has been recently signed to export 100 million pounds in fiscal year 1962-63 for use in Japan's school lunch program.

Altogether, 1961 exports of these and similar animal products to Japan reached $65 million, up 18% from the previous year.

OTHER FARM PRODUCTS

The rising standard of consumption in Japan, coupled with a series of import liberalization measures, is responsible for increasing exports of raisins, tobacco and other farm products.

Exports of **raisins**, mostly from California, rose from 6.8 million pounds in 1960 to 27.6 million pounds ($4.0 million) in 1961, the first year imports were liberalized. These exports amounted to more than 23.1% of total U. S. exports of raisins, making Japan the best foreign customer for American raisins.

Tobacco exports to Japan have also seen a marked rise. In 1957 only 3.6 million pounds ($3.3 million) of the flue-cured unstemmed tobacco were sold to Japan. Climbing steadily over the years, this trade increased sevenfold by 1961, when shipments reached 24.4 million pounds ($23.3 million). This made Japan the third largest foreign purchaser of U. S. leaf tobacco.

Exports of other U. S. farm products to Japan increased from $27 million in 1957 to $33 million in 1961, a rise of 23%. Included among them were such items as oilseeds (other than soybeans), fruits (other than raisins) and field and farm seeds.

GROWTH POTENTIAL

The future outlook for U. S. farm exports to Japan is extremely favorable. This is due to a combination of circumstances—the rapid growth of Japan's economy, the country's rising standard of living, propitious changes in Japanese consumer tastes, and finally the definite limitations on the expansion of Japan's own agricultural production.

Japan's economic growth is the fastest in the world. In 1960 the gross national product increased by 13.4 percent in constant prices, and in 1961 the GNP rose by another 15.2 percent. The official economic plan of the Japanese Government projects a doubling of the GNP by

1970. This economic projection is realistically based on a growth rate of 7.2 percent a year—a high rate compared with other countries, but substantially lower than recent growth rates in Japan.

Economic growth has been and will continue to be accompanied by a rising standard of living. Per capita personal consumption is expected to more than double by 1970. Food expenditures in workers' families will increase by 84 percent; in middle-class families, by 58 percent; and in farming families, by 49 percent. Simultaneously, striking changes are expected in the rural-urban population ratio: by 1970 the farm population will have declined by as much as 25 percent.

Most dramatic will be the shift in the composition of the Japanese diet. By 1970 total caloric intake per capita per day will increase by 15 percent over current levels. However, the consumption of staple foods such as rice will decline by 12 percent, while the intake of non-staple foods such as meats and poultry will increase by 62 percent in terms of calories. The consumption of animal protein will double, as will the intake of fats. This indicates a growing diversity in Japanese tastes and diet and an increased demand for imports of feed grains, soybeans, fruits and processed foods.

Japan's agricultural production has about reached its limit. Only 14 percent of Japan's land area is arable and cultivated. Farming is already intensive, with maximum use of improved seeds, fertilizers and insecticides. It is doubtful that the advanced scientific farming methods employed in Japan can be further improved to significantly raise the yield per acre, already one of the highest in the world. Land reclamation is severely limited, and it is expected that reclaimed land will only partly offset the rapid conversion of farm land to industrial and urban uses.

All of this clearly adds up to increased imports of foodstuffs and agricultural raw materials. By 1970 imports of foodstuffs are expected to increase 61 percent over current levels. Imported textile raw materials (mainly cotton and wool) will be 45 percent over current import levels. Other agricultural and forestry raw materials are likely to rise 71 percent over the current level of imports.

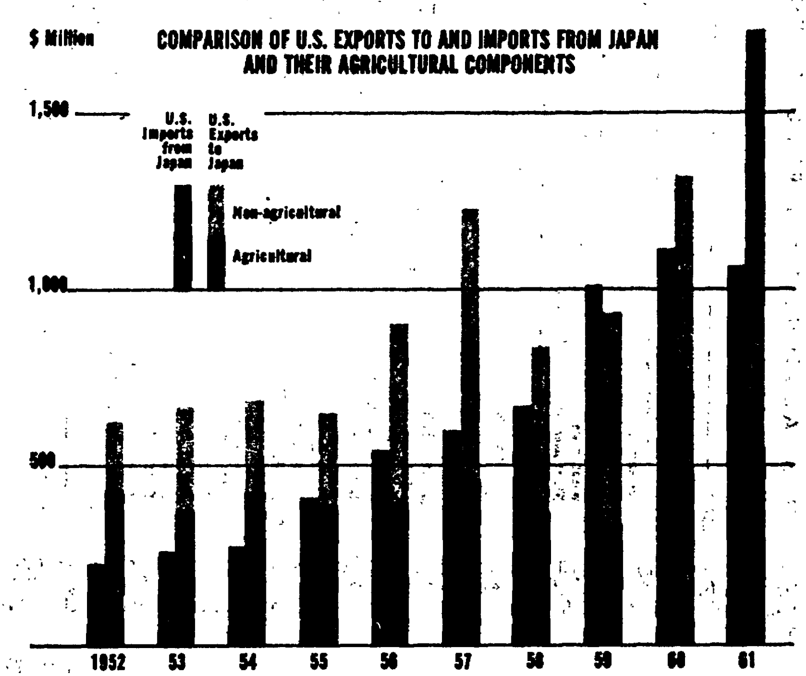
It is anticipated that the United States will maintain its position as the largest supplier of Japanese agricultural imports and that it will therefore supply a major share of Japan's increased consumption. But, clearly, this is dependent on American willingness to accept imports from Japan.

The United States is Japan's principal export market: Americans absorb about $1.1 billion or 27 percent of Japan's annual exports. Attainment of the objectives of Japan's plans for economic growth requires an increase of 10 percent per year in Japan's sales to the United States over the next several years. Professor Warren S. Hunsberger of Johns Hopkins University's School for Advanced International Studies, in a report prepared for the Joint Economic Committee of the U. S. Congress in November 1961, states:

"While the gross national product of the United States is rising from $500 billion to $700 to $800 billion, at 1960 prices, during the 1960's, it should be well within our capacity to absorb an additional $1.5 to $2 billion of imports from Japan."

The pattern of U. S.-Japan trade has been very favorable to the United States. In the last ten years U. S. exports to Japan exceeded U. S. imports by a total of more than $3.3 billion. The chart below shows that farm products comprise a very large share of total U. S. exports to Japan, while they are negligible in Japanese exports to the United States. Moreover, the bulk of the Japanese agricultural commodities imported are non-competitive items like raw silk.

If the United States resists protectionist pressures and maintains its traditionally non-discriminatory and liberal trade policies, there is every prospect that Japan will continue to be the best customer for the products of American farms.



U. S. AGRICULTURAL EXPORTS TO JAPAN, CALENDAR YEARS 1957-1961[1]

	BY VALUE (in thousands of dollars)						BY QUANTITY (in units indicated)				
	1957	1958	1959	1960	1961	Units	1957	1958	1959	1960	1961
COTTON											
Cotton ex. linters	215,813	117,370	91,321	215,147	219,108	1,000 running bales	1,501	883	829	1,749	1,688
Cotton linters	1,521	718	1,308	1,892	2,476	1,000 running bales	60	27	56	79	85
SOYBEANS AND OTHER OILSEEDS											
Soybeans	60,592	68,836	86,935	93,166	99,996	1,000 bushels	24,018	28,841	37,506	40,511	38,818
Other oilseeds ex. essential oil seeds	2,401	3,045	8,518	11,637	7,771	1,000 pounds	49,652	63,881	170,558	242,078	150,125
WHEAT											
Wheat, grain	80,485	67,642	56,100	54,304	51,343	1,000 bushels	46,188	38,072	32,658	33,655	30,932
Wheat flour, wholly of U.S. wheat	4,119	3,250	4,123	4,126	3,231	1,000 CWT	1,155	869	1,136	1,173	964
FEED GRAINS											
Corn, grain	16,931	18,264	15,417	9,672	33,138	1,000 bushels	12,501	14,137	11,392	7,059	25,570
Grain sorghums	(x)	0	671	2,443	6,816	1,000 bushels	(x)	0	647	2,265	6,057
Rye	0	0	23	127	2,950	1,000 bushels	0	0	3	102	2,444
Soybean oil cake and meal	85	82	38	51	4,439	1,000 short tons	1	1	1	1	65
Other foods and fodders	2,322	3,280	2,497	4,174	5,326	1,000 short tons	48	81	53	82	95
LIVESTOCK PRODUCTS											
Cattle hides	10,784	10,465	11,944	20,326	25,538	1,000 pieces	1,398	1,438	1,083	2,392	3,174
Calf and kip skins	4,674	2,468	2,025	2,681	3,374	1,000 pieces	817	590	274	442	601
Other hides and skins	194	531	615	523	778		n.a.	n.a.	n.a.	n.a.	n.a.
Inedible tallow	19,416	18,799	19,966	21,643	23,796	1,000 pounds	220,816	215,108	253,602	319,992	341,165
Other animal oils and fats	347	245	1,034	4,547	5,626	1,000 pounds	2,915	2,417	12,100	60,048	62,691
Nonfat dry milk	6,138	2,951	2,211	3,624	4,183	1,000 pounds	61,440	30,281	40,225	58,859	55,519
Anhydrous milk fat	n.a.	1,779	795	1,396	1,348	1,000 pounds	n.a.	2,143	948	1,700	1,605
OTHER FARM PRODUCTS											
Tobacco, flue-cured, unstemmed	3,328	10,407	11,156	17,305	23,278	1,000 pounds	3,577	11,149	11,553	18,173	24,401
Raisins and currants	225	41	26	881	4,021	1,000 pounds	1,349	221	135	6,791	27,067
Other fruits and preparations	1,153	907	830	1,350	1,845		n.a.	n.a.	n.a.	n.a.	n.a.
Coffee, instant	42	117	110	173	7,331	1,000 pounds	11	39	37	66	3,285
Tung oil, crude	0	0	1,181	1,334	1,400	1,000 pounds	0	0	7,486	9,049	6,300
Essential oils	313	433	534	752	1,287	1,000 pounds	228	226	294	494	726
Seeds, field, farm, etc.	608	478	968	1,029	1,584	1,000 pounds	2,057	2,077	3,269	3,805	5,964
Wool-like specialty hair	518	297	958	772	2,328	1,000 pounds	402	263	811	622	2,088
Other agricultural products	22,127	28,711	12,771	10,288	9,817		n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	454,138	361,118	334,075	485,383	554,128(p)						

Source: U.S. Bureau of the Census, 'United States Export Statistics,' Reports FT-410; and USDA, Economic Research Service, 'Foreign Agricultural Trade of the United States.'

1 Agricultural products, for the purpose of this tabulation, include all commodities defined by the U.S. Bureau of the Census "Code Classification of Economic Classes" as 'agricultural.' Specifically: Class 0—agricultural crude materials; Class 2—agricultural crude foodstuffs; Class 4—agricultural manufactured foodstuffs and beverages; Class 6—agricultural semimanufactures; and Class 8—agricultural finished manufactures.

(X) = Less than half the specified unit.

n.a. = Not available.

(p) = Preliminary.

Unless otherwise indicated, all statistical data on U.S. exports and imports used in this publication are taken from U.S. Bureau of the Census foreign trade statistics and from the foreign agricultural trade statistics of the U.S. Department of Agriculture. (Exports exclude re-exports of foreign merchandise.)

June 1962

The CHAIRMAN. Thank you.

The committee will recess until 10 o'clock tomorrow morning.

(By direction of the chairman, the following is made a part of the record:)

LAW OFFICES, HAROLD A. SLANE,
Los Angeles, Calif., July 5, 1962.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR BYRD: Reference is made to your letter of June 2, 1962, which related to H.R. 9900, now H.R. 11970.

I understand that you plan to hold hearings on this bill starting July 18. I should appreciate your advising me as to the correctness of this date.

The new bill, in general, I think is very good, but still needs some amendments in order to make it acceptable to the American businessman. I am enclosing a copy of an analysis that we have made. I know that you are sincerely interested in seeing this bill improved and that it will be carefully studied by you and your committee.

With kindest personal regards.

Sincerely,

HAROLD A. SLANE.

Enclosure.

THE TRADE BILL OF 1962—A REAPPRAISAL BY HAROLD A. SLANE

I. IN GENERAL

The basic purposes of the Trade Expansion Act of 1962 are to permit the gradual elimination of tariffs here in the United States and in the Common Market on those items in which we together supply 80 percent of the world's trade, to provide bargaining by major categories and to provide adjustment assistance to firms and employees adjusting to import competition.

While I have always approved the broad objective of expanding our export trade I was unequivocably opposed to the original tariff bill as presented by the Kennedy administration for the reason that it provided for a substantially complete surrender by Congress to the President of all congressional authority over trade without a guaranteed opportunity for those adversely affected to be heard. However the June version of the bill as modified by the House Ways and Means Committee is, with certain exceptions and reservations I shall presently make, a more acceptable bill in that it provides for many new procedures and safeguards not presented in the original bill.

The sole issue in this area now, as it has been in the past, is not whether Congress should delegate authority to the President but what guidelines Congress should set for the Executive and what machinery should be created to enable the effective administration of the bill, together with concomitant safeguards for local industry and workers.

II. PRINCIPAL FEATURES OF THE MODIFIED BILL

In relation to countries generally, the President is authorized to reduce tariffs by 50 percent of the July 1, 1962, level and to increase duties to 50 percent over the July 1, 1934, level. Regarding low-rate articles, he may reduce duties by more than 50 percent where the rate was 5 percent ad valorem or less on July 1, 1962.

Most importantly, with regard to the European economic community (Common Market) he is authorized to reduce by more than 50 percent (e.g., to zero) duties on articles within categories that he has determined that the United States and the Common Market together account for 80 percent of the free world trade in such categories of articles. Regarding such categories the President is to select an international statistical classification system which the Tariff Commission will translate into U.S. tariff terms.

The President's authority, however, is no longer unrestricted. He is required in certain instances to reserve from negotiations any article which the Tariff Commission finds that imports of such articles are seriously injuring or threatening serious injury to the domestic industry concerned. These articles would be reserved from negotiation for a 4-year period beginning from the enactment of this bill, where within such 4 years such articles are included on a proposed negotiating list and the Tariff Commission finds and advises him upon application of the interested industry, that the economic conditions in that industry have not substantially improved since the date of the last Tariff Commission escape-clause investigation.

The bill requires in general that tariff reductions would be made in no less than five annual stages.

III. ADDITIONAL SAFEGUARDS

The President is required to furnish the Tariff Commission with a list of articles which he contemplates negotiating upon and the Commission is required within 6 months thereafter to advise the President as to the economic effect of such proposed trade agreement. Hearings must be held by the Tariff Commission and all interested parties must be given an opportunity to be heard and to present evidence.

In addition, the President is to designate an interagency committee which will afford interested parties an opportunity to present their views regarding negotiations. He is also required to appoint, with the advice and consent of the Senate, a special representative for trade negotiations who would be the chief negotiator for the United States. He would have the rank of ambassador extraordinary and plenipotentiary.

The President is required to establish a Cabinet level interagency trade organization which would advise the President on trade agreement matters including tariff adjustment for seriously injured industries and farm import restrictions.

Two Members of the House of Representatives, one from each party, and two Members of the Senate, one from each party, are to observe trade negotiations.

The President is required to transmit to each House of Congress a copy of each trade agreement entered into, together with a statement of his reasons for entering into such agreement.

Both the President and the Tariff Commission are also required to submit annual reports to the Congress on programs under this bill.

The President is required to take all feasible steps to eliminate unjustifiable foreign import restrictions which oppose the commerce of the United States or prevent the expansion of trade and he is further required to prevent benefits of this act to countries which discriminate against or restrict U.S. commerce, including cartels.

The foregoing safeguards come into play prior to any trade agreement.

The following safeguards arise after a trade agreement is reached:

Any firm, industry, or group of workers seeking tariff adjustment or other adjustment assistance may petition the Tariff Commission, which is required to make a prompt investigation to determine whether the trade agreement has caused foreign articles to be imported in such increased quantities as to cause or threaten serious injury to the industry concerned. The Commission within 120 days is to take into account all economic factors including idling of productive facilities, inability to operate at a profit, and unemployment or overemployment and report the results of the investigation to the President, together with its recommendation as to the amount of tariff adjustment required to remedy such injury. Neither tariff adjustment nor assistance is to be granted unless the conditions in the industry have been caused by trade agreements.

When the Tariff Commission finds a tariff agreement injurious to an industry, the President may adjust the tariff to a level not to exceed 50 percent above the 1934 rate of duty and he may also impose additional import restrictions such as quotas. He may also permit workers and firms in such industry to be certified to be eligible for adjustment assistance.

If the President takes tariff action, he may terminate or extend it after he receives advice from the Tariff Commission.

If the President does not take the action recommended by the Tariff Commission he is required to take such action upon the adoption by the Congress by a majority vote of both Houses of resolutions approving the Commission's recommendations.

Tariff reductions are to be put into effect gradually (staged) so as to give firms and workers an opportunity to adjust to their effects. Reductions must be spread over five or more annual installments.

Since tariff adjustment alone may be inappropriate to protect U.S. firms, three types of adjustment assistance are made available:

1. Financial assistance may be furnished for plant and equipment, including modernization and conversion and in exceptional circumstances for working capital. Such assistance takes the form of loans or private loans guaranteed. This type of assistance is not to be provided unless the Secretary of Commerce determines that there is a reasonable assurance of repayment.

2. Technical assistance includes managerial advice, market analysis, research and development of techniques and products, and any other technical service that would help promote adjustment to import competition. Government agencies are to furnish this assistance, except that certain types of technical assistance such as management studies might better be handled outside of the Government.

3. Tax assistance will permit a firm, adversely affected by the trade agreement, to carry back the loss for tax purposes 5 years (2 years beyond the 3 years normally allowed).

Assistance to workers adversely affected includes (1) compensation, (2) retraining, and (3) relocation allowances in assisting families to move to a better employment area.

The "finality" clause of the original administration bill which made presidential determinations regarding certain portions of this act final and conclusive and not subject to review by any court has been deleted from the present bill. This is salutary.

IV. COMMENTS

As previously indicated, I do not oppose nor have I ever opposed the extension of the principle which permits reciprocal trade agreements with other countries, provided that those agreements are truly reciprocal. My criticism of the bill in its original form has been ameliorated to some extent by the additions of the safeguards and legal machinery included in the new bill as described above. To the extent that such safeguards have been included in the present version of the bill and to that extent only, the present bill is reasonably tenable. However, it is my position that certain additional yardsticks and administrative machinery should be added to the bill in order to protect our free-enterprise system, which must operate under the antitrust laws and the Robinson-Patman Act, against unfair competition from abroad, which competition more often than not operates under the havens of cartel systems and nationalized industries. Business firms here cannot engage in double-pricing practices nor can they allocate markets.

As an example of unfair competition, in West Germany, firms are given tax rebates on products exported, while in the United States producers are given no such rebate.

A further defect in the present bill is that it does not take into account the fact that our payments for U.N., NATO, and SEATO expenses are far out of proportion to those contributed by those members of the Common Market; also the cost of maintaining our Armed Forces abroad and the cost of the equipment necessary to protect the free world. This advantage that foreign countries now enjoy must be taken into account by the present legislation.

American firms are thus at a great disadvantage in the heavy tax burdens they must assume, and as a result many foreign producers have up-to-date machinery which places American producers at a distinct disadvantage. This disadvantage is compounded when continuous increases in minimum wage levels in this country are taken into account.

When these flaws and omissions have been eliminated the bill would seem satisfactory to me. It is to be noted again that considerable progress has been made in strengthening the original bill by reinstating the role of the Tariff Commission in determining the economic effects of possible tariff reductions, by requiring the President to take the advice of the Tariff Commission when Congress approves such advice, by restricting the extension of benefits indiscriminately to other nations regardless of whether such nations adopt restrictive measures against this country, by placing responsibility for negotiations on a special representative for trade negotiations, by the 5-year staging requirement, and by the creation of an interagency trade committee to provide a forum for public hearings on unfair trade practices. These changes constitute a definite improvement over the original bill as introduced by the administration. But there remains work to be done.

NATIONAL SPORTS CO.
Fond Du Lac, Wis., April 12, 1962.

Senator ALEXANDER WILEY,
Senate Office Building,
Washington, D.C.

DEAR SENATOR WILEY: We should like to add our voice to the protest directed at those conditions that have encouraged the tremendous growth of imports of sporting goods equipment, to the detriment of American manufacturers and their employees.

To this day, some golf balls are still coming in from several of the same factories abroad that supplied earlier generations of American golfers. It is not these sources, however, that would cause any fair-minded American to complain, as their products are of a high order and sometimes cost as much or more than most American-made equipment.

Our concern is with the huge amounts of athletic goods of all kinds being imported from countries that can produce and sell at but a fraction of what it costs our own manufacturers to make similar goods. We know that many of our American manufacturers have been hard hit by this competition. Attached is a partial list of the items affected.

We cannot afford to utterly sacrifice to foreign interest and foreign labor any segment of American industry. To prevent this, quotas should be set on sporting goods imports and the duty greatly increased. We urge you to work for such a program.

Very truly yours,

W. E. BENSON, *Sales Manager.*

Imports—Comparative report of some sporting goods items

	1958	1959	1960	Only first 10 months of 1961 to Oct. 31
Golf balls:				
Quantity	1,532,142	2,704,842	3,504,115	3,584,732
Value	$365,020	$635,390	$726,023	$676,852
Tennis balls:				
Quantity	1,850,070	3,196,109	4,092,709	3,719,797
Value	$510,337	$767,784	$822,816	$651,717
Baseballs:				
Quantity	958,635	973,144	913,010	2,067,128
Value	$71,521	$173,457	$175,691	$309,348
Tennis rackets:				
Quantity	486,973	722,409	884,744	649,186
Value	$421,983	$705,434	$804,617	$655,785
Badminton rackets:				
Quantity	5,239,126	7,979,878	7,969,791	6,386,659
Value	$1,840,882	$2,238,169	$2,049,091	$1,518,007
Baseball and softball gloves and mitts:				
Quantity	553,527	1,269,429	2,411,806	2,286,370
Value	$860,103	$2,484,110	$4,364,740	$3,852,865

(Whereupon, at 12:40 p.m., the committee stood in recess, to reconvene at 10 a.m., Wednesday, August 1, 1962.)

TRADE EXPANSION ACT OF 1962

WEDNESDAY, AUGUST 1, 1962

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

The committee met, pursuant to recess, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Douglas, Williams, and Carlson.

Also present: Elizabeth B. Springer, chief clerk, and Serge N. Benson, professional staff member.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Joseph E. Moody, National Coal Policy Conference, Inc.

Mr. Moody, you take a seat, sir.

STATEMENT OF JOSEPH E. MOODY, PRESIDENT, NATIONAL COAL POLICY CONFERENCE, INC.

Mr. MOODY. My name is Joseph Moody. I am president of the National Coal Policy Conference, Inc., which embraces within its membership all of the elements of the Nation's coal complex—the coal-producing companies, the coal-hauling railroads, the United Mine Workers of America, coal-consuming electric utilities and manufacturers of coal-mining machines and equipment.

Millions of Americans are dependent upon this industrial complex for their livelihoods, and the groups within our organization represent some $32 billion in capital assets.

I am appearing here today upon the unanimous instructions of my board of directors to plead with this distinguished committee for legislative relief from the onerous burdens imposed upon coal and related industries by the excessive importation of residual fuel oil—the waste product of foreign refining operations.

We are in an intolerable situation. Imports of residual fuel oil are increasing substantially each year in spite of the mandatory import control program established in 1959 by the President of the United States pursuant to the national security clause of the trade Agreements Extension Act of 1954.

In the current quota year 185 million barrels of residual fuel oil, roughly the equivalent of 44.4 million tons of coal, will be imported. This is an increase of 40 percent in the last 3 years, and is 58 million barrels above the maximum safe level for imports of residual fuel oil proclaimed by the President in establishing the import control program in 1959.

Have you thought what the loss of a coal market of 44 millions tons means in terms of human suffering, in terms of the economy of hundreds of communities? The mining of 44 million tons of coal would provide 3,060,000 man-days of work in our Nation's coal mines.

This is the equivalent of full-time jobs for more than 16,000 miners receiving $91 million in annual wages. Hauling the railroads' normal share of this 44 million tons, or 75 percent, would provide additional work equal to 9,000 full-time jobs on the railroads, with wages totaling $58 million.

Coal-producing companies would receive $210 million in revenue for the sale of this lost amount of coal, and railroads would be paid more than $112 million in freight revenue.

What all this would mean to the depressed areas of our Nation where coal miners are idle and whole communities are suffering is obvious.

The effectiveness of the control program has been vitiated by constant increases in the import quotas. The national security has suffered as a consequence. The coal industrial complex and the domestic oil industry have been pushed to the brink of economic disaster.

Many thousands of families and hundreds of communities have been rendered destitute.

Some individuals and groups which have been pressuring the White House for an abandonment of controls on residual oil maintain that coal priced itself out of its markets and that this accounts for our current difficulties—not residual oil imports. This is simply not true.

Coal has done a better job of reducing its price in the face of the inflationary pressures of the last decade than any other domestic industry. In the past 10 years the coal industry has lowered the average price at the mine from $4.92 to $4.65 per ton.

This tremendous accomplishment was made possible by unprecedented cooperation between management and labor—by the refusal of the United Mine Workers to insist upon featherbedding devices to maintain jobs, by the installation of new machines and equipment which have made it possible to more than double the productivity per man-shift of all mines since 1950—from less than 7 tons to more than 14 tons.

As a result the coal industry is probably the only industry in the United States which can produce and ship its product to any major port anywhere in the world and undersell locally produced coal.

Nevertheless, the coal industry is facing a problem which it alone cannot solve, despite its unmatched achievements in the field of productivity and efficiency. The most recent increase in residual import quotas, a 10-percent increase effective on April 1 of this year, brought about a sharp break in the price of residual fuel oil, primarily because there was no market for that much oil at any reasonable price level.

This quota increase was put into effect at a time when domestic consumption of residual fuel oil was declining, and when the price for residual fuel oil was declining.

The increase in quotas had no reasonable economic justification. The net result has been a flood of imported residual oil creating a chaotic condition in the fuels market on the eastern seaboard.

Today posted prices for imported residual are at virtually the lowest level in over 5 years, and actual sales are being made at substantially lower discount prices. We understand that one east coast utility which in the past has been a major consumer of coal now has a 5-year contract with a residual oil importer with the price guaranteed to be at a level below any price at which coal is offered.

The coal industry cannot compete against such predatory pricing policies. The most recent price break alone is the equivalent of $1.20 per ton of coal, or more than 26 percent of the average price of coal at the mine.

Our industry cannot improve efficiency and productivity fast enough, or lower transportation costs sufficiently through new concepts of moving coal to market to meet such competition.

The outlook under these conditions is clearly for continued and accelerated attrition of coal markets.

From a national security point of view we gain insight as to the danger of this attrition when we compare the production of coal in the United States with the production of coal in the Soviet Union.

Only a few years ago the United States produced more than double the coal output of the Soviet Union. However, in 1961 the Soviet Union produced 531 million tons of coal, which was 33 percent more than the 400 million tons of coal produced in the United States that year.

It simply is incredible to me that this country would allow itself to be outstripped by such a substantial margin in the production of the world's most basic energy resource.

This is contrary to national security, this militates against our competitive position in the world, it reflects on our industrial leadership, and, at home, it is just plain bad economics.

We have been presenting to the appropriate officials in the Department of the Interior and on the White House staff the date and documentation which conclusively shows that the current import quotas for residual fuel oil are far above their proper levels.

We have had conferences at every conceivable echelon except with the President himself. I believe that we have convinced many of the officials that we are correct. We have received words of sympathy. We have been assured that coal remains a vital fuel, essential to national security and economic expansion.

Nevertheless, no action has been taken and there is no indication at this point whether or when corrective action will be taken.

If reasonable administrative action had been taken, perhaps we could have come here today and supported this bill in its present form. We would like to see the barriers in Europe and elsewhere broken down so that our American coal can be sold abroad, but it is nonsense to talk about the European market or any other market which this legslation might allegedly help open to us, when our policy has gone so far as to preclude the coal industry from long maintaining its competitive position in those markets.

If there are no funds to invest in more efficient mining equipment, if there are no funds to invest in more efficient transportation of coal, if the hardy breed of skilled men who make up our mineworkers are to be treated only as welfare cases or potential job retrainees, how can this industry be expected to compete?

Under these circumstances we have no choice but to say to this committee that we believe it is your responsibilty to provide in this trade bill for a sound and fair program relating to the control of oil importations, covering both residual and crude oil and its derivatives.

We urge you to replace the uncertainty of the present program with a program that would continue for the 5-year period contemplated by this proposed legislation, under which import levels would be stabilized at a reasonable level, and not subject to constant change by administrative action, however sincerely motivated that action might be, except to meet temporary emergency requirements.

The coal industry urgently needs the long-term assurance of stability which such an amendment would provide. As it is now, the industry has no assurances whatever that additional significant segments of its east coast market will not be wiped out through administrative action or inaction next week, next month, or next year.

To abandon our basic fuels industries, coal and oil, to the vicissitudes of delay and indecision at a time when the record overwhelmingly demonstrates the chaos which the grossly excessive import quotas have caused would not be commensurate with this committee's long record of meeting its oblgations.

Moreover, it would strike a blow against the very objectives which the legislation before this committee proclaims.

The first stated objective of the proposed Trade Expansion Act is to "stimulate the economic growth of the United States * * *."

You cannot stimulate our economic growth by destroying our basic fuels industries. Another section of the proposed legislation is captioned "Safeguarding National Security." You cannot safeguard national security by abandoning our energy resources to chaos.

We all want to see the economy grow; we all want to see the country move forward; we all want to see world trade stimulated; we all want to see our country strong and secure. This can only be accomplished by building both the economy and our national security on a sound base—and without the base of healthy domestic fuels industries, we will not be doing much building.

The winds will be too rough for sailing, there will be no fuel to power the ship, and we will lie at anchor in dangerous waters.

I thank you, gentlemen.

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

You mention the importation of coal of 44 million tons. What is exported?

Mr. MOODY. No, that is an equivalent of 44 million tons, Senator Byrd. That is the oil equivalent.

The CHAIRMAN. I see.

The oil equivalent.

Mr. MOODY. The export of coal this year will run about 25 million tons.

The CHAIRMAN. 25-million?

Mr. MOODY. Yes, sir.

The CHAIRMAN. A good deal of that goes to Germany, does it not?

Mr. MOODY. About 5 million tons of it.

The CHAIRMAN. Where does the rest of it go?

Mr. MOODY. The rest goes to Italy and there is a small smattering that goes to France, Sweden, and Norway. The biggest importer will be Japan this year.

The CHAIRMAN. When I was over in Germany I saw great piles of coal. I suppose the main reason for exporting of coal to Germany is due to the superior quality of the American coal; is that right?

Mr. MOODY. The American coal shipped to Germany is in great measure metallurgical or steelmaking coal and those stockpiles that you saw in Germany have since that time been used up through their efforts to protect their own industry and each year have been diminished.

The CHAIRMAN. They still will buy our coal to some extent, won't they?

Mr. MOODY. Well, the arrangement that Germany has is that they allow a quota of 5 million tons, approximately 85 percent of which is American coal. Beyond that, we have to pay a tariff of $4.76 a ton to make American coal then commensurate with German coal so that there's very little, if any, that can be imported into Germany above the actual allowable quota.

The CHAIRMAN. I think some of those exports come from Virginia, don't they?

Mr. MOODY. Yes, they do; they are buying coal now in Eastern Europe, Czechoslovakia, and France, and the present situation with the Common Market and EEC is pretty much confused. It is pretty hard to follow from one month to another as to what they really are going to do, but there is really only one country today that has a free market so far as American coal is concerned, and that is Italy.

But there we have a peculiar situation now of Germans buying up American contract in Italy so they will have the control of imports into Italy.

It is something that will be worked out, I am sure, but it is very difficult at the present time.

The CHAIRMAN. Is there any prospect of increasing the total exportation from this country?

Mr. MOODY. Sir, we have tried very hard in our conferences with the State Department to get the State Department to become advocates of American industry and we think this is one place where they could certainly do it in that we are able to produce this coal and ship it competitively throughout the world.

It is probably the only basic commodity the United States has in that position. So far we have had some cooperation but we have been unable to make any real dent in getting rid of licenses, of Government corporations, of tariffs, and every device you can think of, to hold us in check.

The CHAIRMAN. You think this present legislation will increase or decrease the exporting of coal?

Mr. MOODY. Well, Senator Byrd, I would like to be enthusiastically optimistic. However, over the years, and in the trading conferences of GATT and other places where the coal industry has been represented, our success hasn't been outstanding.

The CHAIRMAN. I gather from your statement that the chief relief would come from reducing the residual oil importations.

Mr. MOODY. Senator, we have asked and as I have indicated there, we talked to everybody that would stand still and listen to us, and we have been given considerable encouragement only to have it dashed with the passage of time.

Our basic idea is that we should have an opportunity of financing and renewing and so forth but it takes a long period of time and we should have a minimum of 5 years. We think they ought to establish the rate at a 1960, something like that, whatever it was, and say this is the base, and we have a time suggested, a growth factor of 2 or 3 percent variation in it, but so far there has been no action taken.

Essentially we are open to considering anything that would give us a stable relationship and not have our feet cut from under us like it was in April of this year when we had about a 9-percent decrease in demands and a 10-percent increase in supply and it was just a case of finding markets for it and it was murder.

The CHAIRMAN. Virginia, of course, as you know, is a large producer of coal.

Mr. MOODY. Yes, it is, sir.

The CHAIRMAN. And I am familiar with the conditions that exist in the coal areas of Virginia and I think what you have said is not in any way an exaggeration. It has been a great and very serious situation that has been brought about in the last 6 or 7 years, wouldn't you say?

Mr. MOODY. Yes, 1957. Yes, Virginia will have—they will produce about 30 million tons of coal, excellent coal, and you have the Norfolk area that ships the coal and it is a big business there, as you know.

The CHAIRMAN. Are we the third soft coal bituminous coal State?

Mr. MOODY. Yes, sir.

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

Senator CARLSON. One question, Mr. Chairman.

Mr. Moody, are there not—there are administrative programs that could be placed into effect under existing law that would at least hold back some of these oil imports?

Mr. MOODY. Yes, sir; Senator Carlson, there are. It could be done in 24 hours. But the months have gone by, and we are still in the same boat, and I really don't know the answer to it.

Senator CARLSON. I can assure you that those of us from the midcontinent oilfields are also greatly concerned about these imports and are familiar with the problem and we not only sympathize with you, we appreciate your support.

Mr. MOODY. Yes.

Well, I was hopeful we would be on the same day as the independent producers and domestic producers. We worked closely with them and know them well, and their problem, if anything, is more severe than ours.

Senator CARLSON. I can assure you there are some real problems in regard to a reduction in exploration and drilling, reduced employment, and it has a great effect on the economic situation of the oil producing areas.

Mr. MOODY. Yes.

If the coast rate is broken for any reason, it will be devastating to the domestic oil industry.

Senator CARLSON. Thank you.

Mr. MOODY. We are working with them closely and sincerely hope that any action that is taken will combine the two situations.

Senator CARLSON. Thank you very much.

That is all.

The CHAIRMAN. Thank you very much, Mr. Moody, you have made an excellent statement.

Mr. MOODY. Thank you, sir.

The CHAIRMAN. Our next witness is Mr. A. B. Sparboe for the Chamber of Commerce of the United States.

Please proceed, Mr. Sparboe.

STATEMENT OF A. B. SPARBOE, FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SPARBOE. I am A. B. Sparboe, vice president, Pillsbury Co., Minneapolis, Minn.

I am a member of the board of directors of the Chamber of Commerce of the United States and a member of the chamber's foreign commerce committee.

The national chamber regards H.R. 11970 as a much better measure than H.R. 9900, on which we testified March 26 before the House Ways and Means Committee. This is because the bill retains many of the principles we endorsed at that time and also incorporates many improvements we recommended.

The national chamber favors the principles of this legislation with the exception of certain provisions as hereafter discussed.

The primary issue in this legislation now, as it has been in the past, is not whether Congress should delegate authority to the President but rather the establishment of appropriate guidelines within which the President may exercise this delegated authority.

The President must be given the tools, within the intent of Congress, with which to bargain effectively for less trade discrimination with the European Economic Community and other countries; to meet the intensified Communist trade offensive, and to work in concert with other free nations in finding markets for the products of developing nations.

The chamber believes the guidelines, safeguards, and procedures set forth in H.R. 11970 are apropriate and adequate, with the exceptions and qualifications noted in this statement.

For over 28 years, the national chamber has favored a reciprocal trade agreements program because a sound and expanding international commerce is essential to the continued growth of the economy of the United States and to the achievement of greater prosperity and national strength.

Mutually beneficial trade raises standards of living by providing more goods at less real cost. The United States has a vital stake in promoting measures to achieve a relaxation of discriminatory and restrictive trade quotas, preferential or discriminatory treatment, subsidies, and other devices.

The trade agreements program should not be viewed as a one-way proposition—a tariff cutting program whereby we give away our substance and gain nothing. The expanding European Economic Community (EEC), with growing incomes and latent demand for many consumer items, offers market potentials for U.S. goods which are almost unlimited. We must be prepared to bargain for freer access to this great market, and we must permit EEC nations, as well as other important markets, to pay for our exports with their goods.

Forces of change throughout the world are powerful. Failure to develop foreign trade policy in line with changing conditions could only mean retardation, or worse, a backward step which could cost the United States its role of leadership in the world today.

While U.S. industry faces the discipline of foreign competition as never before—the benefits which will accrue to the United States are many. International trade plays an essential part in the economic life of the United States. We sell more goods on the world market than any other nation, and we prosper because of it. We stand to lose this trading position unless we are prepared to negotiate with other countries for the mutually beneficial lowering of barriers against U.S. goods in expanding markets throughout the free world.

An estimated 3,100,000 employees are actually giving their full time to the production of exports in the United States at the present time, according to a study made by the Bureau of Labor Statistics called, "Domestic Emplyoment Attributable to U.S. Exports 1960."

For these and other reasons, it is necessary to lower trade barriers. This is the first principle of trade expansion, but it should be done gradually in order to allow ample time for the adjustments that may be required.

BARGAINING AUTHORITY

To achieve these objectives, the chamber supports congressional delegations of authority to the President as proposed in this bill, as follows:

(1) To reduce, in gradual stages, by as much as 50 percent present duties on certain items by categories or products;

(2) To eliminate gradually tariffs on certain items in which the United States and the European Economic Community supply 80 percent of the world's trade, with the exception of specific agricultural products referred to in Agricultural Handbook No. 143, issued by the Department of Commerce;

(3) To reduce rates of duty below 50 percent on certain agricultural products as defined in Agricultural Handbook No. 143, when such reduction will tend to assure maintenance or expansion of U.S. exports of like articles;

(4) To reduce by more than 50 percent duties on specified tropical agricultural or forestry commodities when like commodities are not produced in significant quantities in the United States and when the EEC has made commitment with respect to its duties or other import restrictions tending to assure access to its markets comparable to that which such commodity would have to U.S. markets; and

(5) To reduce, by more than 50 percent, rates of duty existing on July 1, 1962, which were not more than 5 percent ad valorem or its equivalent.

All of the above authority is circumscribed and conditioned by stipulated safeguards.

The foregoing negotiating authorities are justified and, indeed, are appropriate to meet the needs of the times, and should be approved for a period of 5 years—until June 30, 1967. Considering the lengthy process of preparation and negotiation of major tariff agreements, any shorter period of extension could lead to inefficient and ineffective conduct of the program.

A shorter period of authority would hamper the important prenegotiation process, calling for ample public notice of intention to negotiate, hearings by the Tariff Commission and the Interagency Trade Organization, and other investigations to offset or minimize adjustment difficulties on the part of domestic industries. A shorter period also would seriously impede the staging requirements set out in the bill for the gradual reduction of tariffs when concessions are made.

RECIPROCITY

In testimony before the Ways and Means Committee, the national chamber noted that the President, in his trade message to Congress, said:

> We mean to see to it that all reductions and concessions are reciprocal—and that the access we gain is not limited by use of quotas or other restrictive devices.

We urged that Congress provide, in the law itself, that reciprocity be assured as negotiations progress under the terms prescribed. We are gratified that the new bill seeks to do this by stronger provisions for continued assurance of reciprocity.

By the same token, the United States should avoid regressive trade regulators, such as quotas, subsidies, and other Government regulations of trade, to the greatest extent feasible. Certain provisions of the bill authorizing "additional import restrictions" as the President determines to be required or appropriate to carry out a trade agreement (sec. 201(a)(2)) could, if not prduently administered, tend to defeat the central purpose of the trade expansion legislation.

It may be argued that authority to impose import quotas would give the President more flexibility of choice of tools on the assumption that a so-called temporary quota, for example, might be more readily dispensed with when it had served its purpose than a tariff would be. This has not always proved to be the case, as for example: items qualifying under section 22 of the Agricultural Adjustment Act, as amended, whereby unlimited importation of such items was shown to be in conflict with domestic agricultural price support programs.

We suggest that use of such authority be limited to escape clause and national security cases where the need for relief is first clearly established by the usual escape clause investigative procedures—and then only on the basis of well-founded justification of its use in lieu of tariff relief.

PRENEGOTIATION AND OTHER ADMINISTRATIVE REQUIREMENTS

Not entirely new, but now written into the bill with desirable refinements, are the procedures for prenegotiation investigations, including public hearings and other prerequisites for "offers" of concessions to be made, the reservation of articles from negotiations, and the creation of the Interagency Trade Organization. This Cabinet level organization, which will make recommendations to the President on the basic policy issues concerning the trade agreements program and advise the President of the results of hearings concerning unjustifiable foreign import restrictions, is, we understand, to be available also for U.S. importers to register complaints of alleged unfair practices of our domestic industry against foreign imports.

CLARIFICATION NEEDED

1. The bill provides, in section 211(a), for authority to exceed the 50-percent reduction provided in the basic authority when—

> the President determines with respect to such category that the United States and all countries of the European Economic Community together accounted for 80 percent or more of the aggregated world export value of all the articles in such category * * *.

The determination of the countries of the EEC, according to the bill, shall be made as of the date of the request to the Tariff Commission for findings as to "the representative period" and "aggregated world export value" and "percentage of the aggregated world export value of such articles accounted for by the United States and the countries of the EEC."

This seems to contemplate the successful completion of negotiations of Britain and certain others of the European Free Trade Association—the Outer Seven—for membership in the EEC. Without these additional countries in the EEC, particularly Britain, there may be some question of "dominant supplier" qualification of virtually all significant categories of products. In the event of protracted delay in the expansion of the EEC, the authority under this section could fail to be used for an indefinite period.

So that this section can be meaningful whether or not the European Economic Community is enlarged, the percentage of trade figures could perhaps be reduced from 80 percent to a more appropriate figure pending the enlargement of the EEC membership; or, as an alternative, the present members of the European Free Trade Association or some suitable combination thereof, might be included along with the United States and the EEC in determining eligible trade categories under the 80-percent criterion.

2. Section 231 provides for discontinuing the application of the most-favored-nation principle to products of Communist countries or areas, and in the future, to any additional country or area which becomes dominated or controlled by communism, and that action under this section, with respect to any country or area, may be terminated when such country or area is no longer dominated or controlled by communism.

We urge that the committee carefully consider whether this proposal could, contrary to its purpose, serve to force such countries as Yugoslavia and Poland into closer economic and political alliance with Soviet Russia. In the case of Cuba (sec. 252(b)(2)), acts which that country has taken in violation of international agreements would seem to preclude extension of trade concessions to that country and any other which might conduct itself in a similar manner. Perhaps the problem could be met by the reinstatement of the words (or intent) of the Trade Agreements Extension Act of 1951, as amended, prohibiting most-favored-nation treatment to "the Union of Soviet Socialist Republics or to imports from any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement," as more in keeping with the objectives of this bill and with United States foreign policy objectives.

3. We again recommend that a more realistic base period than July 1, 1934, should be used in setting the ceiling on tariff rate in-

crease. Duties existing as of July 1, 1934 (actually enacted in 1930) were the highest in our history. There seems to be little logic in authorizing possible increase of 50 percent above such rates. We recommend July 1, 1945, or some later date, as a more realistic base period. More logically, a tariff should be raised by withdrawal of the particular concessions which presumably caused the condition on which an escape clause finding of injury would be based.

ESCAPE CLAUSE PROTECTION

While pursuing means for promoting the growth and cohesiveness of the community of free nations, the United States must afford reasonable protection for U.S. industry and agriculture. Such protection can and should be achieved through an effectively administered escape clause. Determination of injury due to imports should be judged in the light of the national interest, including national security considerations.

We approve the reinstatement in this bill of the traditional role of the escape clause provision of previous trade agreements legislation, and the limitation of tariff action, as provided in section 351(c)(1)(B), to a period of 4 years at any one time. It should be more generally realized that a selective tariff is, in fact, a subsidy which serves to protect one domestic industry frequently at the expense of another. Moreover, when the 4-year period is up for a particular tariff, and as it is deemed appropriate for it to be reduced or eliminated, such reduction or elimination could be used as a bargaining lever to get compensating reductions elsewhere. The U.S. economy would clearly be the beneficiary.

ADJUSTMENT ASSISTANCE TO FIRMS

The chamber regards the proposed program of adjustment assistance to firms injured by imports (ch. 2, title III) as being unnecesary in the context of this legislation.

There might have been limited justification for such a program at the time of the House Ways and Means Committee hearings on the poorly drafted administration bill (H.R. 9900). But the many improvements on H.R. 11970—relative to more stringent safeguards, prenegotiation requirements, staging requirements, progress reports to Congress, and reinstatement of the traditional escape clause—make any claims of need for new and special adjustment assistance programs for firms unsupportable.

Furthermore, should there be any proven need for assistance to any such companies, assistance already available from existing Government agencies should be more than adequate. This assistance takes the form of Small Business Administration loans for plant construction, conversion, expansion and even the acquisition of land. Loans also can be made to facilitate the acquisition of equipment, facilities, machinery, supplies, and materials as well as to supply working capital. There are also available loans beyond the normal direct loans and deferred participation loans. Finally, technical assistance is readily available to such firms through the facilities of the Department of Commerce and various State agencies.

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In the event the Congress ignores the overwhelming arguments against the establishment of a new and costly program of assistance to firms that might be injured by imports, the chamber recommends that the eligibility therefore be carefully defined; that the assistance not take the form of cash subsidies, and that the program have a definite terminal date in order to accelerate necessary adjustments.

ADJUSTMENT ASSISTANCE TO WORKERS

The chamber regards chapter 3, title III, as completely unjustified. The provisions in this chapter establishing weekly compensation for those unemployed due to import competition are unnecessary because unemployment compensation programs are operating in all 50 States. Under these, the vast majority of workers now have protection against involuntary unemployment, whatever the cause.

Chapter 3 provides for special treatment of workers deemed to be laid off as a result of a tariff concession made in the national interest. If Congress once adopts the principle that the ostensible cause of unemployment should be a factor in determining the conditions of eligibility, benefit amount or benefit duration, will not Congress be urged to give special consideration for other causes? Would it not be logical then to give special consideration to workers who are laid off as a result of other Federal actions in the national interest, such as cancellation of a defense contract for obsolete military hardware? Or for a change in the Federal program of farm price supports? Or a change in tax policy?

No one can substantiate a contention that workers laid off due to tariff concessions are likely to experience a longer period of adjustment than others laid off due to changing factors and forces within the domestic economy. For those in the latter category, we rely on unemployment compensation. Recently, Congress took action through the Manpower Development Act, dealing more directly with those experiencing long-term unemployment.

The section of chapter 3 dealing with retraining is unnecessary. Section 324 would enable a worker taking training under any Federal law to receive a weekly allowance for as long as a year and a half.

When Congress passed the Manpower Development and Training Act of 1962, it clearly had in mind workers who were laid off due to import competition arising from tariff concessions. This was specifically mentioned in the act, and in the House debates it was referred to repeatedly. However, this new law provides weekly allowances for those taking training for no more than 1 year. Apparently, Congress concluded that retraining allowances for 52 weeks would be adequate, whether the worker had become unemployed due to import competition or to forces and factors within the domestic economy. Consequently, the provision in chapter 3 providing training allowances for an addition half year is uncalled for.

Other provisions in chapter 3 are unfair because they will establish discriminatory treatment of workers laid off due to no fault of their own. Certain provisions in this chapter call for compensation to unemployed workers larger in amount and greater in duration than those provided in State unemployment compensation programs. This is true whether the unemployment is total or partial. Workers will see no justification for such discrimination between workers experiencing the same degree of unemployment.

The consequence of this discrimination as to amount of compensation and duration may be to achieve the results of a Federal standards bill without such congressional intent. The dissatisfaction among workers receiving only unemployment compensation may well give rise to pressures for legislative action. True, such pressures may not be brought on Congress for a Federal standards bill, coercing States to meet those minimum requirements. Rather, such pressures are more likely to be focused on State legislatures to adopt benefit amount and duration provisions in State law that are called for in this bill.

Because of the advantage of preserving State freedom and flexibility in these systems, the national chamber has consistently opposed legislation that would force States into a straitjacket of Federal standards. We disapprove of the provisions of chapter 3 because they could easily result in uniformity among State programs, contrary to longstanding congressional intent and the public interest.

Other provisions in chapter 3 are undesirable because they will impede necessary adjustments by discouraging unemployed workers from taking other jobs. Such discouragement can arise because the differential between take-home pay for a regular work week on a new job and the sum total of part-time pay, unemployment compensation and payments under this bill frequently would be too small to attract an unemployed worker to take another job. For example, a married man with no other dependents who had had an average weekly wage of $92.30—the prevailing national average weekly wage in manufacturing—would in 1963 have a take-home pay of $77 (after Federal income and social security taxes). Should he become totally unemployed due to import competition, he would be entitled, under sections 323 (a), (e), to a weekly adjustment allowance of $60. If another job in a completely different line were offered him at about his old level of pay, he would actually get only $17 additional income for a 40-hour workweek. This is equivalent to getting paid 42½ cents per hour for working, rather than simply taking his adjustment allowance. This hourly net gain would hardly be adequate to induce him to take a full-time job. Suppose, however, this worker were put on a short work week, say 2 days of work a week owing to import competition. Here the differential would be even smaller. In the case above, he would get roughly 20 cents an hour more by taking a new full-time job rather than staying on the old one, working 2 days a week and getting other compensation.

It is unrealistic to believe that the provisions in chapter 3 will have little impact on unemployment compensation programs. Sections 322 and 323 provide for compensation to those who are totally unemployed or who experience merely a decline in hours worked and in job income in a given week. Such declines will not have to be substantial in order for the individual to qualify. For example, a person who works as much as a 4-day week and who earns less than 75 percent of his previous average earnings including overtime, will be "unemployed" for the purposes of this act, and will receive some adjustment allowance.

Spokesmen for the administration repeatedly have stated that these adjustment allowances to workers are not "unemployment" compensation. We can readily understand how such statements might be made.

A person who works a 4-day workweek and earns, say 70 percent of his previous average weekly earnings can hardly be judged as unemployed. He certainly would not be regarded as unemployed by standards in any of the State unemployment compensation programs, nor would he be found unemployed by the standards that Congress has laid down for Federal employees, or for men discharged from the military services. However, any cash payment to such worker for a "week of unemployment" as specified in the bill can only be viewed as unemployment compensation. To describe it in any other terms is to engage in an extremely tortuous exercise in semantics.

What family with the breadwinner unemployed and drawing State unemployment compensation alone will be persuaded that the extra "adjustment allowances" received by his neighbor are not compensation for unemployment? The shorter duration and smaller amounts of State unemployment compensation will inevitably arouse workers' resentment. It is unrealistic to believe that such workers will cheerfully accept such obvious discriminations—no matter what language may be employed in describing and labeling the unemployment compensation provided in chapter 3.

Since there are programs in all States to compensate workers for involuntary unemployment, and a national program to pay weekly allowance for those retraining, the national chamber urges this committee to delete chapter 3 from the Trade Adjustment Act.

RELATIONSHIP TO DOMESTIC POLICY

Trade negotiation is not a cure-all for the problems of trade expansion. There are other important issues we face and must resolve. A growing export and import trade depends, among other things, upon strengthening the competitive position of U.S. products. Government fiscal and farm price policies, as well as other policies or decisions by Government, business, and labor affect prices, taxes, wages, costs, and productive efficiency. They have a strong influence on the competitive position of U.S. products in foreign markets.

High corporate and individual income tax rates, excessive and climbing wage costs—including disproportionate absorption of productivity gains—are basic factors which cause us to cost ourselves out of a sound competitive position.

Nowhere is the strength of the Nation's currency put to a more severe test than in the field of foreign commerce where it must actively compete with the currencies of other nations.

RELATIONSHIP OF FOREIGN INVESTMENT TO FOREIGN TRADE

Closely interrelated with foreign trade policy is the matter of foreign investment of U.S. private capital.

Passing constructive legislation at this time will give clear evidence that the United States is prepared to work for reduced trade barriers. It is equally important to recognize the imperative necessity of free capital movements, and the corresponding requirement to avoid actions that would jeopardize the free flow of capital funds. It is not American oversea investment that creates our balance-of-payments deficit, for much of our foreign investment leads to increased demand for our equipment and components.

Rather, we must make certain that our money rates are competitive, that our prices are competitive, and that all of our public programs are designed to increase our competitive position rather than, as in agriculture, to reduce the scope of our export potential.

To cope with this problem by constricting the flow of trade would be to adopt a lethal remedy for a moderate ailment.

If, moreover, we wish to devise a more efficient alternative to our existing program of foreign aid, surely, an integral part of such reform would be to promote, and not to restrain, freedom of capital movements, here and abroad. Thus, in taxation and in monetary measures, any proposals to discourage and discriminate against U.S. foreign investment would do much to offset the benefits that we, and the other free world countries will gain from trade expansion.

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

The next witness is Mr. Victor Pringle, representing 11 national and regional poultry and egg organizations.

STATEMENT OF VICTOR PRINGLE, GENERAL MANAGER AND TREASURER, ROCKINGHAM POULTRY MARKETING COOPERATIVE; ACCOMPANIED BY JOSEPH O. PARKER, CHAIRMAN, INTERNATIONAL TRADE DEVELOPMENT COMMITTEE

Mr. PRINGLE. Good morning, Senator. I have with me up here this morning Mr. Joseph O. Parker, who is chairman of the International Trade Development Committee and also Mr. Maury A. Hubbard, who is with the Virginia Farm Bureau.

The CHAIRMAN. I want to say that Victor Pringle is one of the finest men in Virginia and one of the best friends I have.

Mr. PRINGLE. Thank you, sir.

The CHAIRMAN. I am very glad to welcome him.

Mr. PRINGLE. We also have with us, whom I would like to introduce, to show their concern of our problem, Mr. Bob Martin from the Southeastern Poultry & Egg Association, Mr. Henry Holzgrefe from Holzgrefe & Plageman, Glen Allen, Va.; Mr. Paul Williams, Virginia State Poultry Federation; Mr. Harold Williams, the president of the Institute of American Poultry Industries; and Mr. Lee Campbell, also a member of the Institute of American Poultry Industries staff.

The CHAIRMAN. It is an impressive group you have with you.

Mr. PRINGLE. Thank you.

In the effort to save some of your time and to make it brief, we have made available our statement to all of the members of your committee, and I will read only parts of the statement in order to keep within the time limit.

Mr. Chairman, I am Victor Pringle of Harrisonburg, Va.

I am general manager and treasurer of the Rockingham Poultry Marketing Cooperative at Broadway, Va.

I am presenting this statement on behalf of the U.S. poultry industry's international trade development committee.

This committee consist of the principal national and regional poultry and egg organizations, including the following:

American Poultry & Hatchery Federation.

Arkansas Poultry Federation.

Delmarva Poultry Industries, Inc.

Institute of American Poultry Industries.
Minnesota Turkey Growers Association.
Mississippi Poultry Improvement Association.
National Broiler Council.
National Turkey Federation.
Poultry & Egg National Board.
Southeastern Poultry & Egg Association.
Virginia State Poultry Federation.

These organizations are representative of the entire poultry and egg industry and include producers, breeders, hatcherymen, processors, distributors, exporters, and other allied interests.

On behalf of the poultry industry I want to express our appreciation for the opportunity to appear and present our views and recommendations to this committee.

The poultry industry believes that the enactment of trade legislation is essential if we are to obtain fair and equitable access for our products in world markets. We support the enactment of H.R. 11970 but we believe the bill can be improved by providing additional bargaining tools and through improved legislative policy direction aimed at obtaining stronger and more effective bargaining.

The farm income produced from poultry and eggs is exceeded only by that received from red meat animals and dairy products. The nearly 3 million farmers involved in the production of poultry and eggs are located in almost every county in the United States.

Their importance to the national economy is self-evident.

American poultry products are produced under the full impact of the law of supply and demand. The production of these products is not subject to Government control programs and they do not receive price support.

They are produced and marketed freely and competitively. Notwithstanding the fact that most grains and other feed items utilized in producing poultry products are afforded price protection through some form of price support and hence are priced higher to American poultry producers, U.S. poultry products are demonstrating daily their ability to compete in foreign markets if given the opportunity to do so.

The Secretary of Agriculture, in his testimony on this measure before the House Ways and Means Committee referred to the substantial progress which has been made in developing new markets for poultry products in Germany, Switzerland, and the Netherlands, the principal areas in Western Europe in which U.S. poultry has had some opportunity to compete.

Attached as exhibit No. 1 is a table showing the increase in poultry exports to these areas since 1955.

Exhibit No. 2 shows total U.S. exports of poultry meat 1952–61.

Before 1956 exports of U.S. poultry to Western Europe were negligible, but in 1961 these exports were nearly 190 million pounds, over half of our entire export trade.

All of this trade is for dollars.

It is handled completely by the private trade without subsidy. The United States is now the world's largest exporter of poultry products.

Although U.S. poultry products are relatively new in the export field, foreign sales are having a great impact on the entire industry. A recent university study points out that if there had been no exports in 1960, domestic prices of broilers would have declined almost a cent per pound, eggs more than a cent per dozen, and turkeys more than a half cent per pound. Not only would poultry producers have lost the income from exports, but the decrease in domestic values would have resulted in additional losses to producers totaling almost $100 million.

I might add that, if the study had been made on 1961, those losses would then have been at least double.

These brief statistics give some indication of the importance of exports to the poultry industry and to poultry farmers and the need for maintaining and expanding export opportunities.

We will direct our remarks primarily to the relation of the Trade Expansion Act to the European Economic Community, or the Common Market area, because this is the principal dollar market area for poultry products to which we have had some access, and because the potential for marketing U.S. poultry in this area is being seriously threatened by certain Common Market proposals.

The Common Market is placing in effect this very day a new host of trade barriers against poultry products. These barriers are clearly designed to exclude U.S. poultry products. They take the form principally of discriminatory duties, gate prices, and variable import fees and levies.

The gate price is an arbitrary price below which no poultry from the United States may enter the Common Market countries.

If our poultry is priced below the arbitrary figure, an import fee measured by the difference between our selling price and the arbitrarily fixed price must be paid to the Common Market Commission.

In addition there is to be assessed an equalization fee called a variable levy. This fee is equal to the difference between world grain prices and the arbitrarily established grain prices for the grain used in the production of poultry.

The feed conversion factors used also further deprive the U.S. producers of their productive efficiency. It is estimated that these nontariff barriers will more than double existing duties and add about 12 to 15 cents per pound to the price of U.S. poultry products.

These measures are designed to offset the competitive efficiencies which have been developed by American poultry producers. They have as their obvious purpose the preemption of the market and the giving of absolute preference to the production of member countries no matter how uneconomic such production may be.

Under this policy Common Market countries are in a position to develop and expand uneconomic production behind trade barriers by effectively insulating their producers against the forces of competition. Such a policy is contradictory of, and repugnant to, the obligations accepted by each of the Common Market countries under the General Agreement on Tariffs and Trade. Such a policy is also completely inconsistent with, and contrary to, the concept of liberalized trade as envisioned by the Common Market itself and by this bill. Such a policy, if permitted to become and remain effective, will cause incalculable harm to American agriculture and to our national economy.

The Common Market countries, while seeking to broaden trade opportunities and to increase their access to the U.S. market for the goods on which they are competitive and which they wish to sell—primarily industrial items—propose to deny to American poultry, a commodity on which we are competitive, equality of access to their markets.

This Common Market policy represents a clear return to isolationism in its worst form. The United States, under the Tariff Act of 1930, has authority to impose on foreign goods equalization fees to offset differences in costs of production, but this authority was abandoned upon our becoming a member of the General Agreement on Tariffs and Trade.

Thus, the United States is now being confronted with the very devices which it abandoned to give greater access to the U.S. market for the goods of foreign countries in an effort to free up international trade.

If the Common Market countries now choose to employ these exclusionary devices again U.S. poultry and other agricultural products, the very items on which we are competitive and stand to be competitive in the years ahead, then we as a Nation must be in a position to employ similar measures against their goods as the best and most effective means of obtaining fair treatment for our agricultural commodities.

We in the poultry industry do not believe that the employment of such policies are beneficial either to the Common Market countries or to the United States because these policies are clearly trade restrictive. We do not believe that such practices should have to be employed at all.

But, since they are being applied against our poultry products and other U.S. agricultural items, we believe that the President and the negotiators for our Nation must be armed with equally effective tools with which to bargain down or to prevent the imposition of these kinds of exclusionary devices against the products of the United States.

If we are to be successful in liberalizing trade in a way which will be meaningful we must not only arm our negotiators with the needed bargaining tools, but we must lay down policy directives to assure that such tools will be exercised in a manner which will give fair market access to our U.S. poultry and other agricultural products.

We were encouraged by the statement of the President in his message to the Congress:

> But let me emphasize that we mean to see to it that all reductions and concessions are reciprocal; and that the access we gain is not limited by the use of quotas or other restrictive devices.

We have been encouraged by the understanding and grasp of the problem which was demonstrated by the Secretary of Agriculture in his testimony before the House Ways and Means Committee on this measure.

He emphasized strongly throughout his statement that the Trade Expansion Act and the bargaining authority provided therein would be used to obtain access to the Common Market for our agricultural products, including poultry.

He stated:

But we must try to make certain that any "swap" with them includes assurance that reasonable terms of access will be provided for our agricultural products.

The Secretary of Agriculture further pointed out that the root of the problem has to do with the proposed system of variable import levies which would enable the Common Market countries to promote a policy of self-sufficiency. We are also heartened by the fact, as stated by the Secretary of Agriculture, that although we may not as yet have been able to obtain satisfactory and continuing arrangements with respect to market access for poultry products and other agricultural items, the way has been kept open for continuing negotiations, and that the European Economic Community recognizes fully that in these negotiations we will be seeking access for those products under reasonable terms.

We support fully the position taken by the Secretary of Agriculture to the effect that—

access to their agricultural markets—including those protected by variable import levies—must be a part of any tariff and trade package we may negotiate.

We believe that this is the only sound approach to liberalizing trade.

We believe, therefore, that it is essential that the kit of bargaining tools provided by this bill must be strengthened by adding the same kind of tools and authorities which are being used against us.

This will strengthen the hand of our negotiators at the bargaining table immeasurably and will put them in a position to counter any unilateral action taken by the Common Market countries which is inconsistent with the principles of and obligations under the General Agreement on Tariffs and Trade.

We believe that it should be made clear that, as a matter of national policy, we regard gate prices and variable import levies and fees as protectionist devices incompatible with fair trading principles, that such devices will not be accepted, and that effective counteraction will be taken to prevent their being used against our poultry and other U.S. agricultural products.

The failure to make our position clear and to point out that these devices are destructive of the best interests of both the European Economic Community and the United States will result in consequences which are grave and far reaching and which will endanger the fabric of Western unity.

From the standpoint of principle, these restrictive measures are unfair and create a hardship upon U.S. producers and the U.S. economy. Furthermore they are clearly unnecessary. They are detrimental to the interest of the Common Market countries as well as to ours.

As our exports of poultry have increased, so has their production. The increased consumption and enlarged market which have been developed benefits their producers as well as ours. To exclude our poultry will increase prices to their consumers, shrink consumption, and weaken their total economy.

Exhibit No. 3 shows the increases in production which have taken place in the Common Market countries in each of the years that our U.S. exports to these areas have increased.

Exhibit No. 4 shows the increases in per capita consumption in the Common Market countries.

We, therefore, support the adoption of H.R. 11970 but recommend that it be amended and strengthened by including the authority to impose import restrictions, including increased duties, variable levies, and other measures against the goods or articles of any country which employes gate prices, variable import levies, equalization fees, or similar nontariff barriers against U.S. poultry and other agricultural products.

Such additional authority, with a legislative policy directive that such authority should be used to whatever extent may be necessary to obtain the elimination or to prevent the establishment of such nontariff trade barriers against U.S. agricultural products, will provide the best means of obtaining equitable access to foreign markets for U.S. poultry.

We believe that H.R. 11970 as so amended will provide an effective way for liberalizing and broadening trade on a reciprocal and equitable basis.

Thank you very much, sir.

(The tables referred to follow:)

EXHIBIT No. 1

U.S. exports of poultry meat to Common Market countries in 1955–61

[In thousands of pounds]

Destination	1955	1956	1957	1958	1959	1960	1961
Belgium-Luxembourg	59	83	122	180	292	90	276
Germany, West	56	4,451	5,834	7,690	52,374	85,980	134,749
Italy				32	5	30	607
France	2	38	44	40	34	74	331
Netherlands	10	89	841	2,451	5,712	11,444	20,863
Total EEC	127	4,661	6,841	10,393	58,417	97,618	156,826

Source: Poultry Industry International Trade Development Committee.

EXHIBIT No. 2

U.S. exports of poultry meat,[1] volume and value and export value, all poultry products 1952–61[2]

Year	Poultry meat		All poultry products,[3] total value
	Total volume	Total value	
	Million pounds	*Million dollars*	*Million dollars*
1952	8.7	4.3	28.4
1953	16.7	7.5	32.0
1954	16.7	7.1	29.0
1955	28.0	11.6	36.5
1956	44.5	16.1	43.6
1957	41.8	14.2	34.7
1958	51.4	17.0	37.8
1959	125.7	35.9	60.7
1960	176.5	49.7	75.4
1961	248.0	67.7	94.2
1962[2]			

[1] Includes canned poultry.
[2] Exports of fresh and frozen poultry meat for the first 5 months of 1962 are 166 percent over the same period in 1961.
[3] Includes meat, eggs, fresh and processed, baby chicks, etc.

Source: Poultry Industry International Trade Development Committee.

EXHIBIT NO. 3

Poultry meat[1] production in European Common Market countries, 1955–60

[In million pounds]

Country	1955	1956	1957	1958	1959	1960
Belgium-Luxembourg	77.9	85.0	96.2	103.0	113.3	119.5
Germany, West	136.7	154.3	165.3	174.6	211.6	220.5
Netherlands	73.7	89.1	104.9	123.8	155.8	195.0
France	661.4	705.5	727.5	738.3	771.0	805.0
Italy [2]	243.4	363.8	402.6	440.9	480.6	500.0

[1] Dressed weight basis.
[2] Poultry and game.

Source: Poultry Industry International Trade Development Committee.

EXHIBIT NO. 4

Poultry meat: Production, imports, U.S. exports, per capita consumption

[Million pounds]

	1955	1956	1957	1958	1959	1960
WEST GERMANY						
Per capita consumption [1]	[2] 3.9	[2] 4.5	5.5	6.2	7.9	9.5
Production [3]	136.7	154.3	165.3	174.6	211.6	220.5
Total imports	62.7	81.6	108.8	142.3	229.8	305.1
U.S. exports to West Germany	.1	4.5	5.7	7.7	52.4	86.0
SWITZERLAND						
Per capita consumption [1]	[2] 3.6	[2] 4.7	5.3	6.6	7.9	8.8
Production [3]	7.9	8.4	8.8	9.9	10.8	11.2
Total imports	11.7	15.5	17.4	24.2	30.6	36.9
U.S. exports to Switzerland	.5	2.9	6.5	12.5	20.2	23.5
NETHERLANDS						
Per capita consumption [1]	1.1	1.5	1.8	2.4	3.3	4.4
Production [3]	73.7	89.1	104.9	123.8	155.2	195.0
Total imports [4]	(5)	(4)	.1	.4	1.3	1.9
U.S. exports to the Netherlands	(5)	.1	.8	2.5	5.7	11.4
UNITED KINGDOM						
Per capita consumption [1]	----------	7.3	8.1	9.4	11.4	(6)
Production (farm) [3]	216.1	246.4	279.1	314.5	403.0	481.2
Total imports	32.0	28.0	29.4	31.2	25.4	22.4
U.S. exports to the United Kingdom	.7	.7	----------	----------	[7] .2	[7] 3.7

[1] Actual pounds.
[2] Estimated.
[3] Dressed weight; production year basis.
[4] Quantities received for ships supplies and transshipment not recorded as imports.
[5] Negligible.
[6] Not available.
[7] Canned poultry.

Source: Poultry Industry International Trade Development Committee.

The CHAIRMAN. Thank you for a very excellent statement.

I note with a good deal of interest that the exports to Western Germany made a very large increase at the beginning of 1956, from 4½ million pounds to 134 million pounds now.

The next country is Switzerland which has gone from 3 million in 1956 to 23 million now in 1960.

The Netherlands has gone up about 10 times or more.

As the bill is now written, Victor, do you think that that will increase or decrease the exportation of poultry?

Mr. PRINGLE. The bill as presently written with these new variable levies that are imposed against us presently, is an increase in their tariff of about 168 percent over what it was.

Naturally it is going to harm exportations to those countries. It is not going to stop it, but it will raise the price to their consumers, and it will serve as an umbrella for the growth of their own production under a very unsound and uneconomical basis.

That might be interesting to know that we have received as of this morning a comparative statement that as of January to May of 1961 the importation was 33 million pounds equivalent to $8.7 million.

In January to May of 1962, the importations have been 73 million pounds and a total of $19.9 million.

The CHAIRMAN. European countries are apparently increasing the production of poultry considerably, are they not?

Mr. PRINGLE. They are.

The CHAIRMAN. And you think the bill, unless amended will injure the poultry exportation?

Mr. PRINGLE. There is no question about it, Senator. We have exported a considerable amount of poultry prior to this date. Because these variable levies were coming into being our orders for poultry for export to these Common Market countries have now dropped practically to zero.

It will increase a little as they use up their inventories but it will be materially reduced and even though we are attempting to develop markets in many other countries, that are not in the Common Market group, it is a slow process, and will not take up the slack; I am afraid that the loss in business that will come about in Common Market countries will be very serious.

The CHAIRMAN. The authority you mention to impose import restrictions and increase duties and so forth, that is not given now, is it?

That is authority which would be granted under the bill, is it not?

Mr. PRINGLE. I would like to ask Mr. Parker to answer that. I think there is some authority in there but it is rather weak.

Mr. PARKER. Mr. Chairman, as we interpret the bill, the bill does not expressly provide authority to impose restrictions or restrictions of the type that are being used against our poultry and other commodities.

Section 252 of the bill does authorize the suspension of withdrawal of prior concessions that may have been given in the past. But the provision that is presently in the U.S. law, section 336, which authorizes the imposition of equalization fees to equalize costs of production and things of that type, has been made inoperative by virtue of a further amendment to the law which makes it inoperative because we became a member of GATT. There is a provision in this very bill that continues that suspension of that authority, and it seems to us that our negotiators, our people at the bargaining table, will be materially weakened if they do not have at least equality of bargaining power, bargaining tools that the foreign negotiators have and are exercising against us on a unilateral basis.

The CHAIRMAN. Have you in mind any specific amendments that would accomplish what you desire?

Mr. PARKER. We are in process at the present time of trying to draft such an amendment, Mr. Chairman, and we would like very much for the opportunity to submit it for the committee's consideration.

The CHAIRMAN. The Chair would be glad to have those amendments, and he will see that the staff of the committee goes over them carefully and they will be presented to the Senate Finance Committee.

I realize the great importance of it because I come from a large poultry-producing area.

Victor and I are really only about 60 miles apart, and I am very much interested naturally in seeing that complete justice is done, so if you will prepare those amendments I will see they get full consideration.

Mr. PRINGLE. Thank you, sir; we will see that you have them.

(The following was later received for the record:)

AMENDMENT TO H.R. 11970 SUGGESTED BY THE INTERNATIONAL TRADE DEVELOPMENT COMMITTEE FOR THE U.S. POULTRY AND EGG INDUSTRY

Page 19, line 6, substitute a comma in lieu of the period and insert the following:

"and

"(3) notwithstanding any other provision of law or any provision of any trade agreement, impose duties or other import restrictions on the products of any country or instrumentality establishing or maintaining such foreign import restrictions against United States agricultural products, to the extent he deems such duties and other import restrictions necessary to prevent the establishment or obtain the removal of such foreign import restrictions and to provide access for United States agricultural products to the markets of such country or instrumentality on an equitable basis."

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Pringle, you mentioned or suggested that we give to the President more specific authority to raise these tariffs as well as to lower them.

Now, under existing law, did they not have that authority had they seen fit to use it?

What is your opinion on that?

Mr. PARKER. Senator Williams——

Senator WILLIAMS. I recognized they haven't used it but I am wondering if they didn't actually have the authority.

Mr. PARKER. They do not seem to think they have the authority to increase duties as a bargaining tool, because as a member of GATT we, as a nation, have pledgd ourselves not to increase duties and quantitative restrictions.

Now, we do have authority under the escape clause action and things of that sort if an industry comes in and establishes that it is being injured by prior concessions, then there can be some increases but not as a bargaining tool to try to prevent the unilateral application of these import devices which are now being used against us.

Senator WILLIAMS. That is the reason I raise that question.

I know that in the State Department, and in other departments, many of them insist they don't have the authority as a result of our being a member of GATT, but is it not true we have never ratified

GATT and that officially, as far as Congress is concerned, they have never approved our membership in that?

Mr. PARKER. That is right.

We are only a member of GATT by provisional application. But our basic trade agreements policy has been under the Trade Agreements Act which says we can raise or lower by agreement but I doubt if we would ever get any agreement with foreign countries for us ever to raise our duties.

Senator WILLIAMS. I agree in its application the restriction has been there, but I think it is something that has grown on us more. I am in agreement with you, and other witnesses have pointed out the fact that we should make it specifically clear in this legislation that we are not only extending the authority to the President whereby he can raise tariffs, fees on importation from those countries who in turn impose such restrictions on our exports, but I think it is now equally important that we include in the provision of the bill not only the authority but in our report state that we intend him to use this authority as a bargaining weapon when they sit down to negotiate.

Mr. PARKER. If they don't have both the authority and the policy direction, you don't have anything to bargain with.

Senator WILLIAMS. No. But I say if you give them the authority and in addition to that give them the instructions that we intend them to use that authority when they sit down around the bargaining table.

Mr. PARKER. It would be very effective.

Senator WILLIAMS. The principle of reciprocal trade is that it be reciprocal and we should get some advantages instead of continually giving advantages.

Mr. PARKER. That is true.

Senator WILLIAMS. On the question of these equalization fees, what do they amount to in cents per pound on poultry products?

Mr. PRINGLE. At the present time?

Senator WILLIAMS. Yes, at the present time.

Mr. PRINGLE. These fees as an example, run about—on one of the countries that is our major receiver at present amounts to about 12.82 cents per pound as against the tariff in effect before July 30, 1962, of about 4.77 cents per pound.

These added charges or fees come in four different categories, a fee to adjust for differences in feed prices of their country as against world grain prices, a fee to adjust for other costs that they are involved in which we don't happen to have, and a gate price of a minimum figure which, if poultry is offered at less than that, a fee is added to increase the cost of the gate price.

Senator WILLIAMS. That is the equivalent of approximately a 250 percent increase in tariffs.

Mr. PRINGLE. I roughly figured out 168 percent.

Senator WILLIAMS. Is it that? Perhaps it is.

Mr. PRINGLE. But some items are higher than that, it is quite true.

Senator WILLIAMS. Now in the question of the production of poultry in these foreign countries, in these various countries, are they not currently buying some of their feed grains from this country at substantially lower prices than are available to our own farmers, through Public Law 480.

Mr. PRINGLE. What they are paying for them, Senator, I am not sure. The last time I was over there and visited with some of them in the production field their feed prices going out to the grocers, for instance, was approximately $135, $138 a ton, as against our costs of around $80 a ton.

Senator WILLIAMS. What I was speaking of was in the export of our feed grains, are we not subsidizing the export of our feed grains to a substantial degree?

Mr. PARKER. The European countries, of course, buy their grain from the United States at world market prices. There is a regular export subsidy on wheat, and there are subsidies from time to time on feed grains, not as much as there has been on wheat, but from time to time there has been some export payments for the exportation of feed grains.

Senator WILLIAMS. But those subsidy payments sometimes have the effect of placing the grains available in those countries for resale at a lower price than they are available for resale right here to our own domestic users.

Mr. PRINGLE. I think that is correct.

Mr. PARKER. Generally speaking, I think that is true. Whenever there is an export payment that means that the grains are being sold on the world market at a lesser price than they can be purchased for domestic users.

Senator WILLIAMS. So we find our farmers in a bind sometimes where they are subsidizing the production of poultry in a foreign country and at the same time we have a tariff where they can't ship over.

So it is a two-way bind.

Mr. PRINGLE. You can ship grain from the grain countries to foreign countries much cheaper than you can even ship them to within your own country.

Senator WILLIAMS. Yes. That is the point that I was bringing up. It is my understanding that one amendment you are suggesting is that we extend this additional authority to raise these tariffs, we won't say in retaliation but as an equalization basis in the event some country does continue to discriminate against the American agricultural products.

Mr. PARKER. As it is right now, these gate prices, variable levies, equalization fees, preferential duties, are being applied, they are going into effect today.

They are being put into effect unilaterally. We have been advised by our State Department that they have not agreed to these devices, but they are being put into effect against us, and we are powerless without some additional legislation, as a nation, to do anything about it except under GATT to ask for compensation which would not be effective. We could, I assume, withdraw completely from GATT, which ould cause quite a big fracture in world trade and I doubt that we as a nation would undertake that.

Senator WILLIAMS. This poultry, just for the record, is produced in this country without the benefit of any subsidy whatsoever?

Mr. PARKER. That is correct.

Mr. PRINGLE. Yes.

Senator WILLIAMS. And the exports thus far have been likewise without the benefit of any subsidy.

Mr. PARKER. That is generally correct.

Senator WILLIAMS. Yes.

The CHAIRMAN. The next witness is Mr. G. J. Ticoulat of the American Paper & Pulp Association.

Take a seat, sir, and proceed.

STATEMENT OF GABRIEL J. TICOULAT, SENIOR VICE PRESIDENT OF CROWN ZELLERBACH CORP., APPEARING ON BEHALF OF THE AMERICAN PAPER & PULP ASSOCIATION AND NATIONAL PAPERBOARD ASSOCIATION

Mr. TICOULAT. Senator Byrd and Senator Wiliams, I have with me Mr. Albert W. Luhrs, executive manager, National Paperboard Association, and Mr. Robert O'Connor, executive secretary, American Paper & Pulp Association.

My name is Gabriel J. Ticoulat, senior vice president of Crown Zellerbach Corp., and president of our company's international division. I am appearing before this committee on behalf of the American Paper & Pulp Association and the National Paperboard Association, the overall national associations of the pulp, paper, and paperboard industry.

For more than a year our industry has had under intensive study the broad subject of tariffs and trade, with particular emphasis on the policies necessary to meet the current trading realities brought about by the development of the European Common Market.

After lengthy consideration and with detailed communication throughout the paper and paperboard industry, we were able recently to have formally adopted an industry policy position. I will not read these statements but have appended them to this testimony for your further consideration.

We wholeheartedly support the need for tariff legislation which will assure that our domestic pulp, paper, and paperboard producers be given the opportunity ultimately to compete with foreign producers on equal terms in all world markets.

We expect the same tariff treatment and other trading privileges as the pulp, paper, and paperboard industry of other countries producing like products for world trade.

Our policy statement indicates the willingness of the domestic pulp, paper, and paperboard industry to accept freer trade but on a basis that would assure equality of tariffs both on imports and exports. Our industry wants legislation to assure us that this equality will not be circumvented by devices such as excise taxes, quotas, allocations, licensing arrangements, and currency exchange restrictions. We want the most-favored-nation tariff concessions to be granted only when identical concessions are received by the United States from such favored nations.

Our industry is fully aware of the important stake which it has in international trade. Few commodities, no matter what their nature or degree of processing, surpass imports of pulp, paper, and paperboard products, which now total over $1 billion annually. This is a reflection, of course, of the substantial imports of pulp and newsprint from Canada.

We also have a smaller but nevertheless substantial growing volume of exports, totaling nearly a half billion dollars, which we expect will expand further. This expectation might be realized or it might be dispelled, depending in large part on the nature of the legislation that will be passed by the Congress.

A summary of our industry's 1961 import and export levels follows:

[Millions of dollars]

	Imports	Exports
Woodpulp	$303.0	$159.0
Newsprint	715.0	23.0
Other paper, paperboard and products	71.7	256.7
Total	1,089.7	438.7

According to the latest Census Bureau statistical analysis, the value of imports of pulp, paper, and paperboard products ranked third among all commodities imported.

We have had a substantial background of participation in national debates on tariff and trade legislation, including a detailed submission some years ago to the Randall Commission which had been studying this vital area of our Nation's economy.

Furthermore, in 1958, during the course of congressional hearings, our Association endorsed extension of the Trade Agreements Act of 1934.

This endorsement included some reservations about the bill then pending, the particular one being the necessity of effecting true reciprocity in trade agreements negotiations.

This reservation, we feel, has stronger validity today with respect to H.R. 11970.

I mentioned earlier the tremendous value—in excess of a billion dollars—of woodpulp and newsprint imports during 1961. This volume is accounted for partly because both of these commodities are duty free, a status with which we take no exception.

They are truly international commodities, and we believe they should be duty free, quota free, and restriction free, worldwide.

Imports into the United States market for commodities of our industry, other than newsprint and pulp, amounted in 1961 to some 72 million dollars. Of this volume, the major portion consisted of so-called primary grades of paper and paperboard, and, based on 1961 imports, had a weighted average duty of 7.8 percent.

Quite plainly, therefore, we have low tariffs on paper and paperboard imported into this market in contrast with the substantially higher tariff barriers we confront when we seek to export our products to other world markets. We do not seek anything by way of further domestic tariff protection from current low levels.

Rather, our view is outward-looking and seeks export market expansion for commodities based in part on a lowering of relatively high foreign tariffs.

Our industry's concern with international trade primarily centers about the European Common Market, not only as presently constituted, but more importantly as possibly expanded by the addition of some members and associate members of the European Free Trade Association (EFTA), and particularly our natural competitors, Norway, Sweden, and Finland.

In 1961 our industry's exports to Western Europe exceeded $165 million, split almost equally between the Common Market and EFTA. Approximately two-thirds of our $88 million worth of sales in the Common Market countries is concentrated in Western Germany and Benelux.

However, products exported to these countries will be subject to higher duties as the Common Market adjusts to the projected common external tariff because Germany and Benelux have had tariffs that were lower than those of other Common Market members.

The market's new common external tariff includes many unwelcome changes. Previously pulp was duty free into the Benelux countries and Italy, and partially so in West Germany. Newsprint was not subjected duty in France and West Germany.

Our industry is much concerned with the European Common Market's common external tariffs on pulp and paper, which are 6 percent on wood pulp, 7 percent on newsprint, and an average 18 percent ultimately on all other papers, paperboards, and products.

Contrast this to our U.S. tariff structure as cited before, with pulp and newsprint duty free and dutiable primary paper and board grades carrying an average duty of 7.8 percent.

We believe that pulp and newsprint should be recognized worldwide for what they are—commodities essential to the well-being of any economy. There is complete justification for duty-free treatment of these commodities. Our President should be authorized to negotiate in depth with the Common Market, to the end that their common external tariffs on both pulp and newsprint should be eliminated and their projected duties on all other paper and paperboard grades eliminated or substantially reduced.

We strongly endorse efforts by the Canadian and United Kingdom Governments to promote duty-free entry of pulp and newsprint everywhere and the elimination of all other forms of control, such as quotas, excise taxes, and exchange and licensing devices.

Basic to everything we have to say, this industry believes that it is time to adjust tariffs so that identical tariffs for our industry may be arrived at on pulp, paper, and paperboard for the Common Market group and the United States, item for item.

In substance, only equality of treatment is asked for.

Our industry is deeply concerned with the problem of the expansion of the Common Market by joinder of some or all of the eight member nations of the European Free Trade Association.

This is so because EFTA includes our industry's principal historical competitors in world export trade—Norway, Sweden, and Finland, and, to a lesser degree, Austria.

EFTA already poses a great problem by reason of the Scandinavian members' eventual duty-free entry into the United Kingdom, to which our industry exported $28.9 million of dutiable commodities in 1961.

Scandinavian entry into the Common Market carries with it the specter of their eventual duty-free entry into our largest market today, while our exports must try to hurdle the tariff barriers already enumerated.

In effect, Scandinavia will have gained an insurmountable advantage, thus effectively foreclosing our export efforts. Even worse, it means our historical world competitors will not only have an advantage in the Common Market but will have the free entry of pulp and newsprint into the United States plus our low rate of duties on paper and board.

Certainly whenever Common Market producers of a commodity are or become substantial exporters, they should not have the advantage of lower duties into the United States—lower duties into the United States than they permit into their countries into the Common Market.

One of our industry's chief reservations in endorsement of the policies indicated in the Trade Expansion Act is the problem of the most-favored-nation principle. In the past, administration of this principle has meant that there is, in effect, no most favored nation for the reason that tariff concessions granted a negotiating nation have been automatically extended to all others.

On the paper segment this has worked out so that tariff concessions to low-tariff countries have been extended to large producing countries, with the result that such countries have the benefit on their exports to the United States of our low average duty of less than 8 percent on dutiable primary grades while maintaining their high duties on our exports to them.

Our industry believes that operation of the most-favored-nation principle should be modified so as to give effect to what it says. We advocate a two-way variable tariff so that countries supplying paper and paperboard to the United States would not benefit from concessions granted by the United States to other countries unless the supplying countries granted similar concessions with respect to their imports of paper and paperboard from the United States. In all instances, tariffs should be identical in the United States and the supplying country.

Given equal opportunity with Scandinavia to serve West European markets, our industry can do much to strengthen our domestic economy and aid our national balance-of-payments problem.

Our industry's role in U.S. international trade is a major one, because as I have already stated annual imports are a billion dollars, while exports are just under a half billion.

More importantly, our exports have doubled within the last 7 years. Granted the treatment we now seek, exports from present levels can be doubled again, and the U.S. balance-of-payments picture substantially improved.

Now I shall comment briefly on specific sections of H.R. 11970. Before doing so, however, I should like to state for the record that we are encouraged that the main thrust of the President's program is directed toward the goal of expanded exports.

We are in complete accord with sections 241 and 243 of the bill which provide for a special representative for trade negotiations, advice from industry, and Members of the Congress accredited to the negotiations. This is a sound and healthy step.

With respect to section 202, providing the authority for low-rate articles, the President is empowered to proclaim duty-free treatment for any article which is subject to the rate of duty existing on July 1, 1962, of not more than 5 percent ad valorem, or the equivalent thereof.

We do not believe that because a commodity which perhaps has been greatly reduced during the negotiations under the Reciprocal Trade Agreements Act to such a low level, should, therefore, simply be classified as a duty-free item.

If such treatment is to be accorded such low-duty items, in any event, these reductions too should be made in separate stages.

Furthermore, we don't feel that there should be any reductions of any duty without the certainty of obtaining a comparable concession for a reduction or elimination of a tariff on the same item.

The Secretary of Commerce, in his testimony relating to this section, thought commodities with 5 percent or lower duty rates might be helpful as an aid to our bargaining position. We feel it should be made quite plain in the statute that the elimination of such duties may be bargained away for concessions which will result in time in an equally low tariff on the same item for the Common Market and in any case they should not be unilaterally eliminated.

With respect to section 201(b), for those articles whose duties have already been decreased by 50 percent or more since the start of our reciprocal trade program in 1934, negotiations for reductions of U.S. tariffs should be only upon a basis which assures mutual percentage reductions of tariffs in the United States and in the foreign country—article for the corresponding competitive article imported into the United States.

This is the only way that Congress can be assured that those industries whose protection has already been substantially taken away from them will not be further sacrificed to enrich other industries.

To this end, we suggest that title II of H.R. 11970, Trade Expansion Act of 1962, be amended by eliminating from section 210(b) the word "or" at the end of subsection (1) thereof, and by changing the number of subsection (2) thereof to subsection (3), and by adding a new subsection (2) thereto to read as follows:

(2) decreasing any rate of duty upon an imported article below 50 percent of the rate existing on July 1, 1934, unless the rate of duty upon each article which is like or directly competitive with such imported article is also being decreased by a like or greater percentage in the foreign country with which such trade agreement is made; or

Moreover, negotiations should be carried out from realistic foreign tariff rates actually in existence and not from artificial tariff rates which might in fact be substantially ignored because of duty-free allocations, foreign exchange controls, quotas, or other limitations. This is necessary, as many foreign countries have tariff rates upon many articles which they may not have enforced because of duty-free quotas or other reasons.

To this end, we suggest that section 211 be amended by adding a new subsection (f) to read as follows:

(f) Any negotiation for reduction of duty upon any article to be imported into the European Economic Comunity shall be negotiated on a basis which only includes in the common external tariff for the European Economic Community tariff rates actually in existence and not artificial tariff rates which may in fact have been substantially ignored because of duty-free allocations, foreign exchange controls, quotas, or other limitations.

We endorse section 253 which establishes a 5-year staging period for effecting tariff reductions.

We are opposed to the adjustment-assistance provisions to firms and workers as set forth in chapters 2 and 3 of title III of this bill because the Small Business Administration is ready and able to take care of the financial needs of any firms which may be injured by foreign competition, and adversely affected workers are protected by unemployment insurance, the Area Redevelopment Act, and the Manpower Development and Training Act.

H.R. 11970 merely superimposes another additional program on a special basis which largely duplicates existing Government activities and complicates the respective roles of Federal and State Governments.

We specifically object to the wording of section 251, relating to the most-favored-nation principle. We recognize that this has been a traditional and time-honored part of our tariff legislation, but feel that its implementation has created serious problems.

It is our view that no most-favored-nation concessions should be granted to any country producing our products for export trade without receiving from them, in turn, similar concessions with respect to their imports of the same products from the United States.

In all instances tariffs should be identical in the United States and in these supplying countries which are favored by the favored-nations concept.

In his message to the Congress, the President indicated that this principle would be followed, and Under Secretary Ball also testified before the House Ways and Means Committee that—

to the extent that such nations receive substantial and incidental benefits, we shall expect to receive concessions from them.

Furthermore, Secretary Hodges, in commenting on this section, spoke of the formula which contemplates the retention of the most-favored-nation principle—

while at the same time by definition minimizing somewhat any problems that might otherwise arise out of extending major reductions to third countries.

We see nowhere in the bill such a definition that would meet the needs, as we see them, relating to our industry. We believe H.R. 11970 should incorporate the provision that we have suggested.

Summing up, I would state that our industry is today an export-minded industry, an industry with low tariff levels into our market in the United States, and an industry that faces relatively high tariffs in its markets abroad, coupled with discrimination to which its products are subjected in competition with other producing countries. Ours is an industry that can substantially expand its export sales volume and thereby increase employment, improve profits, and help our Nation's balance-of-payments problem.

We firmly believe the President should be given bargaining power to enable him to negotiate trade agreements to the end that present discrimination will be eliminated and further future discriminations prevented.

Thank you.

(The attachments referred to follow:)

STATEMENT OF POLICY ON THE TRADE EXPANSION ACT OF 1962 OF THE AMERICAN PAPER AND PULP ASSOCIATION, NEW YORK, N.Y., FEBRUARY 22, 1962

Because pulp and paper exports face discrimination as the internal tariffs of the European Common Market are reduced to zero within the next few years, and

Because the U.S. pulp and paper industry will face discrimination and undue penalties to its trade as a result of the mechanism by which the external tariff of the Common Market group is derived, and

Because the U.S. imports annually approximately $1 billion of pulp and paper commodities and exports approximately one-half billion dollars a year, it is essential to maintain and desirable to increase our current export volume to improve our domestic economy and to help our Nation achieve a satisfactory balance of payments.

Therefore, the pulp and paper industry believes that the new reciprocal trade legislation to be passed by Congress should give the President power to negotiate with the Common Market upon a basis which assures to our industry a mutual reduction of tariffs to arrive at identical tariffs for the Common Market group and for our industry item for item.

Further, we urge that the reductions in Common Market external tariff rates be negotiated from realistic tariff rates which were actually in existence and not artificial tariff rates which were in fact substantially ignored because of duty-free allocations, foreign exchange controls, quotas, or other limitations. Nor should any of these restrictive practices be employed in the future. We are in accord with the proposal that this should be done gradually in five steps which ultimately can bring free trade to both groups for pulp and paper products. We also endorse the efforts being pursued by many groups throughout the world to promote duty-free and quota-free entry of newsprint and pulp everywhere.

In view of the extensive revisions contemplated in these trade relationships we believe that the operation of the most-favored-nation clause must be modified, to limit its application solely to mutually satisfactory and reciprocal agreements negotiated with such other countries providing for identical tariffs effective in the United States and such other country.

STATEMENT OF POLICY BY NATIONAL PAPERBOARD ASSOCIATION ON THE TRADE EXPANSION ACT OF 1962

Because pulp, paper, and paperboard exports face discrimination as the internal tariffs of the European Common Market are reduced to zero within the next few years, and

Because the U.S. pulp, paper, and paperboard industries will face discrimination and undue penalties to its trade as a result of the mechanism by which the external tariff of the Common Market group is derived, and

Because the United States imports anually approximately $1 billion of pulp, paper, and paperboard commodities and exports approximately one-half billion dollars a year, it is essential to maintain and desirable to increase our current export volume to improve our domestic economy and to help our Nation achieve a satisfactory balance of payments, and

Because the pulp, paper, and paperboard industries are made up of many associations and companies producing many different items of pulp, paper, and paperboard which combined should be considered a category of products.

Therefore, the pulp, paper, and paperboard industries believe that the new reciprocal trade legislation to be passed by Congress should give the President power only to negotiate with the Common Market, product category by product category, upon a basis which assures to our industries a mutual reduction of pulp, paper, and paperboard tariffs and to assure our industries of identical tariffs for the Common Market group and for our country on pulp, paper, and paperboard as a category of products.

Further, we urge that the reductions in Common Market external tariff rates be negotiated from realistic tariff rates which were actually in existence and not artificial tariff rates which were in fact substantially ignored because of duty-free allocations, foreign exchange controls, or other limitations. Nor should any of these restrictive practices be employed in the future. We are in accord with the proposal that this should be done gradually in five steps which ultimately can bring free trade to both groups for pulp, paper, and paperboard products. We also endorse the efforts being pursued by many groups throughout the world to promote duty-free and quota-free entry of newsprint and pulp everywhere.

In view of the extensive revisions contemplated in these trade relationships, we believe that the operation of the most-favored-nation clause must be modified, to limit its application solely to mutually satisfactory and reciprocal agreements negotiated with such other countries providing for identical tariffs effective in the United States and such other countries.

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

Senator CARLSON. Mr. Chairman.

The CHAIRMAN. Senator Talmadge was unable to be here today and he requested the chairman to ask you certain questions.

What is the duty rate on paperboard coming into the United States?

Mr. TICOULAT. Duty rate on paperboard coming into the United States is 7½ percent.

The CHAIRMAN. What is the Common Market external duty on paperboard.

Mr. TICOULAT. On paperboard and paper it is 18 percent.

The CHAIRMAN. You are requesting that the bill limit the President's authority to decrease duty rates in those cases where duty rates have already been decreased as much as 50 percent of the—of what would be the rate existing on July 31, 1934.

Have the duty rates on most articles in the paper and paperboard field be reduced by as much as 50 percent from the rates existing on July 1, 1934?

Mr. TICOULAT. Yes, sir, they have. They have been increased as much as and more than 50 percent on at least half, more than half of the paper.

The CHAIRMAN. Would it make it less likely that adjustments assistance would be needed by your industry or other industries if the bill assured each respective industry that some tariff reductions abroad would be obtained for their particular articles before reductions were made in the U.S. tariffs on the same articles?

Mr. TICOULAT. Well, I feel, our industry feels, that title III assistance provisions should not be, or that portion of the bill should not be passed anyway. If we were to receive these equivalent tariff reductions insofar as our industry is concerned, it would—there would be less need for assistance of this type.

The CHAIRMAN. The last question is would you consider your industry to be protectionist-minded?

Mr. TICOULAT. On the contrary.

Our industry is free trade minded. What we want is equality of opportunity to compete in any and all world markets. We don't want discriminations.

The CHAIRMAN. Thank you very much.

Senator Carlson?

Senator CARLSON. Mr. Ticoulat, as I understand your statement, your organizations and the folks you represent are very much in favor of expanded trade but at the same time you want it to be truly reciprocal.

Mr. TICOULAT. That is correct, Senator.

Senator CARLSON. You represent a fine group of people in the Midwest, some of them in Kansas, that I am acquainted with. I would ask you if you have submitted for the record proposed amendments to these sections.

Have you submitted language for the amendments?

Mr. TICOULAT. Yes, we have, Senator. It is included in my written statement.

Senator CARLSON. The reason I wanted to make that inquiry, I have received copies of some proposed amendments from my home State that you were sponsoring. If it is in the record why I appreciate it very much.

Mr. TICOULAT. And I will recheck it if we have omitted it. We will be sure that it is included and present it to you.

Senator CARLSON. Thank you very much.

The CHAIRMAN. Thank you, Mr. Ticoulat.

Mr. TICOULAT. Thank you.

The CHAIRMAN. The next witness is Mr. Robert B. Semple of the Manufacturing Chemists Association.

Mr. Semple, will you take a seat, sir, and proceed?

STATEMENT OF ROBERT B. SEMPLE, PRESIDENT, WYANDOTTE CHEMICAL CORP., APPEARING ON BEHALF OF MANUFACTURING CHEMISTS' ASSOCIATION

Mr. SEMPLE. Mr. Chairman, I am Robert B. Semple, appearing today as spokesman for the Manufacturing Chemists' Association, comprising 182 U.S. member companies.

I am also president of Wyandotte Chemicals Corp., Wyandotte, Mich.

I have with me Mr. Lloyd Symington, a partner in the law firm of Fowler, Leva, Hawes & Symington, who is our general counsel and who has worked with us in the prepartion of this material.

Mr. Chairman, the Manufacturing Chemists' Association member firms account for approximately 90 percent of all U.S. chemical production, and our industry serves all 79 of the major industrial categories listed in the Standard Industrial Classification of the U.S. Government.

The U.S. chemical industry employs 832,000 workers, and annual sales of chemical and allied products total some $30 billion. We have a vital interest in foreign trade. Exports of chemical and allied products last year were $1.725 billion, about 6 percent of domestic sales. Imports in 1961 totaled $390 million. This favorable chemical export-import balance of $1.3 billion last year represents more than 40 percent of our Nation's total favorable commercial trade balance.

Obviously, we would like to see this continued, and we therefore favor the President's goals to expand international trade.

At the outset, I should like to clear up some misunderstanding that seems to have been in the public mind regarding the chemical industry's true attitude toward the Trade Expansion Act. The fact is the MCA cannot support H.R. 11970 as written, and we urge that it be modified to accommodate at least the three major recommendations I will describe in a moment.

We do, of course, recognize valuable changes in H.R. 11970 over H.R. 9900; namely, to improve safeguards in the prenegotiation stages; to provide for a chief negotiator in whom overall responsibility would be centered; and the inclusion of an escape mechanism. Further, the more careful draftsmanship in H.R. 11970 regarding guidelines should avoid unwarranted dislocations in negotiating trade agreements under the new authority.

We strongly supported most of these changes in our House testimony.

H.R. 11970 NEEDS FURTHER IMPROVEMENT

Now, the major changes that we feel should be made by your committee are as follows:

(1) The bill should assure the presence of qualified industry advisers during the actual negotiations, as well as during the prenegotiation stages.

(2) It should assure true reciprocity in negotiations with the EEC under the dominant supplier authority by requiring the trading of tariff reductions to be on like products or categories; and by eliminating the possibility of trading industrial benefits for agricultural benefits in any trading situation.

(3) It should eliminate completely chapters 2 and 3 of title III of the bill covering adjustment assistance provisions, as being unnecessary.

THE CHEMICAL INDUSTRY

Before I describe in detail our industry's major concerns and proposals, I should like to provide a brief background on the chemical industry. This research oriented, highly diversified complex spans our Nation, and involves virtually all industry effort, agriculture, and consumer products.

In fact, it would be accurate to view chemical production as a family of industries, rather than a single industry. We feel strongly that every effort should be made to encourage rather than inhibit its continued growth.

Chemical research has paced our Nation's progress in every field, and new horizons are constantly appearing as a result of basic and applied research in our laboratories; thus we are in a state of constant change, both affected by and influencing the changing world we live in. Ours is a fascinating, dynamic kaleidoscope of activity. We feel strongly that the continuity of this industry's contribution to our Nation's vitality should not be jeopardized by unwise tariff reductions.

COMMON VIEW ON BILL FROM DIVERSE OPINION

Our industrial complex quite naturally generates a wide range of views on almost every subject, and I must say that we have heard many different views expressed about H.R. 9900 and H.R. 11970 from chemical executives.

But I think it is important for you to know that the 30-man board of directors of the Manufacturing Chemists' Association unanimously endorsed the position I set forth today for your consideration.

So, despite its diversity, the MCA does support a common view about H.R. 11970, and has agreed on certain recommendations for changes which it sincerely believes are constructive and would strengthen and improve the bill.

Since the chemical industry is, in a very real sense, a cross section of all industry, the common ground which the MCA has been able to reach on this bill should provide the basis for sound legislation.

TRENDS INFLUENCING CHEMICAL INDUSTRY

With this background of the Manufacturing Chemists' Association and the chemical industry, I should like to mention certain trends which condition our attitude toward H.R. 11970, as the bill is written, and which give us cause for concern.

First, as an industry, we are losing our traditional low-cost advantage. Recent studies by the National Industrial Conference Board, the A. D. Little Co.—which you heard about yesterday from Mr. Gerstacker—and the MCA member companies' own studies, verify that U.S. chemical production costs are no longer generally lower than the costs of our principal foreign competitors.

Second, we are experiencing increasingly effective competition from Europe and Japan—nations which constructed new, modern, automated plants in the postwar years.

Most of us know our European competitiors well. We have seen many of their operations. Believe me, we have a healthy respect for their capabilities. These nations have demonstrated efficient utilization of manpower at substantially lower payroll costs, and they enjoy a more favorable industry-government climate.

Indeed, our foreign competitors in the free world have shifted gears. They are very much in the race in today's competitive picture and are gaining momentum every year. In addition, the EEC is just beginning to function, and, as it gets rolling more and more chemicals produced there will achieve the economies of volume production.

As an aside I might say that really this is all coming at a moment when we are almost at a crossroads. They are coming up very rapidly. It is not a moment to establish permanently what the trends may mean.

Third, we believe that the full impact of tariff cutting to date has not been, nor can be, properly evaluated. The export-import balances are shifting in a number of products.

For example: Imports of titanium dioxide, an important white pigment for paints, paper, and so forth, have increased from negligible amounts in 1956 to over 9,000 tons in 1961, while exports have dropped from 64,000 to 31,000 tons in the same period; imports of polyvinyl alcohol, mainly from Japan, where costs in their modern production facilities are considerably below ours, are now accounting for about 10 percent of the U.S. market; trichloroethylene, a large-volume chlorinated solvent from Europe, has taken over approximately 15 percent of the domestic market; and imports of ferromanganese now account for better than 20 percent of domestic sales.

These are examples of substantial chemicals where, say, 5 years ago we had substantial export markets and comparatively low imports, and today the shift is going the other way.

I go into this detail to explain a concern of ours that much of the thinking of the administration and the majority of the House Ways and Means Committee, as expressed on page 7 of House Report No. 1818, is based on the belief that, in general, U.S. industry has a cost advantage over foreign competitors. Obviously, policies and actions taken by the administrators of this bill could be quite different on this assumption of general low-cost advantage than under a recognized situation of higher competitive costs.

The chemical industry believes that, for many of its processes, it does not enjoy a general low-cost situation. Rather, there is evidence to indicate that the trend is running against us.

ASSURE EFFECTIVE INDUSTRY ADVICE AT ALL STAGES

Turning now to our specific views on H.R. 11970, it appears wholly logical and reasonable to us that the chief Government negotiator and members of the U.S. negotiating team should at all stages have the benefit of experienced industry counsel. We view this sort of partnership as an essential ingredient in the trade formula.

We feel strongly, however, that this informed industry advice should be available to our chief negotiator, not only during the prenegotiation studies, but also during the actual negotiations—which we understand is the case in most EEC nations.

As written, H.R. 11970 does not provide for such on-the-spot availability of any industry advisers. We feel this assurance should be written into the bill, not only to make the evolution of freer trade less risky for American industry, but also to make negotiations more beneficial to the Nation.

We recognize that this recommendation imposes serious obligations on both Government and industry. Both must be knowledgeable, reasonable, and objective.

As we visualize it, industry advisers would not be members of the official U.S. negotiating team, but they would be present to provide expert counsel and offer recommendations.

The number of advisers and the details of the liaison are perhaps matters for later discussion with the chief negotiator. But we believe it is absolutely essential that H.R. 11970 include the basic agreement to provide such partnership. This the MCA strongly recommends.

ASSURE PROPER RECIPROCITY

We believe that negotiations with the EEC, under the dominant supplier authority, should be truly reciprocal. Trades should be based on carefully evaluated like articles or like categories which are narrower than the three digit S.I.T.C. classifications. The concept or theory of the original EEC dominant supplier provision, as we understand it, was to make possible a free trade area between the EEC and the United States in relatively competitive products. In other words, whatever products qualify for the free trade concept should be tradable by both partners. There appears to be reference and agreement on this point on page 15, lines 16 through 25, of House Report No. 1818. We believe it should be written into the new law.

I must express serious personal reservations on the practicality of the concept of such a free trade area, at least until we know a good deal more about how the Common Market and our Atlantic partnership will develop. It just seems to me one cannot have free trade unless one has it under like rules of the game. For example, we would really need uniform international laws to assure fair competition and prohibit dumping. It is true we do have an antidumping mechanism, but any reasonable examination of the application of our procedures would indicate that it is difficult to prove the facts necessary to obtain relief.

As a further measure to assure proper reciprocity, the reserve list should be used whenever serious questions of quid pro quo arise as to particular items, and whenever the application of the most-favored-nation policy in respect to items manufactured by third countries might be harmful to domestic industry.

This most-favored-nation policy is certainly a controversial question and there was reference to trying to assure its use on a fair basis in the approach of the administration to the bill, but this hasn't found its way into the bill.

For other negotiations under the general authority (secs. 201 and 202), we urge that industrial products be traded for industrial products only. The chemical industry is adamantly opposed to the trading of chemicals or other industrial products for agricultural concessions in any negotiating situation. This is possible under H.R. 11970, and we hope the bill will clearly state the foregoing restrictions.

ELIMINATE ADJUSTMENT ASSISTANCE

We object strongly to chapters 2 and 3 of title III, covering adjustment assistance, as being inequitable and unnecessary. This elaborate mechanism to protect a few hundred firms and an estimated 18,000 workers annually ignores present laws which are designed to assist the far greater number of workers displaced as a result of more than 17,000 normal business failures each year.

In any event, it appears more reasonable to the MCA that Americans should work together to avoid injury than to devise a plan to stop the flow of blood after we have been wounded, or to provide an escape hatch for a poor trade.

Frankly, the great emphasis on adjustment assistance seems to us a strange way to instill confidence in a new bill that is designed to boost our economic activity, and we cannot justify in our minds the need for these special provisions in the light of existing law.

OTHER PROPOSALS

Apart from these three major areas in the bill which we feel require modification by your committee, we have two other concerns which we suggest should be remedied.

We recognize that more effective Government-industry liaison should uncover situations wherein our patent and trademark rights are ignored abroad, or where other discriminatory treatment by a foreign nation is evident, so that the United States might take action to suspend benefits extended to the offending country or countries.

Nevertheless, this problem of nonrecognition of our patents and trademarks should be fortified by specific reference in section 252 of the bill.

Secondly, we appreciate that industry is assured, under section 221, of a full hearing before the Tariff Commission on each article on the proposed negotiating list, and that the Commission must determine in each case the probable economic effect, or peril area, of any proposed reductions in duty. However, to make these safeguards even more meaningful, we feel strongly that in regard to the action of the President in any peril area (which replaced the old peril point), section 226 should specifically require the President, in his report to Congress, to explain his reasons whenever he has not followed specific Tariff Commission findings.

SUMMARY

In summary, we feel that the following amendments to the bill are essential:

(1) Language to assure participation by industry, in an advisory capacity, during both prenegotiation study and actual negotiations.

(2) Language to assure true reciprocity in terms of trading tariff reductions on like products or categories of products under the EEC dominant supplier authority; and trading industrial-products for industrial products under the 50-percent authority, and eliminating the possibilities of trading industrial benefits for agricultural benefits.

(3) Elimination of the adjustment assistance provisions in title III, chapters 2 and 3, as unnecessary, conducive to weakening our negotiator's stand, and establishing an undesirable precedent for liberalizing other unemployment and Government hardship benefits.

(4) Language assuring suspension of benefits to nations which do not recognize U.S. patents and trademarks (sec. 252).

(5) Language assuring a more definitive and responsive report to Congress by the President under section 226 whenever he has not acted in accordance with the Tariff Commission's findings on probable economic effect as to any given article.

As I stated before the House Ways and Means Committee, we are concerned with the fact that treatment of tariffs, which is the principal feature of this bill, is only one of a number of basic considerations affecting our ability to compete and trade internationally. Other direct trade restrictions such as quotas, licensing, currency restrictions, and state trading also have a major effect on our ability to compete abroad.

Furthermore, basic factors of our own national policy which contribute to industrial efficiency, such as wage policy, and the broadening base of subsidized parts of our economy, cannot possibly be treated by this bill, but all must be related to it in terms of the probable effects upon international trade.

No trade bill, standing alone, can solve these problems. We believe that this is all the more reason for the Congress to continue to supervise the administration of this legislation to make sure that it is in keeping with all these various trends in our national economy.

In closing, I would like to say that regardless of what bill is passed, we believe much more effort must be made on the part of both business and Government to work together to further the best interests of our country. The chemical industry stands ready to do its part.

Thank you for the privilege of appearing here today.

The CHAIRMAN. Thank you very much, Mr. Semple. I want to commend you for your statement in which you strongly oppose the adjustment assistance.

Senator CARLSON. Mr. Chairman, if I may state I think the suggestions in the summary are very good and I sincerely hope we will be able to give consideration to each and every one of them.

Mr. SEMPLE. Thank you, Senator Carlson.

The CHAIRMAN. Thank you very much.

The next witness is Mr. David M. Crawford of the Abbott Laboratories.

STATEMENT OF DAVID M. CRAWFORD, SECRETARY AND GENERAL COUNSEL, ABBOTT LABORATORIES

Mr. CRAWFORD. Mr. Chairman and members of the Committee on Finance, my name is David M. Crawford. I am secretary and general counsel of Abbott Laboratories.

Our company appreciates your granting us time to be heard on the Trade Expansion Act of 1962.

Abbott Laboratories is a pharmaceutical and chemical manufacturing company incorporated in Illinois with headquarters in North Chicago.

From virtually a one-man beginning in 1888, we have expanded into a concern which now employs 9,000 persons in the United States and abroad. Our sales last year were about $130 million, of which export sales and sales by our subsidiaries overseas accounted for $35 million.

Abbott Laboratories has been in the international business for over 30 years. We presently have subsidiaries in 36 countries beyond our borders, with manufacturing plants in 22 of them.

Our company is in favor of the stated purposes of the Trade Expansion Act of 1962. However, we have several basic reservations about the act. These I wish to comment upon.

ABBOTT'S FAVORABLE BALANCE OF PAYMENTS

Since Abbott's initial export ventures in Latin American countries, in the 1920's, we have established successful manufacturing operations in Europe, Africa, and the Far East.

This oversea expansion has benefited Abbott, as well as our national economy.

The figures from these oversea operations are impressive. Abbott's total inflow during the period 1956–60 was $59 million, while the outflow was a little over $2 million. The net contribution to this country's balance of payments reached $57 million. Abbott's rate of expansion in its foreign operations was greater during this same 5-year period than during any other similar period since we began our international operations.

TARIFFS AS A COST OF DOING BUSINESS ABROAD

U.S. companies do not as a rule manufacture abroad if they can legally and competitively export from their domestic plants. The pharmaceutical industry found that oversea manufacturing and packaging operations were necessary, not only to penetrate the markets protected by restrictive tariff barriers and import restrictions due to exchange shortage, but also to meet local health and drug regulations.

Tariffs are an important element in the cost of our international operations. For example, in 1961, tariffs paid by Abbott's oversea subsidiaries amounted to approximately 12 percent of their inventory costs. The tariff costs for our subsidiaries in the EEC hit an even higher 22 percent.

Consequently, we have something to gain by the reduction of these tariffs. However, elimination of tariffs alone will not necessarily result in expanded trade.

In addition to tariffs, most international companies have run into many other barriers to international trade. These include taxes, foreign exchange regulations, and protectionist measures, some of them for national security reasons.

Each of these is a roadblock to free trade; all will continue to be roadblocks even if existing tariff restrictions are lowered or eliminated.

COMMONSENSE IN THE COMMON MARKET

The appearance of the Common Market is potentially the most powerful trading block on the horizon of international commerce is very much in the minds of this country's business community. We are aware that we are dealing with a rejuvenated, aggressive competitor whose governments are favorably disposed toward business. The EEC is a competitor whose administrators have demonstrated their willingness and ability to assist business in every possible way.

This we believe is commonsense in the Common Market.

The Treaty of Rome recognizes that the elimination of internal tariffs alone will not bring about free trade between, and consequent benefits to, its members. But most important of all, the administrators of the EEC and its member governments recognize that enlightened cooperation between business and government is an absolute must for economic growth. Tax exemptions, anti-inflation steps and various fiscal measures have been undertaken by EEC governments in this spirit of understanding and cooperation.

Need we be surprised that business activity in the EEC is inspired by dynamic confidence?

On the other hand, our Government's attitude toward business has been puzzling and contradictory. From what we have seen of recent policies we are apprehensive that the nations which will benefit the most from passage of the Trade Expansion Act may not include our own.

As an example, we would cite H.R. 10650, the administration's proposed discriminatory tax treatment of oversea subsidiaries.

INCONSISTENCIES BETWEEN H.R. 11970 AND H.R. 10650

If both H.R. 11970 and H.R. 10650 should become law, the prospect of achieving the objectives of the Trade Expansion Act will be severely limited, even to the point of making them impossible.

H.R. 10650 will drastically curtail the ability of all American companies to reinvest overseas in facilities to serve their markets effectively, while their oversea competitors are not only permitted but are encouraged by their governments to invest in new plants and equipment.

American companies would not, under the proposed tax bill, be able to compete with trading companies owned by European corporations and selling throughout the world.

In his statement submitted to this committee May 3, 1962, Mr. George R. Cain, chairman of the board and president of Abbott Laboratories said:

> Abbott Laboratories and, I believe, most U.S. businesses are in favor of the concept of free trade. We welcome the chance to compete freely in world markets. We cannot live and prosper, however, in a situation where the hands of U.S. companies are bound and our foreign competitors are given free license to enter any and all markets, both abroad and here in the United States. This will be the situation if both H.R. 10650 and H.R. 9900 (H.R. 11970) became law.

RESERVATIONS ON ADJUSTMENT ASSISTANCE

Our company has serious reservations about the adjustment assistance features of the bill, both as to industry and labor.

(*a*) As to industry, we note that the bill has retained the main safeguard for prevention of hardship to American business which might be caused by increased imports to the United States. Thus no further palliatives are now needed.

One retained safeguard is the "escape clause." If properly administered, this should give sufficient protection to those segments of American industry adversely affected by increased imports to the domestic market.

Any additional "adjustment assistance" would amount to cumbersome interference with the laws of the marketplace and to the overall advancement of our economy.

(*b*) As to labor, we also oppose adjustment assistance. Existing unemployment legislation can do the job, at least until the need for further assistance is demonstrated.

(*c*) Moreover, we feel that if any additional aid is needed, the amount will not be known for several years. Would it not be preferable for a future session of Congress to legislate on the basis of fact rather than now on the basis of speculation?

Parenthetically, we would like to mention that under section 211 of this bill it would appear that the Tariff Commission has the exclusive power to determine which articles should be included in each category. The bill would not seem to offer any opportunity for those concerned to be heard on the classification before it is made final. If no hearing is provided by law, we believe this bill should correct such an important omission.

SUMMARY

To summarize, I wish to emphasize again that we at Abbott Laboratories welcome free trade. It is absolutely essential, however, that the American business community stride into this new era of free trade with confidence—and on an equal basis. This we cannot do unless the unwise tax provisions dealing with foreign operations are eliminated from H.R. 10650.

This is not the time to experiment on two unknown fronts. Actual experience should be gained from such consequences as may follow the passage of the Trade Expansion Act before any changes are introduced in the tax rules now applicable to the oversea operations of American industry. We believe the future will show that tax laws, as an instrument of national policy, should be used to ease rather than to increase the burden of American industry doing business abroad.

Therefore, we respectfully submit that H.R. 11970 will not, in and of itself, bring about trade expansion for this Nation. Unless our Government radically revises its present attitude toward U.S. business overseas the only trade expansion resulting from this bill may accrue to other countries and not to our own.

Mr. Chairman, thank you for the opportunity to make this statement before your committee.

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

Any questions?

Thank you very much, sir.

Mr. CRAWFORD. Thank you.

The CHAIRMAN. The next witness is Mr. Tom Morris, National Association of Mirror Manufacturers.

Take a seat, Mr. Morris and proceed.

STATEMENT OF THOMAS H. MORRIS, ON BEHALF OF THE NATIONAL ASSOCIATION OF MIRROR MANUFACTURERS

Mr. MORRIS. Mr. Chairman, my name is Thomas H. Morris, I am president of the American Mirror Co. of Galax, Va., and appear in behalf of the National Association of Mirror Manufacturers which is a national trade association whose members, located throughout the United States, are engaged in the manufacture of mirrors. With me here today is Mr. R. J. Helms, president of the Weaver Mirror Co. of Rocky Mount, Va.

Industry position on H.R. 11970: The National Association of Mirror Manufacturers is opposed to H.R. 11970 for a number of reasons but primarily because it would give the President power to eliminate entirely the import duty on mirrors.

The U.S. mirror industry and import competition: So that I may indicate to you the serious adverse effects which we are confident H.R. 11970 would have upon our industry, let me describe first the mirror industry in the United States. I am hopeful you will not consider me imprudent if I say that our industry is a highly efficient one. We are thoroughly automated and we have productive capacity several times the current U.S. market.

As a result, extreme competition pricewise occurs within the industry. In fact the cost of glass represents well over half the manufacturer's sale price for a mirror. There are approximately 30 major manufacturers of mirrors in the United States.

Although we do not have the exact figures, we estimate that about half of the mirrors in the Nation are produced either in Virginia or in North Carolina. Already foreign competition is a serious problem for us.

Many if not most of our companies are operating at a loss. With plants abroad now as fully automated as our plants, it has become possible for the price of imported mirrors to be continually lowered. The average foreign value of mirrors in 1962 according to the import statistics of the Bureau of the Census was only 60 cents per square foot and the average foreign value has been declining consistently in recent years from 82 cents in 1952.

Listed below is a table which indicates the decline in foreign value of imported mirrors.

Average foreign value per square foot imports of mirrors over 144 square inches in size

[Comparable data not available for smaller sizes]

Year:	Average value	Year—Continued	Average value
1952	$0.82	1957	$0.71
1953	.74	1958	.65
1954	.75	1959	.66
1955	.72	1960	.64
1956	.72	1961	.60

Source: Bureau of the Census Commodity Classification 5280000, 5280005, 5280100, 5230105, 5230200, 5230205 combined.

With the depressed condition of the U.S. industry and the declining average value of imported mirrors you might well inquire: How can you operate at all under such condition? The answer is that at present the import duty on mirrors provides us with a measure of protection which partially equalizes our much higher costs of production than exist abroad. Mirrors which are imported measuring more than 144 square inches are dutiable under tariff paragraph 223 on a square-foot basis but not less than 19 percent ad valorem.

This 19-percent duty is the effective rate of duty for all practical purposes and has been reduced from 45 percent ad valorem since 1947. Under tariff paragraph 224 an additional duty of 2½ percent ad valorem is imposed on beveled and decorated mirrors, bringing the total to 21½ percent ad valorem in the case of such mirrors.

As you are aware, under the Custom Simplification Act which is expected to become effective January 1, 1963, there will be established a flat 20-percent ad valorem duty on all imported mirrors measuring more than 144 square inches.

It is this approximately 20-percent duty which maintains us in a near competitive position. If H.R. 11970 is enacted and the President eliminates entirely the import duty on mirrors which the bill authorizes, then the price of imported mirrors in the United States should decline approximately 20 percent of the declared average foreign value. We know this would be runious.

To illustrate my point an interesting but depressing dollar-and-cents comparison may be made between domestic and foreign mirror prices when the two compete in the U.S. market. As I indicated previously, about half of U.S. mirrors are produced in Virginia and North Carolina.

U.S. manufacture of mirrors from a cost standpoint probably is more economical in these two States than elsewhere. However, even in the heart of our own mirror-producing industry it is possible for foreign-produced mirrors of like size, kind, and quality to be offered for substantially less. We have obtained the following price comparisons on mirrors delivered to furniture manufacturers in Virginia and North Carolina:

Mirror dimensions in inches	Price of imported mirrors (Belgian origin)	Price of domestic mirrors produced in Virginia and North Carolina
28 by 38	$5.77	$6.67
28 by 40	5.96	7.03
30 by 40	6.50	7.53

These prices make it apparent why the U.S. mirror industry is frightened beyond description at the prospect of H.R. 11970 being enacted. With the foreign prices at levels indicated above, even with the present rates of duty, the advantage which the foreign suppliers would acquire in the event the import duty should be further reduced or eliminated would be so great that the small advantage which domestic manufacturers now possess because of their reputation for reliability and in being able to make prompt delivery would be overcome.

Glass duty increase: As you are aware, earlier this year the President increased the import duty on some of the types of glass used by mirror manufacturers. There was no compensating increase in the import duty on mirrors manufactured from the same types of glass. We do not oppose the increase in the import duty on the glass because we are convinced that the increase was justified. However, this does make more critical the import competition problem because frequently we find that imported mirrors are sold in the United States for little more than we are required to pay for the glass.

Automation and wages: Formerly many U.S. industries were able to meet foreign competition notwithstanding the much lower wages paid abroad because of higher U.S. productivity and advancement in automation. We are convinced that productivity today in the manufacture of mirrors in foreign countries is on a par with that existing in our domestic plants.

Just as U.S. mirror manufacturers are fully automated, so are our foreign competitors who have and use the same machinery as we use. Therefore, because of this stepped-up automation which has occurred abroad not only in the mirror industry but in other industries, wages paid both here and abroad should be entitled to increased weight in determining what should be an appropriate rate of import duty.

Most imports of mirrors measuring more than 1 square foot are imported from Belgium and most imports measuring less than 1 square foot are imported from Japan. The average hourly earnings in Belgium for nonmetallic mineral products is 60 cents. The average hourly earnings in Japan for nonmetallic mineral products is 35 cents. This compares with the U.S. average hourly earnings for nonmetallic mineral products of $3.28, according to the Yearbook of Labor Statistics for 1961 of the International Labor Office.

Recommendations concerning H.R. 11970: (1) Continue all provisions of the current trade agreements program until June 30, 1963. Although there is broad support for a revised trade program, we find little support for H.R. 11970 in its entirety. Many Members of the House who voted for the bill publicly stated that they did so because they did not have the opportunity to vote for something that they liked better even though expressing disapproval of many of the provisions of the bill.

Truly, there has not and there could not be a proper evaluation of this far-reaching measure in so short a time. I understand that the committee received approximately 125 requests to testify and that because of the number of requests not more than 15 minutes could be allotted for oral testimony to any witness other than governmental witnesses.

An industry such as the mirror industry which could be ruined by this bill must present its defense in 15 minutes. We contend that the provisions of the bill are so far reaching that they must be explored and evaluated thoroughly, which has not been possible and will not be possible in the short time remaining at this session of Congress.

We hear much of the need to give the President authority to bargain with the Common Market. We say that if our officials do not do a better job in bargaining with the Common Market than they have done in past international tariff negotiations that the United States will be far better off if they do not negotiate at all. In short, we feel strongly that the most sensible procedure with everything to gain and nothing to lose is extension of the current program to June 30, 1963.

2. If the committee however does go forward with broad legislation at this session, we have certain recommendations to suggest for amendments to H.R. 11970. We have two recommendations which we consider to be of major importance.

They are as follows:

(*a*) Strengthen the peril point provision of existing law. While the import duty on mirrors measuring more than 144 square inches has been reduced from 45 percent ad valorem to an average 20 percent ad valorem rate at the present time, the peril point procedure has been of value in preventing duty reductions below this level.

We have been able to convince the Tariff Commission that a reduction in the current rate of import duty on mirrors would cause serious injury to the domestic industry and even though the President has violated peril point recommendations of the Tariff Commission in the case of some industries, such has not occurred in the case of the mirror industry.

However, we feel it is vital to continue the peril point procedure which H.R. 11970 would eliminate and in addition to make Tariff Commission peril point findings final and binding on the President so he may not further reduce or eliminate the import duty on mirrors notwithstanding Tariff Commission peril point findings to the contrary as he has done in the case of other industries.

(*b*) The President should be prohibited from reducing the import duty on mirrors and certain other commodities. We urge the committee to include an amendment specifying mirrors and other items on which it is apparent the import duty should not be further lowered and prohibit the President from reducing or eliminating such duties.

In addition to these two requests which we consider to be especially important and vital to our industry, there are other provisions of the bill which we do not look upon with favor.

We consider the adjustment assistance provisions of the bill to be shocking. It is unthinkable that our Government would purposely injure industries and then provide some half-way cure completely in conflict with the basic concepts of our free enterprise system.

The tariff cutting authority in the bill is too broad and grants too much power and the proposed extension of the act for a 5-year period is much too long.

Congress would do well not only to carefully watch the administration of the law, but also to require a congressional review following 2 years in operation.

CONCLUSION

The domestic mirror industry already has its own problems. We are vigorously competing in a market where the supply is much greater than the demand. We believe in the free enterprise system and we feel that in the long run our industry will become prosperous as consumption increases, provided our own Government does not deliberately ruin us by elimination or reduction of the import duty on mirrors.

We earnestly request your careful consideration of our problem and our recommendation.

Thank you.

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

You have made a very clear statement.

We will assure you that the committee will consider your recommendations in executive session when we meet to mark up the bill.

Any questions?

Thank you, sir.

The next witness is Mr. Julian D. Conover, executive vice president, American Mining Congress. Please proceed, Mr. Conover.

STATEMENT OF JULIAN D. CONOVER, EXECUTIVE VICE PRESIDENT, AMERICAN MINING CONGRESS

Mr. CONOVER. My name is Julian D. Conover. I am executive vice president of the American Mining Congress, a national organization representing the various branches of the mining industry of the United States.

The American Mining Congress recognizes the importance of the Trade Expansion Act which is now before you. We believe this legislation merits the most careful consideration in the light of world conditions today, and with full recognition of the need to foster a strong economy within the United States as a major factor in assuring our national security.

As this committee well knows, the metals, mineral fuels, and industrial minerals produced by our mines are the base upon which our industrial system and our national defense rest. Without adequate supplies of metals and minerals, our economy would grind to a halt and our defense program would collapse. It is essential, as a matter of national policy, that we maintain a strong and vigorous mining industry.

As a major element in the Nation's industrial structure, the mining industry fully realizes the need for maintaining and expanding our foreign trade, improving our balance-of-payments position, and upholding our leadership in the free world. We realize also that, to accomplish these ends, we must preserve our own industries and the employment and the tax revenue which they provide. Our industry has a vital stake in the Government policies adopted to achieve these goals—and by the same token our country has a vital interest in maintaining a healthy mining industry.

At the annual convention of the American Mining Congress held in Seattle last September, the following statement of policy was adopted:

Our economy requires that adequate supplies of metals and minerals be available at reasonable prices.

Adequate import duties, properly applied, are necessary to maintain certain important segments of the domestic mining industry. Where duties are required as to any metal or mineral, we recommend that such duties be imposed or increased automatically when the price falls below a prescribed peril point and be removed or reduced when a prescribed price is reached or exceeded.

We urge that special programs in line with the circumstances be established for metals and minerals as to which the domestic production provides only a small percentage of our requirements and as to which the public interest requires maintenance of such domestic production.

When protection is accorded to any metal or mineral, such protection can become realistically effective only by establishing equivalent compensatory custom treatment on related metal or mineral items, including fabricated, semifabricated, and derivative products.

Provisions should be adopted by Congress to authorize escape-clause proceedings for all metals and minerals not now eligible therefor because of the technicality that the duties thereon have not been reduced since 1934.

Import quotas should be used only when no other adequate procedure is practical and available.

We are convinced that these policies are sound and should be given affirmative recognition in the pending legislation. The bill now before you fails to do so. In particular the failure of H.R. 11970 to establish adequate safeguards for the protection of various branches of the domestic mining industry causes us deep concern.

We should, of course, make it plain that certain substantial segments of the mining industry have historically operated without tariffs, import taxes, or quotas, and are not now seeking import restrictions. Other important segments of the industry—lead and zinc as a notable example—must have suitable tariff protection, with assurance of its continuance, in order to cope with the problem of excessive imports and world overproduction. The high labor costs in this country, together with the high level of taxes, reduce the ability of our mines to compete with low-cost imports. Since these mines are generally the sole or major source of support of important communities, widespread distress results when their market is lost to imports and they are forced to shut down.

The "adjustment assistance" authorized in the proposed bill does not meet the problem of such mining operations. A mine is located where a mineral deposit, formed in past geologic ages, was found; it cannot be moved to another location, nor can new industries be superimposed on a mining community high up in the mountains. Similarly, the type of "adjustment" stressed by the President in his January 25 trade message—which would involve "moving men and resources out of uneconomic production into efficient production and competitive positions"—would not solve the problem of maintaining a healthy domestic mining industry.

As the members of this committee know, minerals are wasting assets, and mines once closed down may be lost forever. Not only do mine workings cave in and fill with water, but the skilled labor force needed for efficient operation is dissipated and lost to other industries, leaving the mines unable to renew or expand production to meet the urgent demands of a national emergency. In effect, some of our most critical natural resources are being lost through lack of a trade policy affording them reasonable protection against excessive imports.

The bill before you also makes provisions for certain forms of technical assistance. In the mining industry we have long recognized the importance of improved technology and of pure and applied research in developing better means of finding ore, in recovering values from lower grade materials, in achieving lower costs through the use of modern equipment, and in broadening the markets for our metals, coal, and other minerals. The mining industry has been vigorously engaged in technical and scientific work in these fields, and appreciates the assistance furnished by various Government agencies under existing law. To what extent H.R. 11970 would augment such assistance is not clear.

"Tax assistance" under the bill—in the form of a 5-year rather than a 3-year loss carryback—would offer only a minor possibility of salvaging some of the losses resulting from increased imports but would not aid in restoring production and employment.

We invite your attention also to the serious effect which the current flood of residual oil imports is having upon the domestic coal-mining industry. Coal, as this committee knows, is our most abundant and most reliable energy source, with total reserves far exceeding those of competitive fuels. The economic health of our coal industry is a matter of prime concern to industry as a whole as well as to national defense. In each of the great war emergencies coal has been called on to meet the vast increase in energy requirements which could not be supplied from any other source. If coal is to continue its vital function in our economy and its unique role in an emergency, however, the industry must have the earning power to build new mines and to maintain and expand productive capacity. The present Government policy of permitting excessive imports of unneeded residual oil—which are sold at whatever price it takes to displace coal in many important markets—is severely injuring the coal industry and its ability to provide the needed productive capacity.

Although imports of residual oil are under quota restrictions, the quotas have been progressively relaxed, with increasing injury to the coal industry, the railroad industry, and their employees.

We note with approval that H.R. 11970 retains the substance of the so-called national security amendment of the 1958 act, the provision under which the quotas on imports of residual oil were established. We urge the importance of retaining this provision, both for the coal industry and for other industries essential to the national security. We further urge that this committee and the Congress express in unmistakable terms their intent that this provision be implemented in such a manner as to remedy the damage being done to the coal industry, and to provide conditions under which coal may rebuild its markets and its productive capacity to serve the country's future needs. Such a course will serve the public interest far better than costly programs of adjustment assistance for the coal-mining areas.

The above comments touch on some particularly acute problems in certain segments of the mining industry which should be recognized in your committee's consideration of this legislation. They will no doubt be amplified and documented by spokesmen from various branches of the industry.

We strongly believe that the mining industry of this country should not be regarded as expendable; it should not be "adjusted" or "assisted" out of existence, and any new trade legislation should not provide the means whereby this vital part of our economy will be eroded and destroyed.

We further note that H.R. 11970 would, to a major extent, abrogate the safeguards for American industry which have heretofore been provided in the peril-point provisions and the escape clause.

As to peril points, we believe the House Ways and Means Committee substantially improved the provisions of the bill as originally introduced—particularly in requiring that the President publish lists of the articles to be considered for trade concessions, and in requiring public hearings thereon by the Tariff Commission. However, H.R. 11970 still omits the desirable requirement of present law, that the Tariff Commission shall determine the point below which a duty may not be reduced without causing serious injury to the domestic industry producing the like or directly competitive product.

In previous legislation, Congress has carefully included an escape clause as a means whereby industries injured as the result of trade concessions could obtain relief through modification or withdrawal of such concessions. In the majority of cases, unfortunately, this clause has been ineffective, since Tariff Commission recommendations based on demonstrated serious injury, or the threat thereof, have been rejected by the President on the grounds of "overriding considerations." The bill before you, however, would further reduce and dilute the effectiveness of even the present escape clause.

The escape clause provisions of H.R. 11970 omit many of the specific criteria for determining serious injury which are contained in the existing law, and require merely that the Tariff Commission take into account "all economic factors which it considers relevant, including idling of productive facilities, inability to operate at a profit, and unemployment or underemployment." Also, the definition of an "industry" that may be subject to serious injury from imports is so enlarged and diffused as to make difficult a clear-cut finding as to a particular product. Thus, in the case of establishments producing more than one product, the Commission could not continue its present practice of considering the effect of increased imports of a particular product on that part of the operations of the establishment producing the like or directly competitive product, but would have to consider the effect of such imports on the "overall operations of the establishment." A clearly demonstrable serious injury from imports of one important product might well be masked through the legislative requirement under which it becomes scrambled with other products—thus negating the basic concept of the escape clause.

The removal of the safeguards that have been maintained in past extensions of the Trade Agreements Act might in itself introduce such elements of uncertainty and hazard as to seriously deter investment in any enterprise where there existed a possibility of excessive imports. This would be especially detrimental to various segments of the mining industry—since the discovery and development of mineral resources characteristically require the investment of large sums of risk capital far in advance of actual production. We believe that, rather than weakening or eliminating the safeguards in the present law, these safeguards should be strengthened and made effective.

The CHAIRMAN. Thank you, Mr. Conover.

The next witness is Mr. A. Taraborelli of the Braided Rug Manufacturers Association of the United States.

Mr. Taraborelli, take a seat, sir, and proceed.

STATEMENT OF ALBERT TARABORELLI, PRESIDENT, BRAIDED RUG MANUFACTURERS ASSOCIATION OF THE UNITED STATES

Mr. TARABORELLI. Mr. Chairman and members of the committee, my name is Albert Taraborelli. I am president of the Braided Rug Manufacturers Association of the United States for which I speak today. I have with me Mr. Arthur Azroff, president of the Eagle Products Co., Providence, R.I.

On behalf of the members of this association I wish to express appreciation for the opportunity to state their views on H.R. 11970. The members of this association represent about 90 percent of the domestic production of braided rugs.

First of all I would like to qualify our position and our interest in this bill.

Our industry has been exposed to the disruptive influence of excessive imports from low wage countries since 1957. Obviously, we have a deep concern in any foreign trade legislation. Because of the high volume of imports and the corresponding drop in domestic production over the past 2 years, domestic producers were never able to realize any return on the huge outlays of capital in the years just prior to the appearance of import competition.

In fact, much of this new machinery lays idle, and earnings of individual companies have been seriously affected. Many mills are presently operating at a loss and continue so only because of the promises that some relief would be forthcoming shortly. Without a doubt, a considerable number of these mills will have to permanently close their doors unless steps are taken to restore at least a part of the market they contributed to building.

For several years now, experiencing shrinking markets, dwindling profits, stagnated growth, and unemployment and insecurity among our workers, promises from the Government that domestic industry would be afforded relief from the throttling effects of unfair foreign competition fanned the industry's hopes for survival. With these promises still ringing in our ears we learn that our industry may have to be sacrified, in the national interest.

The loss of employment and income to the workers of our industry has reached alarming proportions. They are highly trained workers whose skills are not readily adapted to other fields. Many of these workers are at an age that is a deterrent in seeking new employment.

They are workers whose sacrifices and heavy taxes contributed to the development of the very force that now threatens their jobs and their security. They are faced with a twilight zone between now and retirement age. These are American citizens who are entitled to social security, not social upheaval.

In effect, we are asking these Americans to carry a disproportionate share of a burden which is, to many, not necessary at all.

In the time that our industry has been exposed to the throttling effects of low cost foreign competition, while the annual rate of imports accelerated from 1.7 million square feet in 1957 to over 60 million square feet in 1961, we made every effort to improve our competitive position in the domestic market.

Through coordinated efforts, some improvements in efficiency and productivity were made, but we found that foreign productivity and efficiency kept pace with ours. It was impossible to bridge the gap between foreign and domestic wages, which allows foreign producers to undersell domestic manufacturers by 30 to 35 percent.

With this wide competitive disadvantage, domestic producers of braided rugs obviously cannot look to the various kinds of financial assistance proposed in this bill for the relief necessary to enable them to compete successfully in their markets.

Since the assistance provided in this bill would be inadequate, our industry would be faced with only one alternative, liquidation of domestic plants. I, for one, am not naive enough to believe this capital would be reinvested in domestic production. Rather, it would be attracted to those countries where costs, especially wages, are lower.

Even if this adjustment assistance were adequate, American industry would not accept the substitution of bureaucratic government administration of business for the private enterprise system.

American industry looks for less, not more, Government intervention. The nationwide dole system such as the proposed legislation envisages presents a serious threat to the survival of our free enterprise system.

Admittedly, our industry is a small one. But there are many such small industries already feeling the throttling effects of foreign competition, and many more would become strangled immediately after the passage of this bill.

This is not a question of sacrificing a few small industries in what is loosely referred to as the national interest, it is a matter of encouraging a substantial aggregate amount of capital to move abroad where cost factors make it possible to compete. While management may regret the resulting loss to U.S. employment it is compelled to make such moves.

With a significant portion of the American labor force already idle, with substantial amounts of unused industrial capacity, an unsatisfactory rate of growth, a serious dollar drain, and signs that our economic recovery is grinding to a halt we cannot afford the dangerous illusion that all that is needed to solve all the problems of the U.S. economy is to simply slash our already low tariffs.

In fact, the short run consequences of such a program—the inrush of imports—could precipitate a flight from the dollar which could wreck the monetary foundations of the free world.

In meeting the challenge of the Common Market the primary consideration should be the understanding that it was the return to monetary and economic discipline, together with individual efforts to adjust internal policies to a common international standard which made this Common Market possible.

The rise of anti-inflationary free enterprise systems all around is the true challenge to our long dominence of the international economy.

Without prior internal fiscal, economic, and monetary reforms, without some parallelism in the fiscal and monetary policies of the United States and Common Market countries our ambitions for trade expansion will meet with bitter disappointment. The persistent failure of the United States to make necessary internal adjustments is, to a large degree, responsible for our deficit position in the international economy.

Our past experience should alert us to the improbability that our proposed drastic tariff reductions will be matched by the Common Market countries.

Claims that American industry can compete with low cost imports through increased efficiency should be examined closely. Our steel industry, among the most efficient in the world, cannot compete with imports.

Last year imports exceeded export tonnage. Our coal industry, even after doubling its output per man-hour, cannot compete with imported residual fuel oil. The highly restrictive import quotas on wheat, cotton, and wheat flour point out the inability of American agriculture to compete with imports, even though it is the most efficient in the world.

To those who say that lower tariffs will benefit the consumers through lower prices we would like to point out that we legislated out of business the sweatshops of yesteryear, even though they benefited consumers through lower prices.

Our high wages, high profit, and high standard of living economy can only be supported through the higher prices such an economy makes necessary.

Three dollars an hour labor cannot expect to buy goods produced at 50 cents an hour and survive.

Improved efficiency itself is, at least, a contributory factor in one of our most difficult domestic problems: unemployment. Increasing pressures to install laborsaving equipment could very likely give us an increase in dollar value of exports without an increase in employment, which is offered as one of the justifications for further tariff cuts.

Rising exports can only be achieved as a result of rising imports and since most of these imports would be competitive in character such imports would kill more actual and prospective jobs than the increased exports would create. Our present exports of $20 billion represent less than 4 percent of our gross national product.

It can be estimated, therefore, that the number of workers employed in producing these products amount to less than 4 percent of our total work force. Even a 25-percent increase in exports would produce only a 1-percent increase in our total employment, not accounting for the decrease caused by increased imports.

As a net employment creating activity, exports have been grossly overexaggerated, as have many of the other benefits of this bill.

Admittedly, the problem of competing in world markets is a difficult one, but to approach it without a frank appraisal of the intimate relationship between domestic and foreign trade policy is to court disaster.

The appropriate conditions under which free trade can work to our advantage in the present world situation have been unduly neglected in this proposed legislation. We sorely need an investment climate that will induce expansion, encourage the development of new products and new industries, and with reasonable assurances that such new products and new industries will not be deprived of their markets after they are developed, as many industries, like ours, are now finding out.

Thank you.

Senator DOUGLAS. Thank you, Mr. Taraborelli.

May I ask from what countries are the importations of braided rugs coming?

Mr. TARABORELLI. Principally Japan.

Senator DOUGLAS. Japan.

Mr. TARABORELLI. But we find that other countries are now entering the market.

Senator DOUGLAS. The Philippines?

Mr. TARABORELLI. The Philippines, India.

Senator DOUGLAS. Latin America?

Mr. TARABORELLI. South America, Italy, France.

Senator DOUGLAS. What proportion of the domestic market is being met by importations and what proportion by domestic production?

Mr. TARABORELLI. About 60 percent.

Senator DOUGLAS. From abroad?

Mr. TARABORELLI. Right.

Senator DOUGLAS. Is your industry one where braided rugs are made in factories or made in the homes by handworkers?

Mr. TARABORELLI. Well, it originally started as a small cellar operation but it has expanded into a substantial industry.

Senator DOUGLAS. What I am trying to ask is are the braided rugs made at home by hand and then are you a marketing agency or are they made in factories.

Mr. TARABORELLI. Oh, no, they are made in factories.

Senator DOUGLAS. Made in factories.

Do you have any homeworkers who make braided rugs?

Mr. TARABORELLI. None at all. They are produced right in the plants. Of course, there are a certain amount of homemade braided rugs in which the woman of the house makes one for her own use.

Senator DOUGLAS. That is what I mean.

Are those included in your figures of 40 percent?

Mr. TARABORELLI. No.

Senator DOUGLAS. Or apparently 40 million.

Mr. TARABORELLI. No.

Senator DOUGLAS. They are not included?

Mr. TARABORELLI. We are just talking about markets, sold in the market.

Senator DOUGLAS. Do you have any estimate as to the number of million square yards made at home and marketed?

Mr. TARABORELLI. Well, we would be unable to get those figures.

Senator DOUGLAS. Do you think it is more than manufactured in factories?

Mr. TARABORELLI. I think the amount made in the homes is insignificant.

Senator DOUGLAS. Is insignificant?

Mr. TARABORELLI. Right.

Senator DOUGLAS. Well, I hadn't thought so, so what you said is interesting. Are you sure of that?

Mr. TARABORELLI. I am positive. The number of braided rugs being made at home now are very, very few, and the woman of today doesn't have the time to make braided rugs like their grandmothers used to make.

Senator DOUGLAS. Yes, but in the Appalachian mountains this is still a handcraft.

Mr. TARABORELLI. Of course, if you understand that it takes a woman months to produce, for instance, a 9 by 12, you can appreciate that she can't produce many a year, so very few women who produce these rugs, their total production would be insignificant in comparison to the total amount of the market.

Senator DOUGLAS. Senator Carlson, do you have any questions?

Thank you very much.

The committee will recess until 10 o'clock tomorrow morning.

(By direction of the chairman, the following is make a part of the record:)

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
July 17, 1962.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: Originally, I planned to request an opportunity to appear before your committee to place in the record certain ideas which I have put forth as regards the trade bill, H.R. 11970. However, in light of the tremendous workload which your committee has had this year, I decided it would be easier and more appropriate if I simply transmitted my views to you by letter.

I am particularly concerned about the relative powers of the Congress and the President in the field of foreign trade. The Constitution, of course, grants to the Congress the fundamental authority to regulate foreign trade. In the fast-moving world in which we live and because of the tremendous complexities of trade negotiations, it has been necessary to clearly delegate the broad responsibility for trade negotiations to the executive branch. I do not in any way dispute this development, but I do feel that Congress should weigh very heavily the broad question as to what the continuing and basic role of the Congress should be in extending the Trade Agreements Act this year.

My concern about this power relationship between Congress and the executive branch is well illustrated by a quote taken from an interview with Prof. Richard E. Neustadt, author of "Presidential Power, the Politics of Leadership," which appeared in the U.S. News & World Report of July 16, 1962. Professor Neustadt contends that the Congress is "the only legislative body in any major power in the world which has retained a great measure of independence on both policymaking and administration." He described Congress as "bucking the trend."

It is because of my concern that we continue to "buck the trend" that I proposed that the Congress be given a veto over trade agreements and modifications of trade agreements negotiated under the Trade Extension Act of 1962. This proposal was initially offered in a speech on the floor of the Senate on January 15, 1962. The veto which I suggested at that time is based on the Reorganization Act and generally speaking would require two-thirds vote by both bodies within 60 days of the submission of a new trade agreement to the Congress. I fully believe that this is an entirely reasonable authority, which could only be exercised in those extreme cases in which the President clearly exceeded the intent of the Congress in negotiating a certain trade agreement.

Since this proposal was offered, there has been considerable discussion of the general question involving the role of the Congress in the field of trade. Prof. Howard S. Piquet, of the Library of Congress, has urged a two-thirds congressional veto and a similar provision is also contained in a bill introduced by my colleague, Senator Javits. Furthermore, the House in its action on the trade bill took steps to give the Congress greater authority in this field, viz, the authority to overrule presidential rejections of favorable escape clause recommendations by a simple majority—instead of a two-thirds vote.

A broader veto such as I have urged would, I recognize, be rarely exercised. Nevertheless, it would have a real and very definite meaning. The very fact that such an authority existed would encourage the President and the executive branch to consult more seriously and more conscientiously with the Congress.

We would receive reports, documents, and information that might otherwise not be made available to us, and we would therefore be in a far better position to appraise the workings and effectiveness of the trade agreements program in the years to come.

I enclose a copy of the legislative language which I offered in the Senate on January 15, 1962, and a summary analysis of this proposal. I would appreciate it if you would have my letter and these enclosures made a part of the record of your hearings on H.R. 11970.

Very sincerely yours,

KENNETH B. KEATING.

[From the Congressional Record, Jan. 15, 1962]

SUMMARY OF TWO-THIRDS CONGRESSIONAL TRADE VETO PROPOSAL

The following legislative language is submitted for study purposes:

It provides a two-thirds congressional veto of foreign trade agreements and modifications of agreements entered into after June 30, 1962. The Congress would not be empowered to disapprove separate parts of agreements or modifications.

The procedures to be followed are based on the Administrative Reorganization Act of 1949, and the Trade Agreements Extension Act of 1958.

1. The President would be required to submit trade agreements and modifications to both Houses of the Congress. Agreements would become effective at the end of 60 days after submission (not counting days on which either House is not in session because of an adjournment of more than 3 days).

2. On submission, they would be referred to the Committee on Finance in the Senate and to the Committee on Ways and Means in the House.

3. If the committee did not report said agreements or modifications within 10 calendar days, it would then be in order to discharge the committee from further consideration. A motion of discharge would have to be made by a person favoring it. It would be "highly privileged," and debate thereon would be limited to 1 hour equally divided between proponents and opponents. (The vote required to discharge a committee is a simple majority of those present and voting.)

4. When the committee had reported a concurrent resolution of disapproval or had been discharged from further consideration, debate on the resolution would be "highly privileged." It would be limited to 10 hours equally divided.

5. If one House acted while the other was considering a resolution, the resolution of the House which had acted first would be substituted for that of the House which was considering a resolution. If the committee of the second House had not acted, the resolution of the first House would be referred to committee and the procedure outlined above would be followed.

6. If any agreement or modification was submitted and the Congress was preparing to adjourn before a 60-day period elapsed, the Congress could under its regular procedures pass a bill or joint resolution that, notwithstanding the provisions of this proposal, the agreement or modification in question would become effective on a given date.

AMENDMENTS TO TRADE AGREEMENTS EXTENSION BILL

At the proper place insert the following:

"SEC. —. Section 350 of the Tariff Act of 1930, as amended (19 U.S.C. 1351), is amended by adding at the end thereof the following new subsection:

"'(g)(1) The President shall submit to the Congress each foreign trade agreement entered into under the authority of subsection (a) after June 30, 1962, and each modification made after such date of any foreign trade agreement entered into under the authority of such subsection (whether or not such agreement was entered into before, on, or after such date). Each such agreement or modification shall bear an identifying title, shall be delivered to both Houses on the same day, and shall be delivered to each House while it is in session.

"'(2) Each foreign trade agreement entered into under the authority of subsection (a) after June 30, 1962, and each modification made after such date of any foreign trade agreement entered into under the authority of such subsection shall become effective upon the expiration of the first period of sixty calendar days of continuous session of the Congress following the date on which such agreement or modification is transmitted to it; but only if, between the date of transmittal and the expiration of such sixty-day period there has not been passed by the two Houses of the Congress, by the yeas and nays by a two-thirds vote of each House, a concurrent resolution stating in effect that the Senate and House of Representatives do not approve the foreign trade agreement or the modification, as the case may be. In the computation of the sixty-day period there shall be excluded the days on which either House is not in session because of any adjournment of more than three days to a day certain or of an adjournment of the Congress sine die.

"'(3) Any provision of a foreign trade agreement or of a modification of a foreign trade agreement may, under provisions contained in the agreement or modification, become effective at a time later than the date on which such agreement or modification would otherwise become effective under paragraph (2).'

At the proper place insert the following:

"Sec. (a) The following subsections of this section are enacted by the Congress:

"(1) As an exercise of the rulemaking power of the Senate and the House of Representatives, respectively, and as such they shall be considered as part of the rules of each House, respectively, but applicable only with respect to the procedure to be followed in such House in the case of resolutions (as defined in subsection (b)); and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

"(2) With full recognition of the constitutional right of either House to change such rules (so far as relating to the procedure in such House) at any time, in the same manner and to the same extent as in the case of any other rule of such House.

"(b) As used in this section, the term 'resolution' means only a concurrent resolution of the two Houses of Congress, the matter after the resolving clause of which is as follows: 'That the Senate and House of Representatives do not approve the foreign trade agreement (or the modification of the foreign trade agreement) entitled " " submitted by the President to the Congress on , 19 , pursuant to subsection (g) of section 350 of the Tariff Act of 1930, as amended,'; the blank spaces being appropriately filled; and does not include a concurrent resolution which specifies more than one foreign trade agreement or modification as the case may be.

"(c) A resolution with respect to a foreign trade agreement or modification of a foreign trade agreement shall be referred to the Committee on Finance of the Senate or to the Committee on Ways and Means of the House of Representatives by the President of the Senate or the Speaker of the House of Representatives, as the case may be.

"(d)(1) If the committee to which has been referred a resolution with respect to a foreign trade agreement or modification of a foreign trade agreement has not reported it before the expiration of ten calendar days after its introduction (or, in the case of a resolution received from the other House, ten calendar days after its receipt), it shall then (but not before) be in order to move either to discharge the committee from further consideration of such resolution, or to discharge the committee from further consideration of any other resolution with respect to such agreement or modification which has been referred to the committee.

"(2) Such motion may be made only by a person favoring the resolution, shall be highly privileged (except that it may not be made after the committee has reported a resolution with respect to the same agreement or modification), and debate thereon shall be limited to not to exceed one hour, to be equally divided between those favoring and those opposing the resolution. No amendment to such motion shall be in order, and it shall not be in order to move to reconsider the vote by which such motion is agreed to or disagreed to.

"(3) If the motion to discharge is agreed to or disagreed to, such motion may not be renewed, nor may another motion to discharge the committee be made with respect to any other resolution with respect to the same agreement or modification.

"(e)(1) When the committee has reported, or has been discharged from further consideration of, a resolution with respect to a foreign trade agreement or modification of a foreign trade agreement it shall at any time thereafter be in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of such resolution. Such motion shall be highly privileged and shall not be debatable. No amendment to such motion shall be in order and it shall not be in order to move to reconsider the vote by which such motion is agreed to or disagreed to.

"(2) Debate on the resolution shall be limited to not to exceed ten hours, which shall be equally divided between those favoring and those opposing the resolution. A motion further to limit debate shall not be debatable. No amendment to, or motion to recommit, the resolution shall be in order, and it shall not be in order to move to reconsider the vote by which the resolution is agreed to or disagreed to.

"(f)(1) All motions to postpone, made with respect to the discharge from committee, or the consideration of, a resolution with respect to a foreign trade agreement or modification of a foreign trade agreement, and all motions to proceed to the consideration of other business, shall be decided without debate.

"(2) All appeals from the decisions of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedure relating to a resolution with respect to a foreign trade agreement or modification of a foreign trade agreement shall be decided without debate.

"(g) If, prior to the passage by one House of a resolution of that House with respect to a foreign trade agreement or modification of a foreign trade agreement, such House receives from the other House a resolution with respect to the same agreement or modification, then—

"(1) If no resolution of the first House with respect to such agreement or modification has been referred to committee, no other resolution with respect to the same agreement or modification may be reported or (despite the provisions of subsection (d)(1)) be made the subject of a motion to discharge.

"(2) If a resolution of the first House with respect to such agreement or modification has been referred to committee—

"(A) the procedure with respect to that or other resolutions of such House with respect to such agreement or modification which have been referred to committee shall be the same as if no resolution from the other House with respect to such agreement or modification had been received; but

"(B) on any vote on final passage of a resolution of the first House with respect to such agreement or modification the resolution from the other House with respect to such agreement or modification shall be automatically substituted for the resolution of the first House."

[From the office of Senator Kenneth B. Keating, for release Feb. 15, 1962]

ADMINISTRATION REJECTS KEATING TRADE VETO PROPOSAL

Senator Kenneth B. Keating, Republican, of New York today released the text of a letter from Under Secretary of State George W. Ball in which the Under Secretary indicated the administration would not support the Senator's proposal for a two-third congressional veto of trade agreements. Senator Keating proposed in December and again in January that a provision for such a veto be included in the 1962 Trade Extension Act.

Keating said he was "extremely disappointed" with the administration's decision. He indicated that he would "press to have a trade veto included in the Senate, if a bill comes over from the House without this feature. I believe we must preserve the fullest possible measure of Congress constitutional authority over trade matters."

Stating he favored trade liberalization, Keating, however, said: "There is powerful opposition to the administration's proposals in their present form. My estimate is that it will be necessary to amend the bill along lines similar to my suggestion in order to get it through the Congress."

The text of Mr. Ball's letter and a summary of the Senator's trade veto recommendation follow:

FEBRUARY 13, 1962.

Hon. KENNETH B. KEATING,
U.S. Senate.

DEAR KEN: I have given careful thought to the proposal that you made on the Senate floor January 15. You suggest that Congress be given the power to veto by a two-thirds vote trade agreements and modifications thereof. I am grateful to you for sending it to me.

I appreciate your initiative in putting forth a proposal that ·ht make it easier for the Congress to enact a balanced trade policy. I am d..gated also to find that you and I are in agreement on the need for the United States to take a "giant step" to strengthen and secure our trade relations.

The negotiation of agreement that will preserve and expand market opportunities for American producers will undoubtedly prove complex and difficult. If they are to succeed it will be essential that our representatives be able to assure their negotiating partners that they are in position to conclude binding arrangements. I am afraid that the element of insecurity implicit in the possibility of a congressional veto would place our side under an almost impossible disability.

In drafting the proposed new trade bill, we have taken into account the need to provide clear and precise standards for the utilization of the authority delegated to the President. As a result the intent of Congress should be so well defined as to avoid the need for a congressional scrutiny after the fact.

I recognize the constructive purpose in the initiative you have taken, but for the reasons I have stated I do not feel that we could support an amendment of the President's trade proposals along the line you have suggested.

I am sorry to have taken so long in answering this letter, but I wanted to give thoughtful study to your suggestions.

I hope that we can have an opportunity to discuss the trade legislation in more detail before long.

With best wishes.

Sincerely yours,

George W. Ball.

SUMMARY OF TWO-THIRDS CONGRESSIONAL TRADE VETO PROPOSAL

I propose a two-thirds congressional veto of foreign trade agreements and modifications of agreements entered into after June 30, 1962. (The Congress would not be empowered to disapprove separate parts of agreements or modifications.)

The procedures I propose are based on the Administrative Reorganization Act of 1949, and the Trade Agreements Extension Act of 1958.

1. The President would be required to submit trade agreements and modifications to both Houses of the Congress. Agreements would become effective at the end of 60 days after submission (not counting days on which either House is not in session because of an adjournment of more than 3 days.)

2. On submission, they would be referred to the Committee on Finance in the Senate and to the Committee on Ways and Means in the House.

3. If the committee did not report an agreement or modification within 10 calendar days, it would be in order to discharge the committee from further consideration. A motion of discharge must be made by a person favoring it. It would be "highly privileged," and debate thereon would be limited to 1 hour equally divided between proponents and opponents. (The vote required to discharge a committee is a simple majority of those present and voting.)

4. When the committee had reported a concurrent resolution of disapproval or had been discharged from further consideration, debate on the resolution would be "highly privileged." It would be limited to 10 hours equally divided.

5. If one House acted while the other was considering a resolution, the resolution of the House which had acted first would be substituted for that of the House which was considering a resolution. If the committee of the second House had not acted, the resolution of the first House would be referred to committee and the procedure outlined above would be followed.

6. If an agreement or modification was submitted and the Congress was preparing to adjourn before a 60-day period elapsed, the Congress could under its regular procedures pass a bill or joint resolution that notwithstanding the provisions of this proposal, the agreement or modification in question would become effective on a given date.

Beacon Feeds,
Beacon Division of Textron Inc.,
Cayuga, N.Y., June 6, 1962.

Hon. Harry Flood Byrd,
Senate Office Building,
Washington, D.C.

Dear Sir: The Trade Expansion Act currently before Congress will, we believe, provide the best means for preventing or obtaining removal of unfair, restrictive measures. The system of variable import fees which are to be applied against U.S. poultry and egg products commencing July 1, 1962, under the Common Market agreement is directly contradictory to the principles of the General Agreement on Tariffs and Trade.

You are aware that the poultry industry of the United States, including the State of Virginia, has reduced production costs through improved breeding, feeding, and management. Variable import fees presently planned against U.S. poultry and egg products will penalize the U.S. poultry industry for its efficiency by closing the Western European market to our products. The export of U.S. poultry has increased yearly because we could produce, process, transport, and pay approximately 15.9 percent import duties and still compete favorably with European produced poultry. The export market for U.S. poultry is an important factor in the economy of the industry. If this market is artificially closed by imposition of these fees which can raise the import duties to as high as 35 to 40 percent our domestic market will be seriously depressed because of the resulting surplus.

It is impossible for us to understand and accept a principle which advocates reducing U.S. import duties on European goods so they may enter our market on a competitive basis and at the same time agree to higher import duties by European countries on U.S. poultry so that we cannot compete.

We feel it is imperative that the Trade Expansion Act include provisions which will:

1. Prohibit concessions on the goods of any country which imposes variable import fees or other restrictive devices against U.S. poultry products.
2. Terminate or withdraw concessions on the goods of those foreign countries which impose variable import fees or other similar restrictive measures designed to exclude or make U.S. poultry and egg products noncompetitive.

Thank you for your consideration of this extremely important matter.

Respectfully yours,

BRUCE F. FAILING.

NEW YORK, N.Y., *March 27, 1962.*

Senator HARRY F. BYRD,
Senate Office Building, Washington, D.C.:

Regarding the administrations trade bill. We are in favor to grant to the President the unprecedented trade powers which he has requested in order to negotiate with the Common Market powers. However, we wish to emphasize very strongly that those power should be utilized in order to obtain tariff concessions by the Common Market powers on those commodities which are freely moving in substantial quantities to Common Market countries and against which the Common Market countries have decided to set up barriers which will severely restrict if not entirely eliminate the export of these commodities to certain Common Market countries. We have in mind here the export of poultry and poultry products of which the United States has become a major exporter in 1961 and a total of $94 million worth of these products has been exported primarily to the Common Market countries. With the unfavorable balance of trade of the United States such straight dollar sales are most important and we certainly think that even though full negotiating power should be given to the President it should nevertheless be ascertained that after passage in future negotiations our tariffs should be lowered not against similar concessions on products which anyhow will not be competitive in the Common Market but rather against concessions in order to maintain the status quo on those products, such as poultry, which have been moving in substantial quantities to Common Market countries, and against which the European Common Market has decided to levy as of July 1, 1962, prohibitive equalization fees and tariffs, and so forth, which will not only jeopardize the continuity of such exports but within a relatively short time will eliminate them entirely.

We, therefore, wish to emphasize that if the U.S. negotiators are given new bargaining power it should be stipulated that they should push hard for the poultryman's continued right and privilege to compete for European customers. Industrial goods manufactured in Europe already presently able to compete effectively in U.S, markets. On the other hand it is exceedingly difficult for U.S. industrial goods to compete on European markets and even if certain tariff concessions will be given these will certainly not permit U.S. industrial products to compete more effectively. On the other hand, any tariff concessions by the United States on the European industrial goods will merely make it more profitable for European plants to ship to the United States. Furthermore, our agricultural exports to the Common Market countries are in serious jeopardy. Certainly those agricultural commodities which the Common Market countries do not themselves produce, such as soya beans, cotton, and so forth, for which the U.S. Government is subsidizing the export and therefore the U.S. taxpayer is not only paying for a high support price but also for an export subsidy, will continue to be shipped to the Common Market countries. But this is not the purpose of our negotiations, and therefore, we would like to draw your attention to the levels of protectionism that will face our poultry products to the Common Market countries, and especially West Germany, as of July 1, 1962, and which will have to be opposed in every possible manner.

If the Common Market regulations regarding the import of poultry products from the United States as issued by the Council of Ministers of the European Economic Community as issued on January 14, 1962, will be permitted to take effect, it will mean that the U.S. exports of poultry products to the Common Market countries will have been sentenced to death.

Respectfully yours,

JOHN BAUER,
Vice President, Business International Sales Corp.

RIEGEL PAPER CORP.,
New York, N.Y., April 18, 1962.

HON. HARRY FLOOD BYRD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BYRD: As you may know, Riegel Paper Corp., a major manufacturer of pulp and paper products, owns and operates a plant in Danville, Va.

Recently, H.R. 9900 (Trade Expansion Act of 1962) was introduced to Congress, and I would like to express to you the attitude of our corporation on this bill.

As far as pulp exports to the Common Market countries are concerned, they are now entering on a duty-free basis. While tariffs theoretically exist, they are nullified by a system of allocations.

If Sweden, Norway, and Finland enter the Common Market, an external tariff of 6 percent is expected on pulp and as much as an 18-percent tariff is expected on some grades of paper.

Riegel Paper Corp., each year ships many thousands of tons of pulp to Europe against severe price competition from Sweden. At present prices, profits on pulp after paying for freight are very small. If we had also to pay a 6-percent duty, we would be forced to relinquish much of our European market. Such loss of sales would make it necessary for us to shut down certain of our integrated operations periodically for lack of orders.

From our point of view, therefore, it is essential that our Government be able to bargain with the European Common Market to assure that no tariff be imposed on our pulp and that duties on paper should be eliminated or at least substantially reduced. It would certainly be a poor bargain on our part to bargain to reduce our own tariffs in exchange for a reduction in Common Market tariffs of 6 percent to 18 percent which have never been in effect.

We understand that any tariffs reduced as a result of negotiations would be extended automatically to all other "favored nation" countries. We believe that this automatic extension could be damaging to us if such countries were not required to reciprocate.

In summary, we are in favor of granting President Kennedy the authority to bargain with the Common Market for lower tariffs. However, we urge that as far as pulp and paper are concerned, such a bargain be based on our present low or duty-free status, not on a newly effective tariff to be established. Second, we feel that any reduction in American tariffs which is agreed on should be extended to other countries as they themselves recipricate with reduced tariffs on American grades. As you probably know, this position which we favor is the same as that adopted by the American Paper & Pulp Association at their annual meeting in New York in February of this year.

Very truly yours,

J. HANES LASSITER, *Vice President.*

STATEMENT OF STEPHEN F. DUNN, PRESIDENT, ON BEHALF OF THE NATIONAL COAL ASSOCIATION, REGARDING H.R. 11970, THE TRADE EXPANSION ACT OF 1962

My name is Stephen F. Dunn. I am president of the National Coal Association which maintains headquarters in the Coal Building, 1130 17th Street NW., Washington, D.C. This statement is made on behalf of the association.

National Coal Association is the only national trade association representing the commercial producers and marketers of bituminous coal in the United States

Bituminous coal is a most important factor in our economic development and in the national defense and security of our Nation. Bituminous coal is the basic source of energy in the United States today.

The coal industry is sympathetic to the underlying principles which form the basis for trade expansion legislation. It is our hope that proper steps will be taken to strengthen the commercial position of the United States in the world economic picture. We also hope that the entire domestic fuels industry, and in particular the coal industry, will have opportunity to partake in any improvement in our economy.

Improvement in the coal industry is absolutely essential to our continued economic welfare. It is not necessary to elaborate on the fact that the areas in which coal is the predominant industrial activity are among the most depressed in our Nation. The situation peculiar to the coal industry and the coal communities has been recognized both by the Congress and the administration and we look forward to development of a national policy which will hasten improvement in our industry. Because of comparable depressed economic conditions in the domestic petroleum industry, it is our contention that special consideration must be given to domestic energy sources in the construction of any long-range trade policy. Because energy is so important to our overall industrial expansion, special legislative consideration must be given to the domestic fuels industries in developing any trade enactments designed to expand industrial opportunities. Unlike manufactured goods, fuel resources are not mobile. Resources, particularly energy resources, are locked in nature's storehouse in specific geographical areas and must be produced in that area. There is no possibility of transferring an industry or in other ways meeting the impact of competition of foreign imports. Likewise, energy resources are not renewable and therefore must be utilized efficiently.

Governmental efforts to encourage and develop strong, viable domestic fuels industries are not in conflict with the cooperative foreign trade policy that is the goal of the administration in the current legislative effort. Special interest and consideration has been given by our Government experts on foreign trade to the situation which is developing in the European Economic Community. Protection of domestic industry is one of the tenets of the philosophy of the Common Market. As a matter of fact, a recent article in the Financial Times intimates that one of the more difficult items in the negotiations between Community representatives and those of Britain, as to Britain's entry into the Community, has been on the subject of a common energy policy. Within the Community itself, there are some members who contend that the Community's energy costs must be held down to a very minimum, whereas other member countries agree that the interests of their mining industries and the workers therein must receive special consideration.

As an example, Mr. Jean Couture, chairman of the West European Coal Producers Association, in an address before the National Coal Association convention in Pittsburgh on June 19, 1962, speaking on the subject of European imports of American coal, pointed out that a certain portion of Europe's needs would, of necessity, be covered by imports. He then said: "The only problem is to keep imports within such limits as not to endanger the very existence of basic home resources, which, we firmly believe, will be required in the future to meet the essential needs of our Community." The situation referred to by Mr. Couture is duplicated in the conditions that exist in the domestic fuels industries of the United States because of the increasing volume of foreign petroleum imports which are causing degradation of the coal and petroleum industries of this country. Much of the economic crisis that exists in the coal and related industries today can be traced to the increasing volume of residual oil imports from foreign sources.

Despite the fact that it is agreed that domestic energy sources are capable of supplying the demands of our economy in times of emergency, as well as under normal conditions, an ever-increasing larger share of the energy market has been taken over by foreign fuel imports. This situation has been recognized within the last several days by one of the esteemed members of the Senate Finance Committee, Senator Robert Kerr, of Oklahoma, who indicated in a press conference that it was his aim to obtain, either by legislative enactment or by Executive edict, some positive control over the volume of permitted imports in order that domestic producers may be guaranteed a reasonable share of the existing, as well as future energy markets.

Some concept of the seriousness of the situation so far as the coal industry is concerned may be drawn from a brief statistical review. In 1948, there were imported into the eastern territories of the United States 53 million barrels of residual fuel oil. This represented 26 percent of the total residual fuel oil consumed in this area. Twelve years later, in 1960, there were consumed 213 million barrels of imported residual fuel oil, representing 65 percent of all the residual fuel oil used in that territory. During the same period, consumption of coal in this specific market area declined from 201 million tons in 1947 to 140 million tons in 1960.

Since 1959, by virtue of a Presidential Executive order, there has been in effect a mandatory oil import control program. Originally, it was intended that this control program should provide limitations as to the amount of imported oil that might be brought into this country. However, because of administrative action, effectiveness of this program has been in question. As a matter of fact, on the theory that domestic demand required additional supplies, the governmental department responsible for the oil import control program in April of 1962 authorized an overall increase of 10 percent in permissible residual oil imports into the United States. These added supplies of foreign oil, topping an already existing market surplus, resulted in a serious demoralization of the fuel and energy markets in eastern territory. The situation became so acute that fuel oil distributors, in order to dispose of mounting surpluses, sought customers far afield from what had been considered the conventional markets for imported residual oil. In some instances, residual oil is being distributed far inland, and in many cases the oil distribution has been so expanded that sales offices of competing fuel companies have been closed, because of the inability to meet the competition provided by the distressed pricing program inaugurated by the residual oil importers in order to move their surplus supplies.

A very significant reference to this contention, both as to excess supplies and to pricing policies, was contained in the July 27, 1962, issue of The Petroleum Situation, published by the Chase Manhattan Bank of New York. In contradiction to the contentions of those who are seeking unlimited imports of foreign oil, the bank statement states, in reference to the current market conditions for fuel oil:

"But the heavy fuel oil movement was down from last year by 1 percent and was at the lowest second quarter rate since the recession year of 1958."

In contrast, the analysis reveals that there was an overall increase in petroleum demand for the period of 3 percent, "all of which represents growth."

Continuing the bank's petroleum statement looking into the future of oil demand says: "Looking ahead, the industry is not likely to experience a percentage gain in the second half of the year nearly as large as that registered during the first 6 months."

The pricing of residual oil by importers and major oil companies. in order to move the increasing volume of permitted imports is the major objection of the coal industry. It has been pointed out repeatedly that residual oil is sold at whatever price is necessary to undersell the competition, then the losses are made up from the price assessed the consuming public for those petroleum products on which the petroleum industry enjoys a more or less "captive market."

To this point, The Petroleum Situation makes specific reference. The author in commenting upon the competitive impact which is being felt in the heavy fuel industry by competition of natural gas in the industrial markets states that this impact "falls most heavily upon fuel oils." The statement continues that these oils "necessarily must be marketed within the competitive framework established by the price of gas." Then, the article makes a most significant statement as to the marketing policies of the oil companies who are meeting this competition. The article states:

"If the industry is to counter declining wellhead prices at the wholesale level, gasoline is the only major product that is a potential source of relief."

Therein is justification from a reliable and unbiased source of the contention long made by coal and other groups that the economic advantages enjoyed by the distressed prices of residual fuel oil in the energy markets, for the purpose of displacing coal, is being compensated for by higher prices paid by the motorists throughout the United States for their gasoline and lubricating oils. Here we have the situation of the New England area, which is the prime beneficiary of the "below cost" prices on residual oil, being subsidized by the American motoring public. Residual fuel oil is the "invisible and uninvited hitchhiker in the back seat of every American automobile."

The coal industry recommends that as a part of the trade expansion consideration, this Senate committee include an amendment to the so-called national security section to provide, by legislative enactment, a continuing and definite stabilizing formula by which permissible imports of foreign petroleum, including residual oil, will be limited to a representative and reasonable base period level. Thus, essential supplies of imported oils will be available and will supplement rather than supplant the production of the domestic fuels industries.

We believe that such a legislative enactment can be written into the present Trade Act without interfering in any way with the basic intent of the act, or without hampering the administration's commendable program of increasing foreign markets for American goods.

STATEMENT OF WILLIAM A. BARLOCKER ON TURKEY EXPORTS TO THE COMMON MARKET SUBCOMMITTEE CONCERNING H.R. 11970, TRADE EXPANSION ACT, AUGUST 1, 1962

Mr. Chairman, I am William A. Barlocker, president of Barlocker Farms, Inc., in St. George, Utah. I am one of the directors of the National Turkey Federation representing Utah and because of this, I wish to make the following statement in support of H.R. 11970.

The European Economic Community, or the Common Market, as it is more commonly called, yesterday put into effect their common agricultural policy which can only be interpreted by the turkey producers of America as restrictive and unfair in trade regulations.

Because I am a leading turkey producer and a businessman who has a definite interest in the advancement of our economy, I feel that some positive action, such as outlined in H.R. 11970, is needed. The exporting of poultry, and more specifically turkeys, has in the last 5 years grown so rapidly that it is one of our major markets. A university recently concluded a study which points to the fact that had there been no exports in 1960, domestic prices of turkeys would have declined more than a half cent per pound. Not only would turkey producers have lost the income from exports, but the decrease in domestic values would have resulted in additional losses to producers, totaling almost $100 million.

The European Economic Community has through its agricultural policy taken advantage of the United States. They will impose unfair duties, variable import fees and levies, and gate prices, directed toward our poultry. The gate price is one below which no turkey from the United States may enter the Common Market countries. The unfairness of these variable levies, gate prices, and duties is illustrated by the fact that although turkey exports have increased severalfold over the last 5 years, turkey production in the Common Market has increased at even a faster rate. By placing such restrictions on U.S. exports, the Common Market is attempting to build its production to meet its own demands. We are convinced that it will be uneconomical for the Europeans to attempt self-sufficiency on turkeys since we can mass produce at a considerably lower cost than the cost in Europe today.

It should be pointed out that the turkey industry in the United States is one area of the agricultural picture which is not Government-subsidized nor is it Government-controlled. We produce our product under the law of supply and demand. Turkeys are produced and marketed freely and competitively. The U.S. turkey producers are daily demonstrating our willingness and ability to compete in foreign markets if we are given an opportunity to do so.

Due to our advanced techniques and processes, we are able to hatch, grow, process, and ship our turkeys to the border of any European country cheaper than they themselves can produce turkeys for sale in their own country.

We in the United States have always supported the idea of the European Common Community, and we have no wish to undercut or deter their programs for economic growth and stability. I think, however, because of this attempt to stifle trade that some affirmative action on the part of the United States is indicated. This action I feel will come at least in part by the enactment of H.R. 11970, and specifically section 252, which grants to the President the power to take "all appropriations and feasible steps within his power to eliminate such restrictions and to refrain from negotiating the reduction or elimination of any U.S. import restriction under section "201" and under section 2, point 1, "Whenever a foreign country or instrumentality the products of which received benefits of trade agreement concessions made by the United States, maintains nontariff restrictions including unlimited variable import fees which substantially burden U.S. commerce."

I feel that the President supported this position when he said "Let me emphasize that we mean to see to it that all restrictions and concessions are reciprocal and that the access we gain is not limited by the use of quotas or other restricted devices."

When the President has been given the authority granted to him under section 252, he will then be able to evaluate in what areas the Common Market is most productive and be able to negotiate with a give and take thereby breaking the restrictions of the Common Market and giving us truly free trade.

The Trade Expansion Act of 1962 (H.R. 11970) will be the tool by which such negotiations can take place. It is our feeling that only through this authority, or perhaps even an increase in this authority, will we be able to bring the Common Market to a level where serious negotiations can take place.

TESTIMONY OF JOSEPH ROBY, JR., SECRETARY OF THE WALL PAPER INSTITUTE, ON H.R. 11970

In testifying before the committee in opposition to H.R. 11970, I would like to cover 2 specific areas only.

It is not my intention to dwell upon the higher wage rates in this country which will be threatened by lower wages in other countries.

Nor, is it my intention to argue that increasing imports of manufactured articles from abroad will reduce the volume of similar goods manufactured in this country, and therefore, lower the wage rates and/or profits in this country which are considered necessary to sustain our economy through taxation of these wages and profits.

Nor, is it my intention to ask for reciprocal duties between countries producing the same product, even though this might appear to the average citizen to be only fair and just treatment for both importers and exporters.

Nor, is it my intention to question the advisability of turning over all powers to the President in the matters of foreign trade, heretofore given to Congress by the Constitution.

Nor, would I have any way of knowing the extent of injury which could be caused by the passage of this bill in its present form and which therefore would, in theory, be alleviated through subsidy by means of application of Federal funds in relief payments.

Nor, is it in my province to question the matter of quotas, licensing arrangements, blocked currencies, and other devices used by other countries as a means of restricting U.S. exports when the United States does not employ such tactics (except in the case of agricultural products).

All the above aspects, and more besides, of our foreign trade have been covered by testimony of experts arguing both sides of the question voluminously before House of Representatives and this committee.

I would, however, like to call the committee's attention to two areas of our foreign relations in respect to foreign trade which it seems to the wallpaper manufacturers is extremely important and which I have not seen adequately covered in the testimony that I have read.

First, there appears to be no concern with the fact that if all duties are eliminated, which would appear to be the ultimate intention of this bill, that the U.S. Government would lost $1.1 billion in revenue. This is on the basis of an import volume of $14.3 billion with an average import duty of 7.7 percent for the year 1961. On the basis of dutiable imports represented by $8.7 billion of the total of 14.3, our total import duties represent 12.3 percent. I would, therefore, like to ask this committee how this lost revenue of over $1 billion is to be replaced. It goes without saying that the concerns competing with potentially increased imports as a result of this bill, presumably will show less profits taxable to the Federal Government via corporate income taxes. No accurate estimates, I suspect, could be made of such loss of internal revenue.

Second, since I have seen many statements quoting statistics that would indicate that the United States ranks third or fourth among the major foreign trading countries in respect to the low rate of duties on imports, I do not feel that it has been adequately explained to the American people if there has been resentment on the part of foreign countries because they consider our import duties excessive when they do not appear so relatively speaking. If so, does not this resentment stem from some other factor? Import duties should be viewed as a means of raising revenue to operate our Government and at the same time foster fair competition between nations. No one in the wallpaper industry, where we presently have 10 percent ad valorem duty and a specific duty of one-half cent per pound can believe that this low import duty prevents the sale of foreign-made wall coverings in this country. No domestic manufacturer, conversely, believes that existing duties should be further reduced or eliminated completely.

(Whereupon, at 12:05 p.m., the committee stood in recess, to reconvene Thursday, August 2, 1962, at 10 a.m.)

TRADE EXPANSION ACT OF 1962

THURSDAY, AUGUST 2, 1962

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

The committee met, pursuant to recess, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Douglas, Talmadge, Hartke, McCarthy, Williams, and Carlson.

Also present: Senators Yarborough, Thurmond, and Tower.

Elizabeth B. Springer, chief clerk, and Serge N. Benson, professional staff member.

The CHAIRMAN. The committee will come to order.

The first witness is Harold Decker, of the Independent Petroleum Association of America.

Mr. Decker, come forward and take a seat.

STATEMENT OF HAROLD DECKER, PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

Mr. DECKER. Mr. Chairman, my name is Harold Decker and I reside in Houston, Tex. I appear as president of the Independent Petroleum Association of America, a national association with membership of more than 6,000 oil and gas producers located in every producing area in the United States.

In the interest of time, I will summarize my statement and ask that my entire statement be made a part of the record of these hearings.

The CHAIRMAN. Without objection.

Mr. DECKER. The domestic oil producing industry is in serious economic difficulty. The industry has suffered a continuous decline since 1956. The national economy (GNP) during this time has increased almost 25 percent. Crude oil production, however, has been static. There has been no growth; no expansion. About 30 percent of the industry's capacity is now idle.

We believe this presents a serious problem to the Nation both (1) economically and (2) securitywise. That is why we appeal to this committee.

Oil and gas production is a major industry. When it is depressed there is a marked effect on the overall economy, particularly in the 33 States which produce oil and gas.

Of overriding importance, the domestic petroleum industry is vital to our military security. This has been established by the experience of World Wars I and II; the Iranian shutdown of 1951; and the Suez crisis of 1956.

In addition, it is a strong deterrent to war as demonstrated during these latter two experiences.

Important from the security viewpoint is the fact that while domestic production of crude oil has been stagnated for 6 years, Russian production has increase 100 percent.

As a result, oil has now become the most effective weapon in the aggressive Russian war on the economic front throughout the world.

One of the principal factors contributing to the unhealthy condition of the domestic industry is excessive oil imports. Even though imports are now limited pursuant to the national security provision of present law which is retained in H.R. 11970 as section 232, imports have continued to increase.

The present limitation program, inaugurated in 1959 has been helpful in slowing down the rate of increase in imports but it has not met its objective of revitalizing the industry.

My purpose, therefore, is to urge this committee to initiate further congressional action to strengthen the national security provision by providing more definite and specific legislative direction.

Available evidence points to the need for further congressional action. Under the national security provision, in 1957, the Government found that imports of crude oil threatened the security. This finding reflected concern about the performance of the industry during 1956 and the years prior thereto.

Yet, since then, despite this governmental finding, and the limitation program, the health and vigor of the domestic industry has suffered a steady decline while imports have enjoyed a steady increase.

For example, during these intervening 6 years, every principal economic indicator of the industry shows deterioration.

For example:

1. Geophysical and core drilling crews active in exploration is more than 30 percent below 1956.
2. Wells drilled in 1961 were 19 percent below 1956. Exploratory drilling dropped 30 percent in this period.
3. Rotary rigs active in 1961 were 33 percent below 1956.
4. Employment in the production of oil and gas was 9 percent below 1956.
5. The price of domestic crude oil in 1961 was 20 cents a barrel below 1957, in the face of steadily increasing costs.
6. The rate of return in invested capital for the domestic petroleum industry has fallen below the average for manufacturing industries in general.
7. During the last 5 years, there has been an unhealthy trend toward sellouts and mergers in the producing segment of the domestic oil industry.

As for imports, despite the existence of the limitation program, they have continued to increase. Total imports of crude oil and all products have increased as follows:

	Barrels	Percent of U.S. crude oil production
1946	377,000	7.9
1956	1,436,000	20.1
1961	1,889,000	26.3
1962 (1st half)	2,090,000	28.4

Recently the Department of the Interior established oil import levels (excluding residual) for the last half of 1962. This new level will permit an increase of some 100,000 barrels per day above the like period in 1961. These increased imports for the year 1962 continue to follow the familiar pattern of increasing imports.

If residual fuel oil, which is treated separately under the present limitation program, is excluded, imports of crude oil and the lighter products show the following increasing trend:

	Barrels daily	Percent of U.S. crude oil production		Barrels daily	Percent of U.S. crude oil production
1946–50	374,000	7.2	1959	1,170,000	16.6
1951–55	664,000	10.3	1960	1,178,000	16.7
1956	991,000	13.9	1961	1,245,000	17.3
1957	1,099,000	15.3	1962 (1st half)	1,320,000	18.2
1958	1,201,000	17.9	1962 (2d half, estimated)	1,380,000	19.0

In 1956, when these imports amounted to less than 14 percent of domestic production, the Government concluded that the security was threatened.

Since that time, imports have increased substantially in volume and also in relation to domestic production.

In 1959, when the present mandatory program was initiated, the Government reaffirmed its prior finding that oil imports threaten the national security and stated that the basis of the program—

> * * * is the certified requirements of our national security which make it necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States.

This objective has not been realized. The industry is not vigorous and healthy or growing and expanding as it should be.

If proper action is taken, not only would the oil import problem be served but also a substantial contribution could be made in the balance-of-payments problem currently of so much concern.

One of the most substantial contributing factors to this growing problem is the excess of petroleum imports over petroleum exports. For example, during the past 7 years, this Nation has experienced an average deficit of $829 million per year in its foreign petroleum trade.

During this same period, our Nation's total balance-of-payments deficit has averaged $2.2 billion annually.

In other words, the adverse balance of trade in petroleum during the past 7 years accounts for 38 percent of the overall U.S. balance-of-payments deficit and almost 50 percent in 1961, as shown in the attached chart.

In connection with the balance-of-payments problem, we recently were encouraged by the announcement of Secretary of Defense McNamara that his Department's purchase policies are being reviewed for the purpose of cutting down on foreign buying.

The purchase of foreign petroleum is a large item. According to Defense Department reports, foreign procurement of petroleum approximates $300 million annually. This is a significant outflow in relation to the total adverse balance of payments.

Foreign procurement of petroleum supplies by the military has been increasing. The largest increases have been with respect to petroleum products other than heavy residual fuel oil.

The volume of these light products purchased from foreign sources since 1953 is as follows:

Calendar year	Barrels daily	Percent of total domestic and foreign purchases
1953	43,000	12.0
1956	120,000	25.5
1961	199,000	33.8

This increasing trend has taken place while the domestic industry has been operating 20 to 30 percent below capacity in both production and refining. Petroleum products are plentiful in the United States.

A substantial portion of these foreign military purchases, some of which is even being imported into the United States, could and should be shifted to the United States.

We feel there is an urgent need to strengthen the existing oil import limitation program. There is a need for a substantial reduction in the level of crude oil imports. We feel this reduction should be in the order of 250,000 barrels daily. Of fundamental importance, there is a need for a stable and assured balance between imports and domestic production established by law.

The necessary long-range investments required to find and develop adequate petroleum supplies require the assurance of a lasting national policy as to oil imports. That assurance is lacking today. Uncertainty prevails and the industry's future is thereby threatened.

Accordingly, we respectfully urge that section 232 of H.R. 11970 be amended so as to incorporate more specific and definite guidelines as follows:

1. Require, by law in the interest of national security, Government limitations on the importation of crude oil and all its derivatives including residual fuel oil.

2. Impose an overall limitation on all imports, excluding residual fuel oil, not to exceed the 14 percent relationship to domestic crude oil production that existed in the year 1956 prior to the continuing decline in the health and vigor of the domestic industry.

These recommendations would implement and strengthen the present program. They could be incorporated into the law and put into effect in complete harmony with the present administrative machinery, which has been operating for more than 3 years.

When the trade bill recently passed the House, officials of the executive branch took the position that legislative action was not needed and made assurances that administrative action would be taken to accomplish the following:

1. The President's Study Committee created last December to review the oil import matter will report by September 1.
2. A system of limitation of oil imports will be retained.
3. Imports will be related to domestic production.
4. Efforts will be undertaken to stabilize the problem of increasing imports from Canada.

In principle, these assurances are substantially what we seek. But they are deficient in two respects.

First, administrative actions are subject to change and therefore lack the element of stability. It is stability that is of paramount need now.

Second, these assurances lack definiteness as to the level of imports and their relationship to domestic production. We have had an administrative program for 5 years, yet both the level and relationship have increased steadily. The law should provide legislative guidelines which will assure that the domestic industry will grow in keeping with national needs.

The best assurance of ample supplies of oil and gas at reasonable prices to the consumer always has been a vigorous and competitive domestic industry.

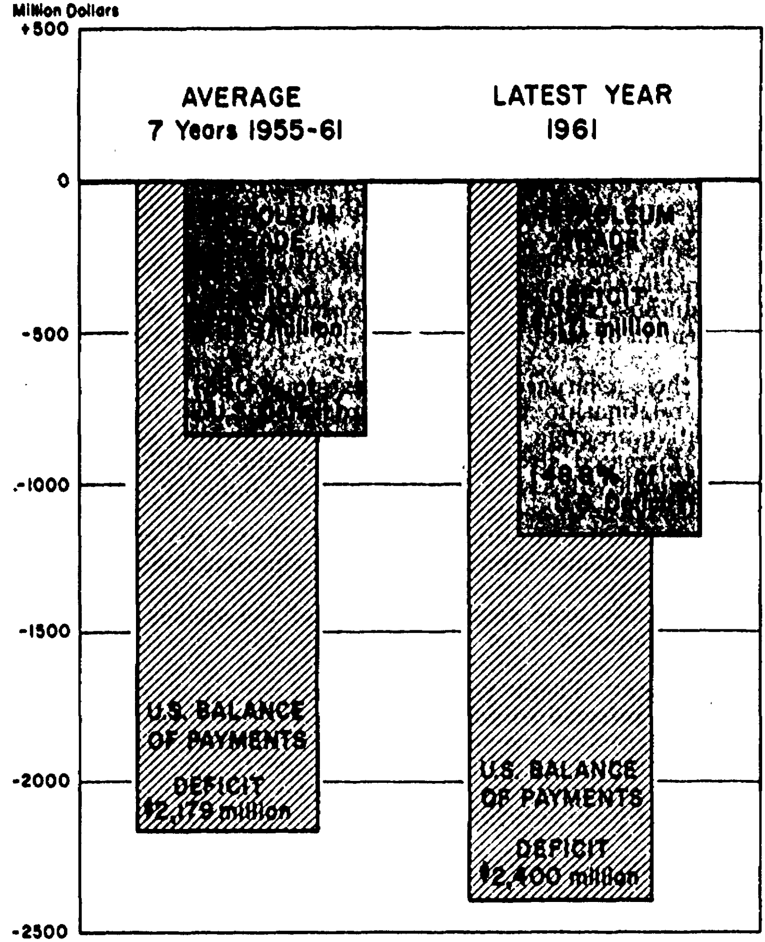
We respectfully urge your recognition of the serious problem of excessive oil imports.

Thank you.

The CHAIRMAN. Thank you very much.

(The chart referred to follows:)

U.S. BALANCE OF INTERNATIONAL PAYMENTS AND U.S. PETROLEUM TRADE BALANCE



Source: Department of Commerce. IPAA CHART

The CHAIRMAN. Any questions?

Senator WILLIAMS. Yes, Mr. Chairman.

Mr. Decker, do I understand you approve of the bill provided it is limited to exclude from the provisions of the importation of oil?

Mr. DECKER. I don't quite understand your question, Senator.

Senator WILLIAMS. Well, I noticed that your proposed amendments deal with the restrictions on the importation of oil.

Would you approve of the bill if that amendment was included?

Mr. DECKER. If it was made a part of the bill, yes.

Senator WILLIAMS. You would approve of the bill?

Mr. DECKER. Yes.

Senator WILLIAMS. If that was made a part of it?

Mr. DECKER. Yes.

Senator WILLIAMS. Then do I understand you are endorsing the free trade proposals on all imports with the exception of the oil industry?

Mr. DECKER. We have taken no position on the trade bill as such.

Senator WILLIAMS. Thank you.

Senator CARLSON. Mr. Chairman.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. Mr. Decker, I want to commend you for a very factual and very fine statement in regard to the situation that developed in the oil industry of the United States. I was interested to note that 30 percent of the industry's capacity is now idle. At the same time, the percent of U.S. crude oil production that is supplanted by imports is 28.4 percent as effective with the figures of the first half of 1962, which seems to indicate that this industry is really suffering from imports of oil.

Mr. DECKER. Yes, sir.

Senator CARLSON. What is the situation in the oil-producing States? Let's take Texas.

You have a proration program. How many days can you operate out there per month.

Mr. DECKER. We can operate 8 days out of the month. And at the present time if it continues like this we anticipate that Texas will be down to 7 days next year.

Senator CARLSON. I doubt very much if the people of our Nation realize the stringent restrictions that we have out in the oil-producing States in regard to production, and then the full effect of imports on this great industry that is so important, not only from a defense standpoint but in our economy.

Do you have any suggested language that we might write into this bill—you made some suggestion but I want to know if you have any language that has been prepared in the way of amendments that we might consider before we finally act on it.

Mr. DECKER. No. But we could prepare such an amendment if you desire it.

Senator CARLSON. I would be pleased if you would give some thought to it before we finish consideration of the bill.

Mr. DECKER. We shall.

(The following was later received for the record:)

PROPOSED AMENDMENT TO TRADE EXPANSION ACT OF 1962 (H.R. 11970)

On page 15, between line 13 and line 14, insert the following new subsection to section 232:

"(e) Whenever an article is subjected to import limitations under this section, total imports of such article and all derivative products thereof for any annual period shall not exceed the amount which has the same relationship to domestic production for such annual period as existed during a representative base period of one year or more selected by the President from the five-year period prior to initial certification that imports threaten to impair the national security, except that upon a finding by the President that a national security emergency exists and a temporary shortage of supply is threatened the President may adjust the limitation for the temporary period necessary to meet such requirements."

Senator CARLSON. Thank you very much.
The CHAIRMAN. Thank you, Mr. Decker.
Mr. DECKER. Thank you.
(Complete and extended statement by Mr. Decker follows:)

STATEMENT OF HAROLD DECKER, PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, ON H.R. 11970

My name is Harold Decker and I reside in Houston, Tex. I appear before you today as president of the Independent Petroleum Association of America, a national association with membership of more than 6,000 oil and gas producers located in every producing area in the United States.

I am particularly pleased to have the opportunity of appearing before this committee because, as you know, it was this committee that was the moving force that led to the adoption by Congress of the national security amendment in 1955 as well as many of the strengthening additions to this amendment in 1958. This amendment is the foundation of the present governmental program of limiting oil imports. It will be my purpose today to point out that while the existing oil import program has been helpful in preventing complete chaos in the domestic industry, the evidence which I will present to this committee, however, will clearly show that the program of limiting excessive imports of foreign oil has fallen way short of meeting national security objectives. There is an urgent need for action by Congress to write into law a lasting and effective policy and program with respect to petroleum imports.

The basic purpose of my presentation to you today is to recommend and urge that the so-called national security provision (sec. 8 of the Trade Agreements Extension Act of 1958 and sec. 232 of the proposed Trade Expansion Act of 1962) be amended and strengthened in a manner to assure an effective long-range import program in the interests of our Nation's security and economic progress, and the needs of the consuming public.

There can be little question as to the importance of adequate and available supplies of petroleum within the borders of the United States to meet this Nation's needs in time of peace or war and, perhaps most important, as a deterrent to war, and to help friendly nations in times of crises. In recognition of this basic fact, Congress and the executive branch have given particular consideration to this problem in developing our Nation's foreign trade policies. Under the revised national security provisions of the Trade Agreements Extension Act of 1958, it was determined early in 1959 after considerable study of all the relevant factors involved, that imports of crude petroleum and petroleum products were threatening to impair the national security. Accordingly, the executive branch of the Government established a program which placed mandatory import limitations on foreign oil imports in order to insure a vigorous and expanding petroleum industry within the United States which would be capable of exploring for and developing the necessary reserves to replace those being depleted.

Thus, as a matter of national policy, the problem of petroleum imports has been "set aside" in the interest of national security, from this Nation's overall foreign trade policy.

GOVERNMENT'S OIL IMPORT PROGRAM

Prior to discussing the general depressed conditions existing in the domestic producing industry, I would like to lay before you pertinent historic developments leading to the adoption of what is now commonly known as the mandatory oil import program.

History of program

Deteriorating conditions in the domestic petroleum industry and continuing increases in oil imports brought about a series of Government actions as to oil import policies. On February 26, 1955, the White House released a report prepared by a Presidential committee which recommended that, in the interest of national security, imports of crude oil and residual oils should be kept in balance with domestic production of crude oil at the proportionate relationship that existed in 1954.

This report was prepared by an Advisory Committee on Energy Supplies and Resources Policy established by the President on July 30, 1954. In part, the report stated, "an expanding domestic oil industry, plus a healthy oil industry in friendly foreign countries which help to supply the U.S. market, constitute basically important elements in the kind of industrial strength which contribute most to a strong national defense. Other energy industries, especially coal, must also maintain a level of operation which will make possible a rapid expansion in output should that become necessary. In this complex picture, both domestic production and imports have important parts to play; neither should be sacrificed to the other. The Committee believes that if imports of crude oil and residual fuel oil should exceed significantly the respective level that these imports of oil bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense."

As a result of this study, the Government attempted to deal with the problem by requesting oil importers to limit their imports voluntarily. However, no levels or quotas were set. While there was a commendable degree of voluntary cooperation on the part of most importing companies, several refused to cooperate with the program and oil imports continued to increase. On April 23, 1957, the Director of the Office of Defense Mobilization certified to the President pursuant to section 7 of the Trade Agreements Extension Act of 1955, that he had reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security.

The President, on June 26, 1957, formed a special Cabinet Committee to make an investigation on his behalf to determine the facts as to whether crude oil was being imported into the United States in such quantities as to threaten to impair the national security. The Cabinet Committee was composed of the Secretary of State, the Secretary of Defense, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of the Interior, and the Secretary of Labor.

This Special Cabinet Committee To Investigate Crude Oil Imports made its recommendations which were approved by the President July 29, 1957. The Committee report stated:

"Your Committee's investigation of the oil import problem has been continued to the effect of the present trend of imports on national security.

"It is clear that there is a direct relationship between the Nation's security and adequate and available sources of energy. Oil and gas account for two-thirds of all the energy that is consumed in this country. Furthermore, there is no adequate substitute in sight for the foreseeable future. Therefore, we must have available adequate supplies of oil.

"We have concluded, for reasons that are set forth later in this section of the report, that if we are to have enough oil to meet our national security needs, there must be a limitation on imports that will insure a proper balance between imports and domestic production.

"In summary, unless a reasonable limitation of petroleum imports is brought about, your Committee believes that—

"(*a*) Oil imports will flow into this country in evermounting quantities, entirely disproportionate to the quantities needed to supplement domestic supply.

"(*b*) There will be a resultant discouragement of, and decrease in, domestic production.

"(*c*) There will be a marked decline in domestic exploration and development.

"(*d*) In the event of a serious emergency, this Nation will find itself years away from attaining the level of petroleum production necessary to meet our national security needs.

"Your Committee recognizes that there are important foreign policy aspects to the problem of limiting petroleum imports. The oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access to our domestic market for their petroleum exports and it must be recognized that it is also in the interest of our national security that our allies and friends have healthy and expanding economies. It is believed, however, that taking all factors into consideration, our national security requires the maintenance of some reasonable balance between imports and domestic production at this time. In light of the foregoing considerations, our recommendations are framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of our domestic demand to a degree consistent with our national security.

"It is our conviction that as a nation we must pursue a careful, considered course that will permit reasonable imports into our country and still stimulate a dynamic and vigorous exploratory and development effort in this country."

The voluntary oil import program was established, covering the last half of 1957, by the President's approval of the recommendations made by the Special Cabinet Committee. Under the voluntary oil import program the Government established specific quotas for individual companies. Over the next 20 months, crude oil imports were generally under control even though several companies refused to comply with the voluntary program. However, during this time imports of unfinished oil and finished petroleum products which were not included in the voluntary program continued to increase.

On January 22, 1959, the Secretaries of State and Defense requested an investigation with respect to imports of crude oil and crude oil derivatives and products in accordance with the provision of section 8 of the Trade Agreements Extension Act of 1958. As a result of the investigation made by the Director of OCDM, the President was advised on February 27, 1959, of the Directors' determination that crude oil and the principal crude oil derivatives and products were being imported in such quantities and under such circumstances as to threaten to impair the national security.

On March 10, 1959, the President issued a proclamation establishing a mandatory oil import program. The purpose of the mandatory oil import program as stated in the President's proclamation was:

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

In January 1961 the Secretary of the Interior announced a complete review of the oil import program. Public hearings were held in Los Angeles on May 4, 1961, for district V, and in Washington for districts I to IV on May 10-11. About 80 industry witnesses, including most of the larger importing companies, appeared at the Washington hearing. There was almost unanimous agreement that import controls are necessary.

The Interior Department in the fall of 1961 proposed a revised program which was circulated to other Government departments for review and comment and then sent to the President for action. It was widely reported that the proposed plan would have lowered imports by 60,000 barrels daily and related total imports to the U.S. demand for crude oil. On December 2, 1961, the President delayed action on the proposed revisions in the import program pending a further study to be conducted under the leadership of the Director of the Office of Emergency Planning.

This study which was to be completed by mid-1962 is still underway and oil imports meanwhile continue to increase.

The operation of the oil import program

As documented later in my statement, the domestic oil- and gas-producing industry is not in a healthy condition. Exploration and drilling are at low levels, and as a result, new reserves are not being found in sufficient volumes to meet national defense requirements and the needs of our expanding economy. Unemployment is increasing. Revenues to State and local governments from oil production have been reduced severely. Domestic crude oil prices have declined each year since 1957. Because of these conditions, sellouts are increasing. Hence there is a reduction in the number of independents who historically have found most of the new oil and gas reserves. A trend toward concentration has developed in conflict with the public interest, which is best served by a vigorous, diversified, competitive effort in the finding and development of oil and gas reserves.

It is fully recognized that all of the factors contributing to the adverse trends in this industry cannot be entirely laid at the doorstep of imports. We recognize the inroads being made into crude oil markets by natural gas liquids, natural gas—which is priced at the wellhead at artificially low prices due to Federal regulation—and of the many other factors which are serving to depress domestic crude oil production as well as crude prices. Nevertheless, excessive imports are a primary cause of the deteriorating conditions in the domestic industry.

The principal aspects of the oil import program which we believe require attention are as follows:

1. Exemptions should be eliminated and the program made all inclusive. Experience has demonstrated that exemptions on the basis of source or by product lead to abuses, circumvention, and ever-increasing imports.

2. Imports of crude oil, unfinished oils, and finished products other than residual fuel oil into the United States should be related to domestic crude oil production rather than related to the total demand for petroleum products. This would prevent imports from growing disproportionately in relation to domestic production.

As to residual fuel oil, which is treated separately under the program of limiting imports, the interest of the domestic oil producer is indirect in contrast to crude oil imports which directly displace domestic producton on a barrel-for-barrel basis. This is not to say that residual fuel imports do not, or cannot, have any effect on the producer of crude oil. To the contrary, imports of residual fuel oil can have an adverse effect by depressing the refinery realization from that portion of the total output from crude oil that is marketed in the form of residual fuel oil.

The relationship of residual fuel oil imports to the development of domestic petroleum resources, therefore, involves the relationship of these imports to residual fuel oil prices and the resulting effects on crude oil prices and the income received from crude oil production. Accordingly, residual fuel oil imports should be limited to prevent these imports from having an adverse effect on the domestic industry.

The effectiveness of the mandatory oil import program has been seriously weakened through the operation of the exemption for so-called overland imports.

Our association from the outset has recognized that for reasons of national security overland imports should be given preferential treatment in relation to less secure oversea foreign imports, but not in relation to domestic production. Therefore, we have urged that overland imports be held to reasonable levels and that such imports be included in the established permissible level of imports so that as overland imports increase in volume other foreign imports would decrease accordingly. Under the present exemption overland imports enjoy a preferred position, not only over other foreign oil but also over domestic production.

The statement on Canadian oil policy which was released by the Canadian Government on February 1, 1961, gave certain target levels for Canadian oil production; i.e., 640,000 barrels daily for the year 1961 and 800,000 barrels daily for 1963.

An analysis reveals that the new Canadian oil policy contemplates at least half of the expansion in the form of additional exports to the United States. Crude oil exports to the United States by 1963, therefore, would approximate 225,000 barrels daily or twice the 1960 daily average receipts of 113,000 barrels per day.

Total Canadian overland imports into the United States during the first 5 months of this year averaged 236,267 barrels daily of which 111,968 barrels daily was imported into the upper midcontinent area and the balance of 124,299 barrels daily went to the Puget Sound region on the west coast.

Thus, in 1 year Canadian oil shipments to the United States already have exceeded the levels contemplated under the Canadian oil policy for 1963.

Starting in December 1960, so-called overland shipments of petroleum of Mexican origin began to enter the United States under a manipulated arrangement involving tanker transportation.

It is submitted that these Mexican imports of about 30,000 barrels daily are in clear violation of the intent and purpose of the overland exemption and constitute a circumvention of the program.

The volumes of exempt imports received during the period January–May 1962 from Canada and from Mexico total 265,229 barrels daily or an increase of 52 percent over the volume of 174,877 barrels daily from these sources a year earlier.

There is a clear need, in the interest of national security to strengthen the mandatory oil import program. There is a need for a substantial reduction in the level of oil imports. Of fundamental importance, there is a need for a stable and assured balance between imports and domestic production. The necessary long-range investments required to find and develop adequate petroleum supplies require the assurance of a lasting national policy as to oil imports. That assurance is lacking today. Uncertainty prevails and the industry's future is thereby threatened. While the mandatory oil import program has been helpful, and no doubt has prevented complete chaos in the domestic industry, experience has demonstrated that the program has not accomplished its security objectives.

Since I testified before the House Ways and Means Committee in March, the Department of the Interior has established the oil import level for the last half of 1962. This new level coupled with the anticipated "uncontrolled" overland imports will amount to an increase of some 100,000 barrels per day over crude oil imports for the like period in 1961.

These increased imports for the second half of 1962 continue to follow the pattern of increasing imports of foreign oil each year. During the past 6 years, while production of oil within the United States has remained static, imports have continued to increase each year. It must be noted that this unhealthy pattern has taken place in spite of having in effect a voluntary import program for 20 months followed by mandatory oil import limitations during the last 3 years of this 6-year period.

PETROLEUM AND NATIONAL SECURITY

As set forth earlier in my statement, the basis of the mandatory oil import program "* * * is the certified requirements of our national security which make it necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States." The question begging an answer is simply this: In view of the conditions now existing in the domestic petroleum industry as can be seen from the facts and statistics which I will place before you today, are the national security objectives being met today, or will they be met in the future without further action by Congress? The evidence is convincing to me that there is an urgent and compelling need for Congress to take further action to meet the increasing threats to the domestic petroleum industry as a result of excessive imports of foreign oil.

In view of the many comprehensive studies by the Congress and the executive departments over a long period of years, and practical experience in times of emergency, it is unnecessary to elaborate on the importance of petroleum to national security. It is, however, appropriate to keep in mind the essentiality of maintaining adequate and available supplies of domestic oil.

With a Federal budget of more than $50 billion for programs of defense against all types of aggression, it is apparent that our security requirements for petroleum are not limited to the needs of a nuclear war. Our mobilization base must match the needs of a nuclear war, large-scale conventional warfare, limited conflicts, and a protracted cold war. At all times, we must maintain a position of strength to prevent and deter war. In this effort, experience has demonstrated that no munition is more important than oil.

We can recall how oil imports were cut off during World War II when 6 of the 7 billion barrels needed to meet the requirements of the United States and our allies came from domestic sources. We can remenber that oil constituted two-thirds of all materials shipped overseas during that war.

More recently, the shutdown of Iranian oil in 1951 and the closing of the Suez Canal in 1956 and 1957 disrupted oil supplies for the free world. During the Suez crisis, Western Europe was faced with the prospect of industrial collapse. European troops were landed in Egypt and World War III threatened. The United States as in World Wars I and II was in a position to supply oil to

Europe and it was U.S. oil that overcame shortages and averted war. Without alternate supply sources to replace Middle East oil, the European nations affected were faced with two choices (1) to pay the price demanded or (2) take the canal by force.

Today, Russia is engaged in a positive and successful program of greatly expanded Soviet oil production to strengthen Russia internally and to increase oil exports as a prime weapon in the Russian economic offensive. It would be foolhardy in the extreme for the United States to pursue policies that would weaken our security position as to petroleum supplies while the Soviets exert their efforts to maximize their petroleum capabilities. We simply cannot afford the risks involved in becoming increasingly dependent on uncertain foreign sources of oil.

The dangers of dependency on foreign oil were brought into sharp focus by a recent statement by the general director of petroleum in one of the Middle East countries:

"Some day we will unite. Once we are strong enough to shut down all the wells, and close the Suez Canal, and shut off the pipelines—even if only for a few days—the (oil) companies will suddenly see a great light. The world cannot live without the Mideast's oil."

In short, national security and the peace of the free world require that U.S. oil imports be limited to the extent necessary to maintain a vigorous, expanding domestic petroleum industry.

PETROLEUM AND ECONOMIC GROWTH

In addition to its importance to national security, petroleum is vital to the economic growth of the United States and the Nation's standard of living.

Petroleum (oil and natural gas) supplies 74 percent of total U.S. energy needs and energy is the indispensable ingredient of higher standards of living. Through the increased use of energy, men produce more; work more efficiently; live in greater comfort; and travel farther and faster on land and sea, under the polar ice cap, through the air, and out into the far reaches of space. The well-being and material progress of mankind is directly related to energy consumption.

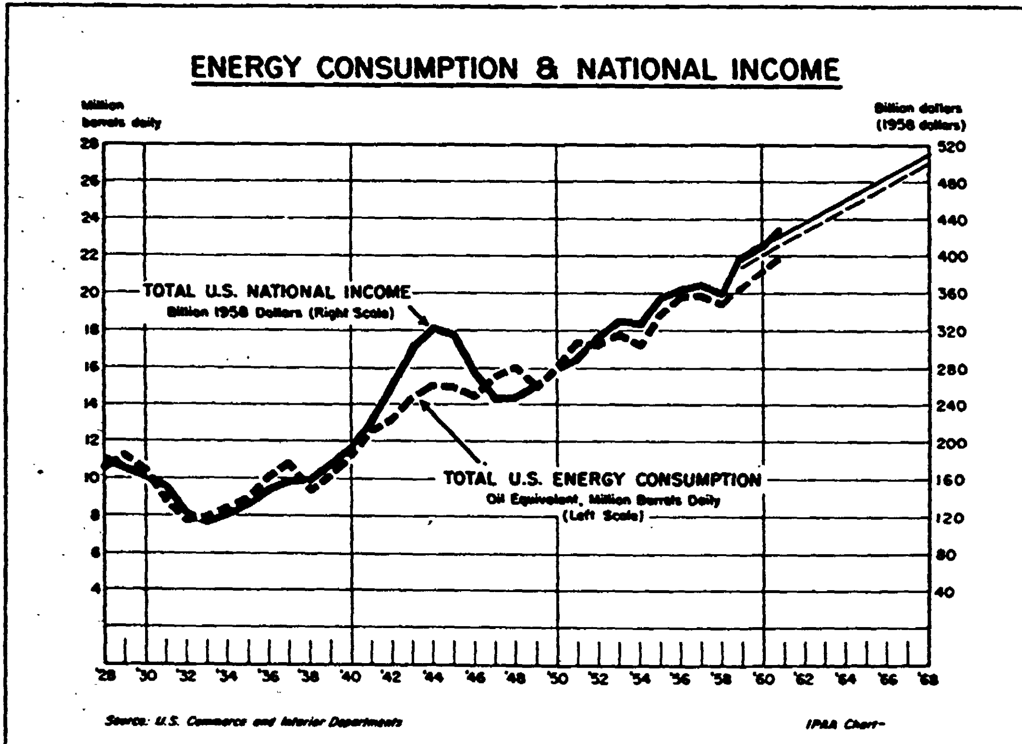
The following two charts on energy consumption and national income picture the close relationship between the use of energy and standards of living. During the past three decades, national income in the United States has paralleled the growth in energy consumption.

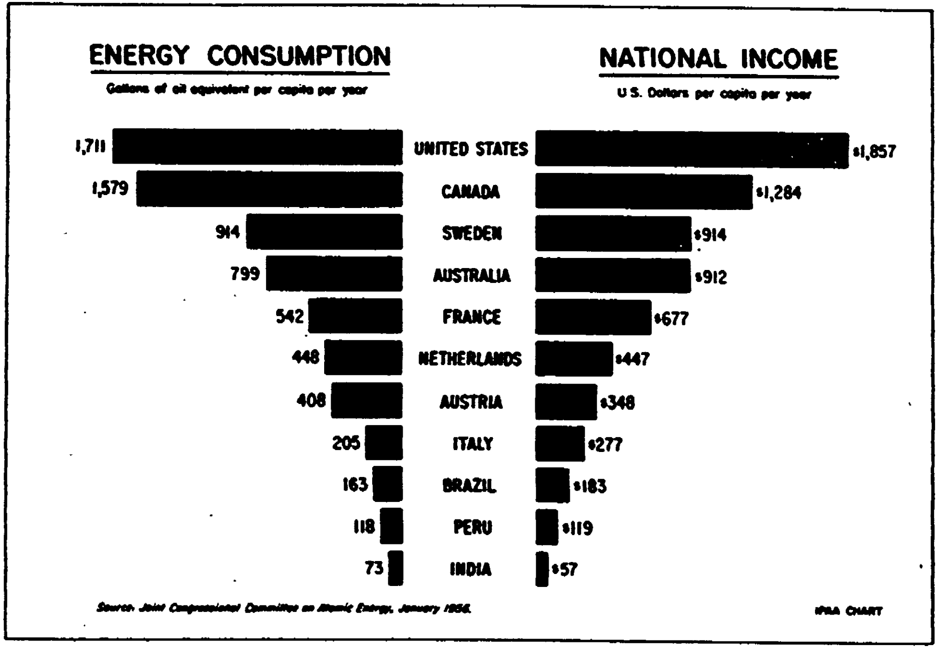
The relationship between U.S. energy consumption and national income also holds true in the case of other countries, as can be seen from the second chart. When total energy is expressed in terms of equivalent gallons of oil consumed per person per year, national income varies from country to country in the direct relationship of $1 of national income per capita for each gallon of energy.

Petroleum producing activities provide the economic lifeblood for thousands of local areas and communities. The 1958 Census of Mineral Industries reported 12,000 establishments engaged in U.S. oil and gas field operations and over 90 percent falls in the category of small business wtih less than 20 employees.

The petroleum producing industry, employing 808,800 people in 1961, is an important segment of the Nation's economy. The number of employees in each State is shown in a table attached to this statement. The indirect effect on employment in all business activities in the producing areas is far reaching.

Petroleum is the principal mineral produced in the United States. The 1961 value of domestic oil and natural gas production was just under $10 billion and exceeded the combined value of all other mineral production including coal, iron ore, aluminum, uranium, gold, silver, etc. Oil or gas is being produced in 33 of our 50 States. In 14 States, petroleum is the principal mineral.


ENERGY CONSUMPTION & NATIONAL INCOME
Million barrels daily
Billion dollars (1958 dollars)
TOTAL U.S. NATIONAL INCOME
Billion 1958 Dollars (Right Scale)
TOTAL U.S. ENERGY CONSUMPTION
Oil Equivalent, Million Barrels Daily (Left Scale)
28 26 24 22 20 18 16 14 12 10 8 6 4
520 480 440 400 360 320 280 240 200 160 120 80 40
'28 '30 '32 '34 '36 '38 '40 '42 '44 '46 '48 '50 '52 '54 '56 '58 '60 '62 '64 '66 '68
Source: U.S. Commerce and Interior Departments
IPAA Chart


ENERGY CONSUMPTION
Gallons of oil equivalent per capita per year
NATIONAL INCOME
U.S. Dollars per capita per year
1,711 UNITED STATES $1,857
1,579 CANADA $1,284
914 SWEDEN $914
799 AUSTRALIA $912
542 FRANCE $677
448 NETHERLANDS $447
408 AUSTRIA $348
205 ITALY $277
163 BRAZIL $183
118 PERU $119
73 INDIA $57
Source: Joint Congressional Committee on Atomic Energy, January 1956.
IPAA CHART

The value of petroleum production in these States and the percentage of the value of total mineral production are shown in the following tabulation:

States in which petroleum is most valuable mineral, 1961

State	Value of petroleum production	Petroleum as percent of total value of all minerals	State	Value of petroleum production	Petroleum as percent of total value of all minerals
Arkansas	$93,454,000	59.8	Montana	$78,778,000	42.8
California	962,145,000	69.2	Nebraska	75,657,000	72.8
Colorado	158,469,000	46.4	New Mexico	459,197,000	67.8
Illinois	259,267,000	43.3	North Dakota	69,484,000	83.6
Kansas	421,146,000	86.0	Oklahoma	724,574,000	93.1
Louisiana	1,998,685,000	93.7	Texas	3,902,285,000	92.9
Mississippi	190,652,000	91.1	Wyoming	392,111,000	83.1

Over 400 million acres, about 20 percent, of the land area of the United States is under lease by the industry of which only 6 percent, or 26.6 million acres, has been proved productive. The rentals paid on oil and gas leases, and the royalty payments to farmers and land and royalty owners aggregate some $2 billion annually, a substantial item in our economy.

It would seem apparent that, aside from the question of national defense, every step possible should be taken to maintain a healthy domestic industry in the interest of economic growth and as a means to contribute to increased employment.

WORLD OIL PRODUCTION AND FOREIGN MARKETS

World oil surplus

During the past 10 years, oil consumption in the free world outside the United States approximately doubled. An increasing world surplus developed, however, due to a fourfold increase in proved oil reserves outside the United States.

The worldwide surpluses of oil result from the prolific deposits in the Middle East plus recent new discoveries in that area including new deposits found in the Persian Gulf; large new discoveries in Africa; as well as new discoveries in Latin America. In addition, increasing exports of Russian oil to markets in the free world during the past few years are further aggravating the problem as to market outlets for the growing volumes of oil readily available in world markets.

In the light of developments in recent years and conditions that we know today, there is little likelihood of a dimunition of worldwide oil surpluses in the foreseeable future.

Wide disparities between U.S. and foreign costs of discovery, development, and production of crude oil further aggravate the problems inherent in a condition of worldwide surpluses. A report published by the Chase Manhattan Bank listed the comparative cost data for the principal producing countries of the free world for the 10 years, 1951–60.

Trends in unit costs of maintaining and expanding petroleum production in the United States and foreign areas (total expenditures for exploration and development per barrel of crude oil production), 1951–60

Year	United States	Canada	Venezuela	Middle East	Far East	Other areas
1951	$1.32	$4.83	$0.37	$0.11	$0.75	$0.51
1952	1.58	5.47	.42	.17	.88	1.03
1953	1.69	4.02	.41	.11	.79	1.25
1954	1.86	4.01	.39	.11	.83	1.21
1955	1.88	3.28	.41	.12	.86	1.25
1956	1.94	2.85	[1] .81	.16	1.84	1.53
1957	1.95	2.61	[1] .95	.17	1.07	2.05
1958	1.73	2.51	.58	.21	.86	2.31
1959	1.69	2.70	.41	.19	.75	2.62
1960	1.63	2.53	.24	.15	.62	2.23
Average	1.73	3.10	.51	.16	.82	1.77

[1] Includes $0.35 and $0.38 per barrel, respectively, for concessions.

If the volume of new reserves found and developed as a result of these expenditures were taken into account, there is little doubt that costs in foreign areas, particularly Venezuela and the Middle East, would be substantially lower in relation to U.S. costs than is indicated by the comparative figures based on expenditures per unit of production.

These data, together with other pertinent information such as rates of production and volume of proved reserves per producing well in foreign areas versus the United States are indicative of the relatively low costs in principal foreign producing areas as compared with average costs in the United States. To illustrate, crude oil production in 1961 averaged 12 barrels per day per well in the United States as compared with 295 in Venezuela, 4,400 in Kuwait, and 6,400 per day per well in Saudi Arabia.

The world surplus of low-cost foreign oil makes it imperative that U.S. oil imports be limited in order to assure adequate development of domestic petroleum resources and avoid dangerous dependency on uncertain sources of supply.

Free world oil production

During the last 6 years, U.S. crude oil production has remained relatively constant despite a steadily increasing capacity to produce oil. Every other major producing area of the world has increased its oil output substantially, in some instances more than 100 percent. The relative growth in crude oil production of the principal areas is shown graphically on the following chart.

Comparing the year of 1961 with 1956, Canadian crude oil production increased 147,000 barrels daily or 31 percent. Venezuela was up 449,000 barrels daily or 18 percent. Production in other countries of the Western Hemisphere increased 371,000 or 59 percent. Middle East crude output was up 2,182,000 barrels daily or 63 percent. Other Eastern Hemisphere countries raised crude output 712,000 or 111 percent. In contrast, U.S. production in 1961 was virtually the same as in 1956 even though the U.S. capacity to produce oil increased by over 1 million barrels daily. Domestic shutin or idle capacity now approximates 3 million barrels daily or approximately the total volume of crude oil produced in Venezuela.

It is obvious from these statistics that the Government's oil import program has not prevented substantial expansion of oil production and oil markets in other producing nations of the free world.

Soviet oil

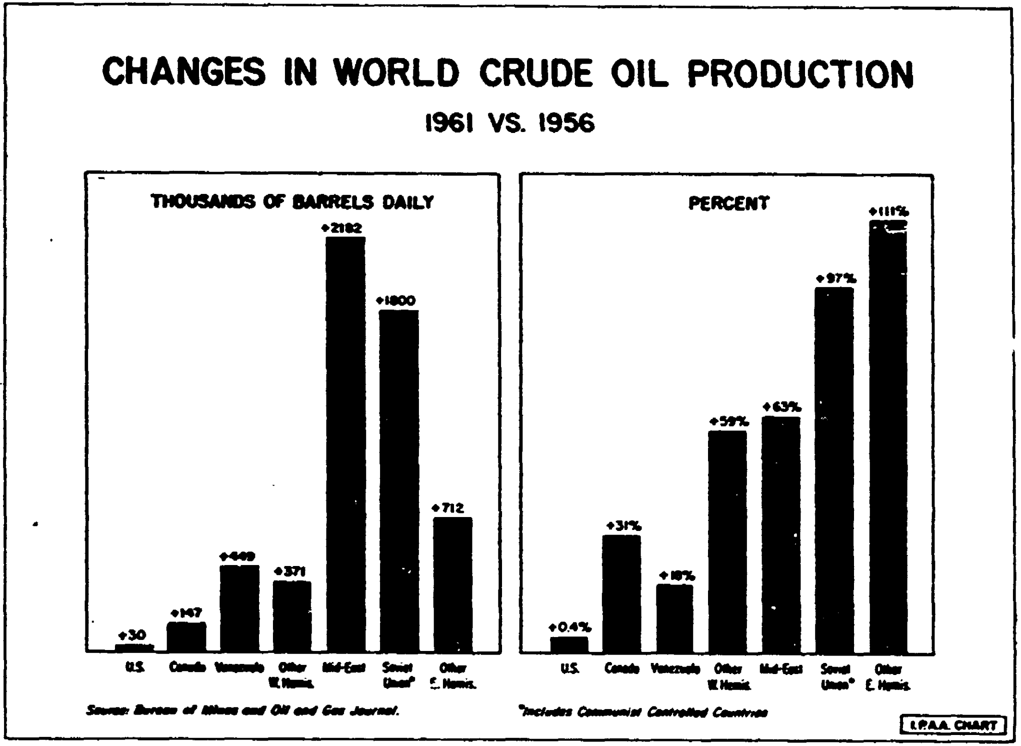
During the past 5 years, Soviet oil production has more than doubled. U.S production has been static. Exploration and development in Russia is expanding. There is a continuing decline in the United States.

Between 1950 and 1960, U.S. crude oil production increased 30 percent, world production doubled, but Soviet output quadrupled. The Soviet Union in 1960 displaced Venezuela as the world's second largest producing country second only to the United States. Russian production, which was only 9 percent of U.S. output in 1945, has increased steadily during the postwar years and in 1960 amounted to 42 percent of U.S. production.

Russian oil has reentered world petroleum trade in volume and now constitutes the Soviet Union's largest item in trade with free world nations. During the last 3 years, petroleum exports have increased rapidly from 284,000 barrels daily to 550,000 barrels daily.

The Soviet Government arrangements for sale of petroleum to free world customers are usually made on a government-to-government basis. Terms are set to further the Soviet political and economic gains and eliminate competition from other supply sources. The Soviet Union has used barter arrangements where oil is exchanged for a specific list of products. The value of the oil in this arrangement varies according to the importance of the commodities received in exchange. Regular commercial sales are also made without exchange of goods with a Soviet discount sufficiently below established prices to close the deal. Petroleum exports are also arranged to satisfy trade deficits from previous imports. In addition, trade arrangements have been made wherein oil is shipped as part of a long-term Soviet loan.

The Soviet petroleum industry is now in the 4th year of its 7-year plan (1959–65). This plan calls for crude production of 4,800,000 barrels daily in 1965, almost double the 1959 rate of 2.6 million barrels daily, and a fourfold increase in natural gas production. Pipelines for crude oil and petroleum products are to triple. The initial phase of this planned expansion program covering the years 1959–61 have been completed successfully and the consensus of opinion from


CHANGES IN WORLD CRUDE OIL PRODUCTION
1961 VS. 1956
THOUSANDS OF BARRELS DAILY
+30
+147
+449
+371
+2182
+1800
+712
U.S.
Canada
Venezuela
Other W. Hemis.
Mid-East
Soviet Union*
Other E. Hemis.
PERCENT
+0.4%
+31%
+18%
+59%
+63%
+97%
+111%
U.S.
Canada
Venezuela
Other W. Hemis.
Mid-East
Soviet Union*
Other E. Hemis.
Source: Bureau of Mines and Oil and Gas Journal.
*Includes Communist Controlled Countries
I.P.A.A. CHART

competent observers of the Soviet petroleum industry is that the petroleum goals for 1965 will be attained or even exceeded. The increasing intrusion of Russian oil into free world markets backs out oil produced in the Middle East and other countries, creating greater and greater pressures on the U.S. market to absorb surplus oil in the free world.

In view of Russia's increasing strength as to petroleum, the United States must have the assurance of adequate domestic oil supplies. This requires an effective program of limiting U.S. oil imports so that domestic production can expand in keeping with national requirements.

Foreign markets

Continuing and substantial increases in oil consumption in free world areas outside the United States should be given consideration in relation to U.S. oil import policy. These expanding markets now receive approximately 93 percent of their supply from crude oil produced in free foreign countries. Soviet oil supplies about 5 percent and its shipment into free world markets is increasing. Exports from the United States supply the remaining 2 percent, in contrast to 25 percent prior to World War II, and have been a progressively less important source of supply in the world market.

During the years of voluntary and mandatory U.S. import restrictions since 1956, oil consumption in free world areas outside the United States provided a market for more than 80 percent of the crude oil produced in free foreign countries. From 1956 to 1961, total production in the free world outside the United States increased by 3,861,000 barrels daily, or 51 percent, with 3,407,000 barrels or almost 90 percent of the increase going to foreign markets. In contrast, U.S. crude oil production in 1961 was approximately the same as in 1956. If there had been no increase in U.S. oil imports, total crude oil production in free foreign nations would have increased by 45 percent as a result of increasing oil consumption outside this country as shown in the following tabulation:

Market outlet for foreign crude oil production, 1946–61

	To markets outside United States		To United States (thousand barrels daily)	Free foreign crude oil production (thousand barrels daily)
	(Thousand barrels daily)	(Percent of foreign production)		
1956	6,198	81.2	1,436	7,634
1957	6,656	80.9	1,574	8,230
1958	7,146	80.8	1,700	8,846
1959	7,808	81.4	1,780	9,588
1960	8,836	83.0	1,815	10,651
1961	9,605	83.6	1,890	11,495

Source: U.S. Bureau of Mines, except 1961 total production from Oil and Gas Journal.

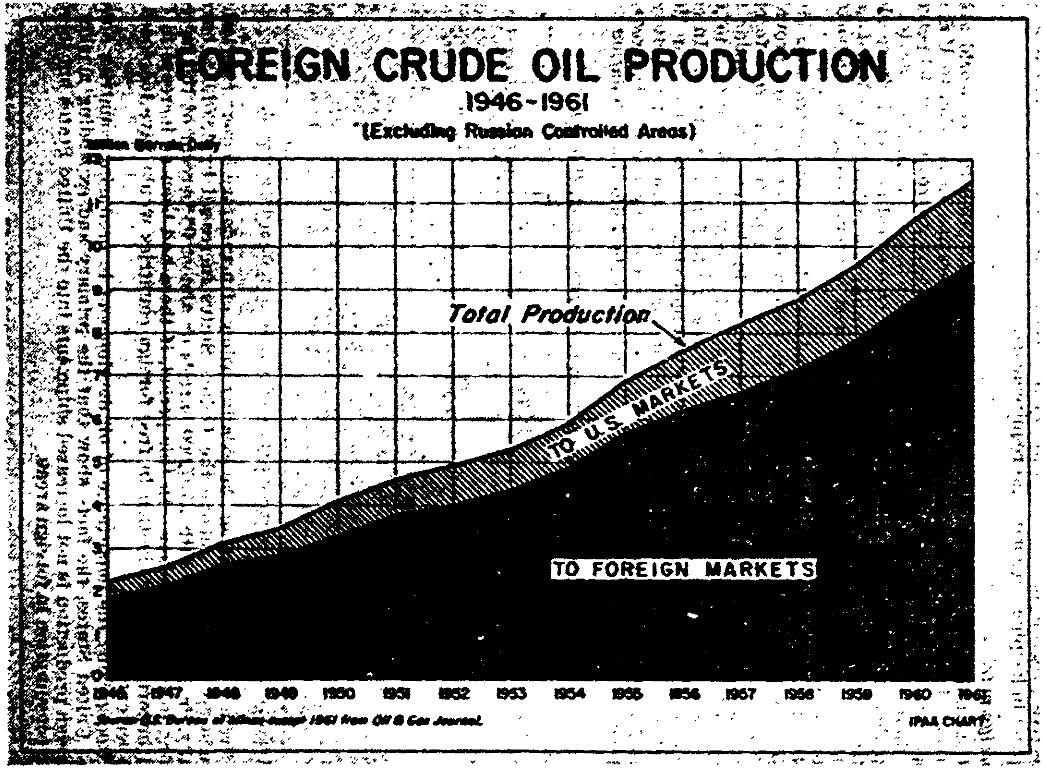
From 1959 to 1961 under the existing policy of mandatory import restrictions, crude oil production outside the United States increased by 1,907,000 barrels daily, or 20 percent, with 1,797,000 barrels or almost 95 percent of the increase going to foreign markets. In this period, if there had been no increase in U.S. oil imports, total production in free foreign countries would have increased by 19 percent.

Recognizing the importance of oil development to producing countries outside the United States, the facts show that the primary and expanding market for foreign production is not increased shipments into the United States but increasing consumption in foreign areas.

PETROLEUM IN U.S. FOREIGN TRADE

During the period 1946–50, exports of U.S. merchandise averaged annually $11,673 million. In this same interval, merchandise imports for consumption had an average value of $6,569 million. Petroleum imports averaged $379 million or almost 6 percent of our import trade.

For the period 1956–60, exports of U.S. merchandise had a value of $18,969 million. Total imports for consumption during this 5-year period averaged $13,557 million. Petroleum imports averaged $1,503 million or 11 percent of our


FOREIGN CRUDE OIL PRODUCTION
1946-1961
(Excluding Russian Controlled Areas)
Total Production
TO U.S. MARKETS
TO FOREIGN MARKETS
1946
1947
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961
Source: U.S. Bureau of Mines except 1961 from Oil & Gas Journal.
IPAA CHART

import trade. Full details on the relative importance of petroleum in U.S. foreign trade since 1936 are shown in a table attached to this statement.

For many years, coffee, which is not produced in the United States, was the principal import item. In 1957, however, petroleum displaced coffee as our principal import item. This is an anomalous situation since about 30 percent of our oil producing capacity, or 3 million barrels per day, is shut-in and idle. This is equivalent to the entire production of Venezuela. It is like exporting coffee to Brazil or oil to Venezuela and the Middle East.

Petroleum's contribution to U.S. foreign trade

The value of petroleum imports has quadrupled since 1947–49 whereas the value of all other commodity imports has doubled. The spectacular growth in the value of U.S. imports of petroleum is shown graphically on the following chart.

The argument is often advanced that oil imports should be increased so that foreign producing countries may purchase increasing exports from the United States. Assuming this contention to be sound, it is submitted that no one industry should be called upon to contribute more than its fair share to this endeavor.

The facts show that the domestic industry has been called upon to make a disproportionate contribution to increasing U.S. foreign trade.

Petroleum and the U.S. balance-of-payments problem

The chronic deficit in our international balance-of-payments is cause for serious concern. Information on overall U.S. balance-of-payments and our trade balance in petroleum is shown in the following table:

U.S. balance of international payments, 1950–61

[Dollar amounts in millions]

	Total U.S. receipts and payments			Petroleum trade-receipts and payments net			Petroleum balance, as percent of U.S. balance payments
	U.S. receipts total	U.S. payments total	U.S. net balance of payments	Receipts for exports	Payments for imports	Balance of payments	
1955	$20,349	$21,498	−$1,149	$644	$1,032	−$388	33.8
1956	24,235	25,203	−968	761	1,269	−508	52.5
1957	27,094	26,626	+468	992	1,548	−556	....
1958	23,349	26,826	−3,477	557	1,625	−1,068	30.7
1959	24,264	28,161	−3,897	480	1,529	−1,049	26.9
1960	27,597	31,429	−3,832	479	1,534	−1,064	27.8
1961 [1]	30,200	32,600	−2,400	445	1,616	−1,171	48.8
Average, 7 years	25,298	27,477	−2,179	623	1,452	−829	38.0

[1] Preliminary.

Source: U.S. Department of Commerce.

During the past 7 years, the adverse balance of trade in petroleum has been a major factor accounting for 38 percent of the overall U.S. balance-of-payments deficit. The excess of U.S. petroleum imports over exports amounted to about $1.2 billion last year or approximately one-half the total Nation's $2.4 billion deficit in international payments.

For more than a year, this association has recommended that petroleum imports be reduced by approximately 250,000 barrels per day. Such action would lower by some $210 million annually the overall U.S. balance-of-payments deficit.

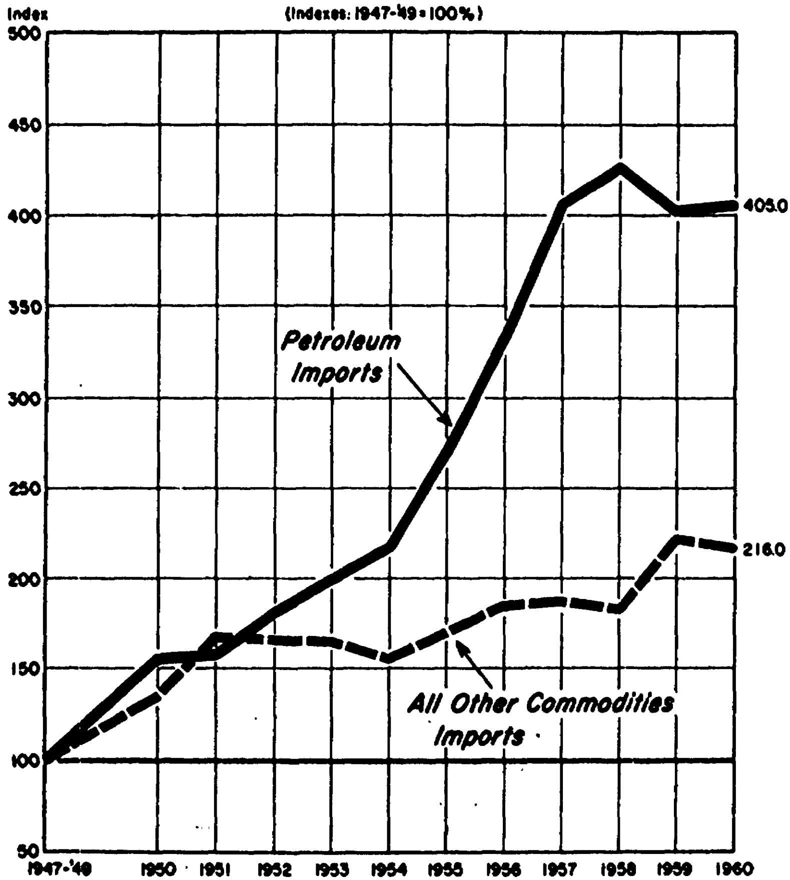
A reduction in present excessive oil import levels, therefore, would do much more than contribute to the petroleum industry's future ability to satisfy national security requirements. Such a reduction would also help offset the heavy flow of gold from the United States and alleviate the Nation's balance-of-payments deficit.

U.S. PETROLEUM IMPORTS AND THEIR RELATIONSHIP TO THE DOMESTIC PRODUCING INDUSTRY

How have the increasing growth in world oil production, world cost trends, petroleum's contribution to U.S. foreign trade, and U.S. imports adversely affected the domestic petroleum producing industry.

The United States was a net exporter of petroleum prior to World War II. In 1948, the United States became a net importer of petroleum and this adverse balance in our petroleum trade has persisted and grown over the years. In 1961, we were a net importer by 1,715,000 barrels daily. This change from a net exporter, in the prewar years, to an increasing net importer has meant a loss of market for U.S. production amounting to about 2 million barrels daily. The history of U.S. oil imports and exports since 1918 is presented in an attached table.

GROWTH IN VALUE OF U.S. IMPORTS
Petroleum vs. All Other Commodities



Source: U.S. Department of Commerce

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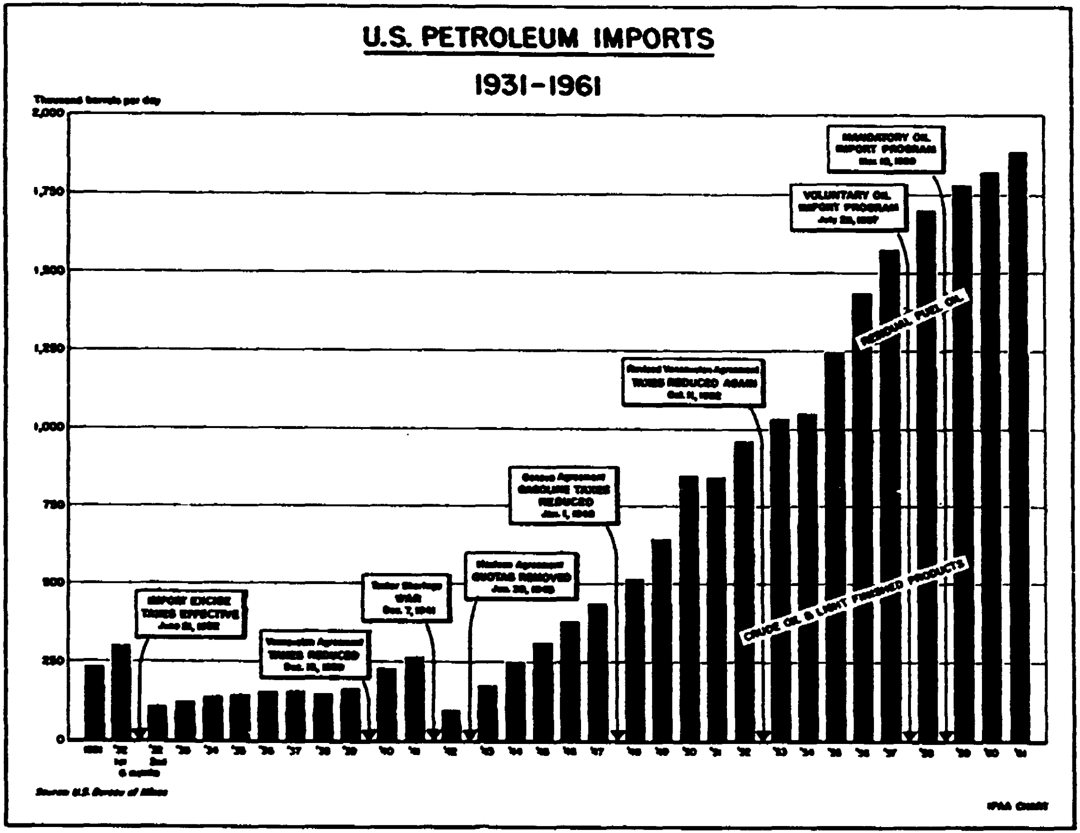

U.S. PETROLEUM IMPORTS
1931-1961
2,000
1,750
1,500
1,250
1,000
750
500
250
0
MANDATORY OIL IMPORT PROGRAM
VOLUNTARY OIL IMPORT PROGRAM
RESIDUAL FUEL OIL
TAXES REDUCED AGAIN
GASOLINE TAXES REDUCED
QUOTAS REMOVED
WAR
IMPORT EXCISE TAXES EFFECTIVE
TAXES REDUCED
CRUDE OIL & LIGHT FINISHED PRODUCTS

The chart "U.S. Petroleum Imports" pictures the rapid growth in imports since World War II. The increase in imports and their relationship to U.S. crude oil production are summarized in the following tabulation:

[Thousand barrels daily]

	U.S. crude oil production	U.S. petroleum imports			Percent of U.S. production	
		Crude oil and products (excluding residual fuel)	Residual fuel oil	Total	Imports, excluding residual	Total imports
1946	4,751	255	122	377	5.4	7.9
1956	7,151	991	445	1,436	13.9	20.1
1961	7,183	1,245	644	1,889	17.3	26.3

Petroleum imports have continued to increase and the ratio to domestic production has also increased. In contrast, U.S. production of crude oil has shown practically no change since 1956 and there has been a marked decline in the vigor and health of the domestic industry.

Crude oil production

The following tabulation shows the trend in U.S. crude oil production since 1956:

Crude production

[Thousands of barrels per day]

1956	7,151
1957	7,170
1958	6,710
1959	7,054
1960	7,035
1961	7,183
Change 1961 versus 1956:	
Volume	32
Percent	0.4

Source: U.S. Bureau of Mines.

The above tabulation speaks for itself. Actual production in 1961 was less than one-half of 1 percent above 1956. The lack of growth in U.S. crude production since 1956 is in contrast to the substantial increase in oil imports.

Oil costs and prices

An adequate price relative to the cost of production is essential for any producer of a commodity to continue in business. During the last several years the producer's costs for labor for the various items and services used in drilling wells have continued to mount in the face of declining crude oil prices. Price is a controlling factor in the health and vigor of the industry. The cost-price squeeze which has affected the oil-producing industry during recent years remains a serious problem despite cost cutting and more efficient operating practices.

The trends in the price of crude oil, and the cost of drilling and equipping wells expressed as index numbers are shown in the following tabulation:

Crude oil prices and cost of drilling wells

[Index numbers, 1959=100]

	Crude oil prices[1]	Cost of drilling and equipping new wells[2]
1957	106.6	98.1
1958	103.8	95.0
1959	100.0	100.0
1960	99.3	103.2
1961	99.7	105.6
1961 versus 1957	−6.5	+7.6

[1] Bureau of Mines. [2] IPAA cost study committee.

Since 1957 the average price of crude oil has decreased by 20 cents per barrel, according to the U.S. Bureau of Mines, with substantially larger reductions in a number of areas. Oil prices are severely depressed in the face of increasing costs. Clearly, this is a very real threat to the industry's ability to find and develop reserves to meet growing demands.

Geophysical and core-drilling crews

Geophysical and core-drilling crew activity is a reliable indicator of the future of the producing industry since it is the forerunner of exploratory drilling and development programs.

The decline in the number of active geophysical and core-drilling crews in 1954, served as a danger signal and accurately forecast that the search for new oil and gas reserves was slowing down. The decline in exploratory crews eventually was reflected in decreased drilling and the number of wells drilled during the past 4 years have been far below the record established in 1956.

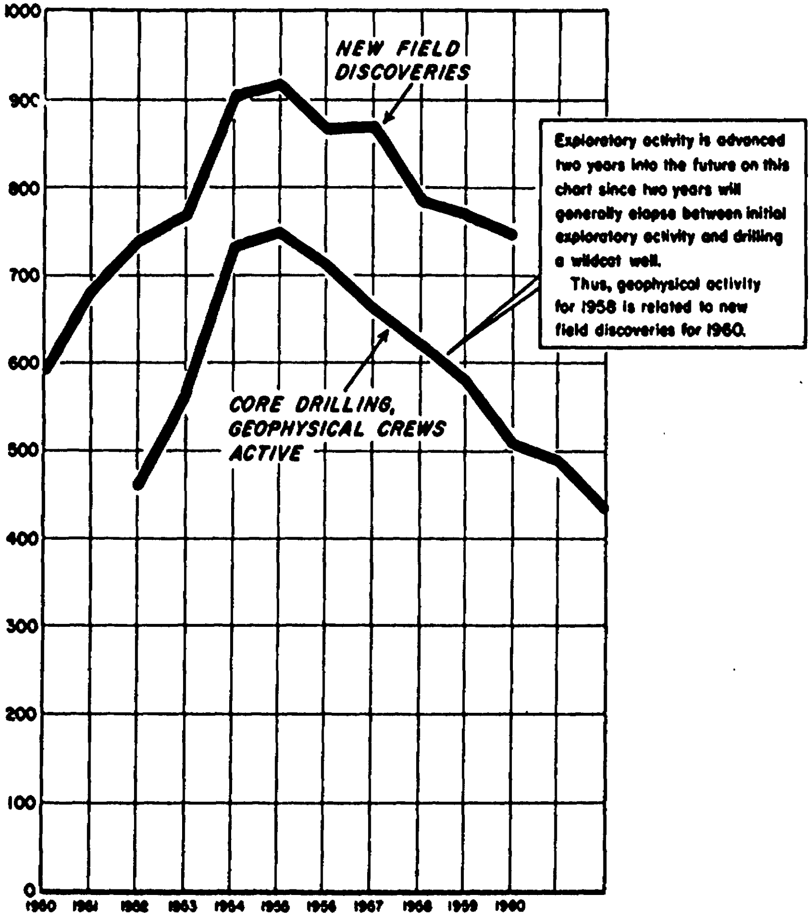
	Average number of crews active		*Average number of crews active*
1950	463	1957	580
1951	570	1958	506
1952	784	1959	490
1953	752	1960	484
1954	713	1960 versus 1956:	
1955	666	Crews	189
1956	623	Percent	30.3

Based on experience, the continuing decline in the level of activity in geophysical work and core drilling provides a serious warning as to the future. The average number of crews active by States is shown in an attached table. The following chart shows the relationship between this exploratory activity and the new field discoveries, illustrating the dangerous consequences of the downward trend in recent years.

Wells drilled

Historically, there has been a close relationship between the number of wells drilled and petroleum reserves developed. Although more advanced technology and improved recovery operations may tend to alter this relationship somewhat, basically, it continues to hold true. A prolonged decline in drilling, therefore, provides the warning as to our future reserve position.

EXPLORATORY ACTIVITY AND NEW FIELD DISCOVERIES, 1950-1960



Source: American Ass'n Petroleum Geologists and Interstate Oil Compact Commission

IPAA CHART

Well completions, 1956-61

	Wildcat	Development	Total wells drilled
1956	13,034	45,126	58,160
1957	11,739	43,285	55,024
1958	9,588	40,451	50,039
1959	10,073	41,691	51,764
1960	9,635	37,116	46,751
1961	9,191	37,771	46,962
1961 versus 1956:			
Wells	−3,843	−7,355	−11,198
Percent	−29.5	−16.3	−19.3

Source: The Oil and Gas Journal.

The total number of wells drilled reached a peak of more than 58,000 in 1956 and then declined very sharply in each of the next 2 years. Although drilling increased slightly in 1959, total completions in 1960 and 1961 remained at a low level and were down 19 percent from the 1956 level. Well completions by States are shown in an attached table.

The precipitous decline of almost 30 percent in the all-important wildcat drilling activity is cause for particular concern with regard to future oil supplies.

Rotary rigs active

The decline in well completions in recent years has been accompanied by a sharp decrease in the number of active rotary rigs. Throughout the United States rigs are stacked, drilling contractors are going out of business, and the competition for the business that remains is highly competitive with little or no margin for profitable operations in many instances.

Average number of rotary rigs active

1954	2,513	1960	1,747
1955	2,688	1961	1,760
1956	2,618	1961 versus 1956:	
1957	2,429	Rotary rigs	−858
1958	1,923	Percent	−32.8
1959	2,074		

Source: Hughes Tool Co.

The number of rotary rigs active in 1960 and 1961 was at the lowest level since 1946. Service and supply companies are experiencing seriously depressed conditions. Rotary rigs active by States are shown in an attached table.

Employment

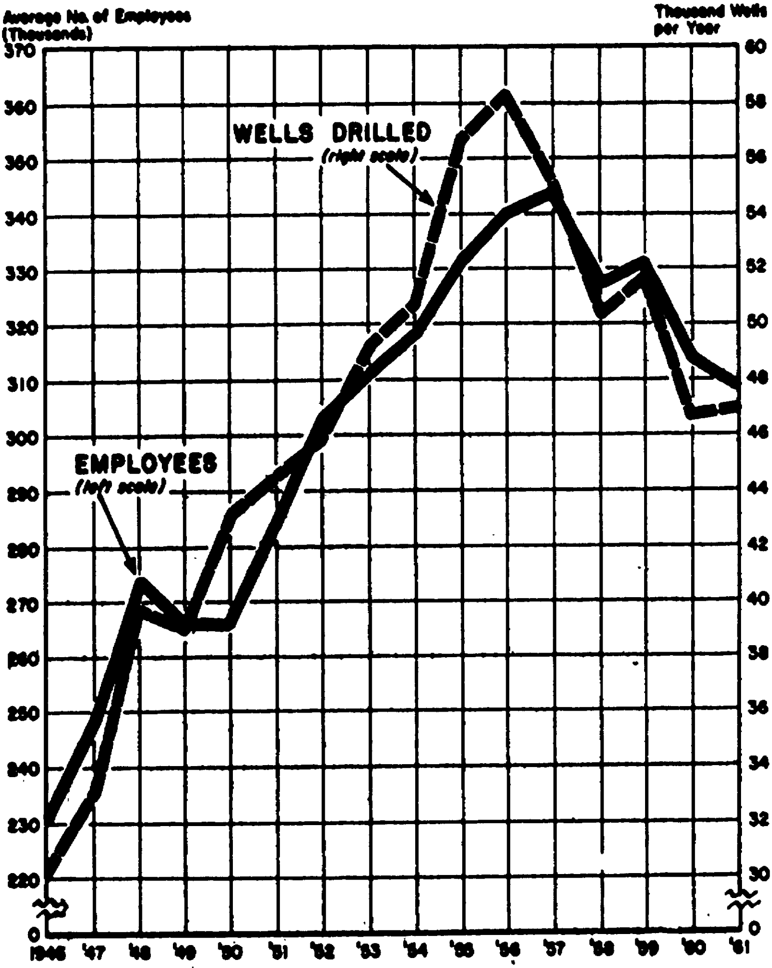
Declining exploration and development activity combined with a static level of crude oil production have resulted in fewer job opportunities for employees engaged in the production of crude petroleum and natural gas. The average number of employees in this branch of the industry has decreased markedly since 1957.

Number of employees (crude oil and natural gas production)

1954	318,100	1960	313,900
1955	331,900	1961	308,800
1956	340,100	1961 versus 1956:	
1957	344,000	Employees	−31,300
1958	327,500	Percent	−9.2
1959	330,900		

Source: Bureau of Labor Statistics.

TOTAL WELLS DRILLED AND EMPLOYMENT IN CRUDE OIL & NATURAL GAS PRODUCTION INDUSTRY



Source: Oil and Gas Journal and Bureau of Labor Statistics IPAA CHART

The number of employees reached a peak of more than 344,000 in 1957 and then declined sharply in 1958. The 1961 employment level was the lowest experienced since 1951, despite a 40-percent increase in U.S. oil consumption. Employment figures, by States, are shown in an attached table. The close correlation between the number of wells drilled and employment in the domestic oil- and gas-producing industry is shown graphically on the following chart.

Earnings

The rate of return on invested capital in the domestic petroleum industry has declined more sharply than that experienced for all manufacturing corporations. The rate of return for the petroleum industry has been below all manufacturing corporations for the 8-year period 1953–60. Static production of crude oil and declining prices have resulted in lower total wellhead revenues in 1961 than in 1957.

Rate of return on stockholders equity

4-year averages	All manufacturing [1] corporations	U.S. petroleum [2] corporations
1953–56	11.1	10.6
1957–60	9.6	8.7
Percent decrease, 1957–60 versus 1953–56	−13.5	−17.9

[1] Federal Trade Commission, Securities and Exchange Commission.
[2] Chase Manhattan Bank.

The rate of return included in the above table includes total earnings from producing, refining, and marketing operations. The fact that total wellhead revenue accruing to the producer has been static or declining since 1957 despite sharply rising costs indicates that earning from producing operations alone have declined more sharply than have industry earnings in general.

Mergers and sellouts

During the last 5 years, there has been an unhealthy trend toward sellouts and mergers in the producing segment of the domestic oil industry. For example, some 450 IPAA members have been forced out of business because the existing economic situation has made it more attractive to sell out or merge with others than to remain active in the business or finding and developing new oil and gas reserves.

The loss of these independents constitutes a trend which, unless arrested, could result in an unhealthy concentration of the domestic producing industry. For example, one of the larger independent producing companies which recently sold out and went out of business, citing excessive imports as one of the reasons, had average production of about 40,000 barrels of crude oil daily. There have been many smaller sellouts which do not come to the attention of the public.

Increased concentration of producing operations is in conflict with the public interest which is best served by a vigorous, diversified, competitive effort in the finding and developing of oil and gas reserves.

Historically, it has been the independents who have found most of the new oil and gas reserves in this country. As increasing pressure is brought to bear against them by deteriorating economic conditions, it can be expected that the merger and sellout trend will accelerate.

RECOMMENDATIONS

In view of the many adverse and damaging trends that have been taking place over the past several years, there should be little doubt in anyone's mind that these conditions should not be allowed to continue unless this Nation is willing to place its national security requirements for petroleum and the welfare of the consuming public in the hands of unpredictable and unstable foreign sources. We do not believe that Congress and the U.S. Government has any intention of allowing this to happen.

This is why we feel that it is so vitally important to present to you today all the facts and various factors involved in this problem for your consideration.

The Independent Petroleum Association of America has long supported Government limitations on oil imports as an essential national policy in the public interest and in the interest of national security.

We recognize the consuming public's interest in a program of limiting oil imports, as set forth in a Cabinet committee report in 1957:

"Domestic consumers are utilizing an increasing amount of petroleum products for transportation, fuel, heating, and many other aspects of consumer life. In the event of a national emergency, it is essential to these consumers that there be adequate supplies at reasonable cost, both now and in the future. The low cost of imported oil is attractive, but excessive reliance upon it in the short run may put the Nation in a long-term vulnerable position. Imported supplies could be cut off in an emergency and might well be diminished by events beyond our control. This vulnerability could easily result in a much higher cost, or even in the unavailability, of oil to consumers. It is therefore believed that the best interests of domestic consumers, as well as of national security, will be served if a reasonable balance is maintained between domestic and foreign supplies."

We supported the Defense amendment in the 1955 extension of the Trade Agreements Act and the strengthening of this amendment in the 1958 extension of the act. In the consideration and adoption of these amendments, Congress recognized the need for import limitations on commodities essential to national security and the need for limitations on oil imports in particular.

We supported action by the executive branch of the Federal Government to limit oil imports under the Defense amendment and the mandatory oil import program established in 1959 under that amendment.

We have supported and urged a strengthening of the Government's oil import program through specific recommendations designed to reduce the level of imports (excluding residual fuel oil) by relating these imports to domestic crude oil production and bringing imports now exempt from control within the overall relationship to domestic production.

We are encouraged that the new trade program proposed by the administration and incorporated in the bill H.R. 11970 recognizes the necessity to continue the national security amendment under which imports are limited whenever they threaten to impair the national security.

We advocate and urge further congressional action to strengthen the national security amendment by provisions that would—

1. Require Government limitations on the importation of crude oil, unfinished oils, light finished products, residual fuel oil, and all other derivatives of crude petroleum.
2. Impose an overall limitation on all imports, excluding residual fuel oil, from all sources into all areas of the United States not to exceed the relationship of 14 percent to domestic crude oil production which is the relationship that existed in the year 1956 prior to the continuing decline in the health and vigor of the domestic industry. This overall limitation is consistent with the recommendations to strengthen the present import program through Executive action previously made by this association.

Number of employees in crude oil and natural gas production industry, 1953–60

	1953	1955	1957	1958	1959	1960
Florida	252	250	500	275	300	200
New York	2,000	1,600	1,650	1,700	1,650	1,500
Pennsylvania	6,700	5,200	5,300	4,700	4,600	4,300
Virginia	50	61	90	45	28	37
West Virginia	4,430	4,000	4,100	4,100	4,100	4,050
Other	....	....	....	....	30	30
District 1	13,432	11,111	11,640	10,820	10,708	10,117
Illinois	11,500	11,840	11,500	10,500	10,500	9,500
Indiana	2,200	2,100	1,875	1,804	1,900	1,800
Kansas	15,600	16,700	16,800	15,900	16,017	14,900
Kentucky	3,100	3,968	4,275	4,363	4,820	4,835
Michigan	1,869	1,667	1,550	1,588	1,650	2,259
Nebraska	700	1,450	1,300	1,350	1,575	1,400
North Dakota	1,500	1,173	1,296	1,890	1,835	1,365
Ohio	3,505	3,552	3,700	4,100	2,450	4,300
Oklahoma	42,900	46,891	46,550	45,842	45,400	42,425
South Dakota	....	50	23	10	48	65
Other	120	79	88	86	148	150
District 2	82,994	89,490	88,957	87,433	86,843	82,999
Alabama	200	134	278	350	450	316
Arkansas	2,613	2,900	3,300	3,500	3,400	3,100
Louisiana	28,700	34,525	42,325	41,325	42,000	39,940
Mississippi	2,397	2,536	3,610	4,600	5,800	5,800
New Mexico	9,100	8,300	10,567	10,508	10,225	9,910
Texas	113,400	118,333	124,983	119,725	121,966	116,400
District 3	156,410	166,728	185,063	180,008	183,841	175,465
Colorado	3,100	5,450	5,992	6,450	6,742	6,508
Montana	2,300	2,550	2,858	2,500	2,465	2,108
Utah	848	980	1,976	1,994	1,836	1,923
Wyoming	6,296	6,185	6,300	6,492	6,925	7,000
Other	....	....	....	....	....	....
District 4	12,544	15,165	17,126	17,436	17,968	17,539
Alaska	....	....	....	....	....	600
Arizona	....	....	....	....	....	....
California	26,600	26,792	26,491	23,975	22,733	21,400
Nevada	....	105	10	6	19	17
Other	....	....	....	....	....	....
District 5	26,600	26,897	26,501	23,981	22,752	22,017
Total United States	291,980	309,391	329,287	319,678	321,612	308,137

NOTE.—U.S. total is sum of State data shown and does not agree exactly with total U.S. data published by the Bureau of Labor Statistics.

Source: State data from various State employment security offices, etc. Prepared by the Independent Petroleum Association of America.

Value of U.S. exports and imports—Petroleum and products compared with all other commodities, 1936–60

[Millions of dollars]

	Exports of U.S. merchandise			Imports for consumption		
	Petroleum and products	All other products	Total	Petroleum and products	All other products	Total
1936	263	2,156	2,419	40	2,384	2,424
1937	376	2,923	3,299	45	2,965	3,010
1938	389	2,668	3,057	39	1,911	1,950
1939	383	2,740	3,123	44	2,232	2,276
1940	310	3,624	3,934	70	2,471	2,541
Average, 1936–40	344	2,822	3,166	48	2,392	2,440
1941	285	4,735	5,020	82	3,140	3,222
1942	350	7,653	8,003	37	2,732	2,769
1943	517	12,325	12,842	85	3,305	3,390
1944	960	13,202	14,162	113	3,775	3,888
1945	753	8,832	9,585	152	3,934	4,086
Average, 1941–45	573	9,349	9,922	94	3,377	3,471
1946	436	9,067	9,503	159	4,666	4,825
1947	640	13,612	14,252	250	5,399	5,649
1948	657	11,875	12,532	418	6,620	7,038
1949	562	11,374	11,936	478	6,120	6,598
1950	499	9,643	10,142	588	8,147	8,735
Average, 1946–50	559	11,114	11,673	379	6,190	6,569
1951	783	14,085	14,868	601	10,212	10,813
1952	800	14,226	15,026	691	10,054	10,745
1953	691	14,124	14,815	762	10,015	10,777
1954	658	14,290	14,948	828	9,404	10,232
1955	644	14,746	15,390	1,032	10,302	11,334
Average, 1951–55	715	14,294	15,009	783	9,997	10,780
1956	761	18,077	18,838	1,269	11,221	12,490
1957	992	19,638	20,630	1,548	11,373	12,921
1958	557	17,136	17,693	1,625	11,109	12,734
1959	480	16,903	17,383	1,529	13,458	14,987
1960	479	19,821	20,300	1,543	13,109	14,652
Average, 1956–60	654	18,315	18,969	1,503	12,054	13,557

Source: U.S. Department of Commerce. Prepared by the Independent Petroleum Association of America.

U.S. imports and exports of crude oil and refined products, 1918–61

[Thousands of barrels daily]

Year	Crude oil			Refined products			Total crude oil and refined products		
	Imports	Exports	Net exports balance [1]	Imports	Exports	Net exports balance [1]	Imports	Exports	Net exports balance [1]
1918	104	16	(88)	3	170	167	107	186	79
1919	145	17	(128)	3	158	155	148	175	27
1920	290	25	(265)	7	193	186	297	218	(79)
1921	343	26	(318)	9	170	161	353	196	(157)
1922	349	30	(319)	24	174	150	373	204	(169)
1923	225	48	(177)	48	232	184	273	280	7
1924	213	50	(163)	45	270	225	258	320	62
1925	169	37	(132)	45	275	230	214	312	98
1926	165	42	(123)	58	319	261	223	361	138
1927	160	43	(117)	37	345	308	197	388	191
1928	218	52	(166)	32	371	339	250	423	173
1929	216	72	(144)	82	375	293	298	447	149
1930	170	65	(105)	119	364	245	289	429	140
1931	130	70	(60)	106	271	165	236	341	105
1932	122	75	(47)	82	207	125	204	282	78
1933	87	100	113	37	192	155	124	292	168
1934	97	113	116	41	201	160	138	314	176
1935	88	141	53	56	212	156	144	353	209
1936	88	137	49	68	223	155	156	360	204
1937	75	184	109	82	289	207	157	473	316
1938	72	212	140	76	319	243	148	531	383
1939	91	198	107	71	320	249	162	518	356
1940	117	140	23	112	216	104	229	356	127
1941	139	91	(48)	127	207	80	266	298	32
1942	34	93	59	65	228	163	99	321	222
1943	38	113	75	136	298	162	174	411	237
1944	122	94	(28)	130	474	344	252	568	316
1945	204	90	(114)	107	411	304	311	501	190
1946	236	116	(120)	141	303	162	377	419	42
1947	267	127	(140)	169	323	154	436	450	14
1948	353	109	(244)	161	259	98	514	368	(146)
1949	421	91	(330	224	236	12	645	327	(318)
1950	487	95	(392	363	210	(153)	850	305	(545)
1951	491	78	(413)	353	344	(9)	844	422	(422)
1952	573	73	(500)	379	359	(20)	952	432	(520)
1953	648	55	(593)	386	346	(40)	1,034	401	(633
1954	656	37	(619)	396	318	(78)	1,052	355	(697)
1955	782	31	(751)	466	336	(130)	1,248	367	(881)
1956	934	78	(856)	502	352	(150)	1,436	430	(1,006)
1957	1,022	138	(884)	552	430	(122)	1,574	568	(1,006)
1958	953	12	(941)	747	263	(484)	1,700	275	(1,425)
1959	965	7	(958)	815	204	(611)	1,780	211	(1,569)
1960	1,016	8	(1,008)	799	194	(605)	1,815	202	(1,613)
1961	1,046	9	(1,037)	843	165	(678)	1,889	174	(1,715)

[1] Parentheses indicate net import balance.

Source: U.S. Bureau of Mines. Prepared by the Independent Petroleum Association of America.

U.S. petroleum imports by country of origin, 1946–61

[Thousands of barrels daily]

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961 (preliminary)
Crude oil:																
Venezuela	191	207	243	273	293	294	333	330	352	386	456	531	433	454	473	427
Netherlands Antilles	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------
Total	191	207	243	273	293	294	333	330	352	386	456	531	433	454	473	427
Canada	------	------	------	------	------	1	3	7	7	48	117	151	84	92	113	182
Other Western Hemisphere	45	59	46	47	57	83	68	52	46	43	42	35	29	36	44	43
Total, Western Hemisphere	236	266	289	320	350	378	404	389	405	475	615	717	546	582	630	652
Middle East	------	1	64	101	137	103	155	221	213	275	283	242	337	318	313	331
Far East	------	------	------	------	------	10	14	38	38	32	36	63	70	65	73	62
Europe and Africa	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------
Total, Eastern Hemisphere	------	1	64	101	137	113	169	259	251	307	319	305	407	383	386	393
Total crude	236	267	353	421	487	491	573	648	656	782	934	1,022	953	965	1,016	1,046
Refined products:																
Venezuela	24	18	------	12	62	70	90	122	124	161	181	228	284	337	364	385
Netherlands Antilles [1]	117	145	147	192	265	260	269	225	222	254	257	262	327	318	293	288
Total	141	163	147	204	327	330	359	347	346	415	438	490	611	655	657	673
Canada	------	------	------	2	------	------	3	1	1	2	6	8	4	6	9	10
Other Western Hemisphere	------	1	9	16	29	19	13	32	44	47	51	45	101	113	100	125
Total, Western Hemisphere	141	164	156	222	356	349	375	380	391	464	495	543	716	774	766	808
Middle East	------	5	5	2	6	4	4	4	5	2	7	8	19	32	32	35
Far East	------	------	------	------	------	------	------	------	------	------	------	------	4	3	------	------
Europe and Africa	------	------	------	------	1	------	------	2	------	------	------	1	8	6	1	------
Total, Eastern Hemisphere	------	5	5	2	7	4	4	6	5	2	7	9	31	41	33	35
Total products	141	169	161	224	363	353	379	386	396	466	502	552	747	815	799	843

Total crude and products:																
Venezuela	215	225	243	285	355	364	423	452	476	547	637	759	717	791	837	812
Netherlands Antilles	117	145	147	192	265	260	269	225	222	254	257	262	327	318	293	288
Total	332	370	390	477	620	624	692	677	698	801	894	1,021	1,044	1,109	1,130	1,100
Canada				2		1	6	8	8	48	123	159	88	98	122	193
Other Western Hemisphere	45	60	55	63	86	102	81	84	90	90	93	80	130	149	144	168
Total, Western Hemisphere	377	430	445	542	706	727	779	769	796	939	1,110	1,260	1,262	1,356	1,396	1,461
Middle East		6	69	103	143	107	159	225	218	277	290	250	356	350	345	366
Far East						10	14	38	38	32	36	63	74	68	73	62
Europe and Africa					1			2				1	8	6	1	
Total, Eastern Hemisphere		6	69	103	144	117	173	265	256	309	326	314	438	424	419	428
Grand total	377	436	514	645	850	844	952	1,034	1,052	1,248	1,436	1,574	1,700	1,780	1,815	1,889

[1] Includes adjustment to reconcile Census Bureau refined product import figures with Bureau of Mines data.

Source: U.S. Bureau of Mines except country of origin data for refined products from Census Bureau.

Geophysical and core drilling crews active, by States, 1951–61

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Florida	1	10	13	14	14	3	5	7	5	1
New York	....	....	....	....	....	....	....	....	....	....
Pennsylvania	....	....	....	....	....	....	....	....	....	2
West Virginia	....	....	....	....	....	....	....	....	....	....
Other	....	....	....	1	1	....	1	....	1	....
District 1	1	10	13	15	15	3	6	7	6	3
Illinois	9	10	6	4	2	4	3	2	4	3
Indiana	1	....	1	1	1	1	1	2	2	3
Kansas	14	16	15	13	14	10	14	10	13	10
Kentucky	....	....	....	....	....	....	....	....	....	....
Michigan	9	6	13	11	3	1	1	2	3	9
Nebraska	14	12	6	2	2	3	3	2	1	4
North Dakota	12	41	32	23	10	7	6	10	8	9
Ohio	....	....	....	....	....	....	....	....	....	....
Oklahoma	31	35	33	37	34	29	28	22	26	18
South Dakota	6	6	6	5	4	1	1	....	1	2
Other	....	....	....	....	....	....	....	....	....	....
District 2	96	126	112	96	70	56	57	50	58	59
Alabama	6	13	16	11	5	4	4	3	4	2
Arkansas	9	4	8	10	5	5	4	6	14	5
Louisiana	99	102	118	126	142	120	110	82	74	64
Mississippi	15	22	19	25	27	32	34	37	38	32
New Mexico	38	50	46	43	36	47	46	41	35	24
Texas	195	230	237	220	224	209	181	157	160	154
Other	....	....	....	....	....	....	....	....	....	....
District 3	362	421	444	435	439	417	379	326	325	281
Colorado	29	24	23	23	20	26	23	18	16	17
Montana	23	61	71	40	33	36	24	13	13	7
Utah	8	12	12	14	11	24	43	46	13	25
Wyoming	27	43	45	50	50	36	27	25	29	20
Other	1	1	2	3	5	3	....	3	1	....
District 4	88	141	153	130	119	125	117	105	72	69
Alaska	....	....	....	....	....	....	....	2	16	8
Arizona	....	....	....	....	....	1	11	4	3	3
California	22	32	25	20	15	16	9	9	11	12
Nevada	1	4	5	17	8	5	1	3	....	....
Other	....	....	....	....	....	....	....	....	....	....
District 5	23	36	30	37	23	22	21	18	29	23
Total, United States	570	734	752	713	666	623	580	506	490	434

Source: Interstate Oil Compact Commission.

Total wells drilled in United States by States, 1951–61

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Florida	2	10	30	31	30	13	9	7	7	5	8
New York	627	767	696	435	378	512	443	544	259	300	426
Pennsylvania	1,738	1,884	1,507	1,331	717	748	833	652	648	860	682
West Virginia	622	606	618	614	640	693	680	756	806	884	1,120
Other	48	35	13	7	2	16	14	8	21	12	3
District 1	3,037	3,302	2,864	2,418	1,767	1,982	1,979	1,967	1,741	2,061	2,239
Illinois	2,424	2,149	2,165	3,135	3,892	3,808	2,686	2,419	2,357	2,373	2,198
Indiana	1,369	1,277	1,280	887	706	741	754	877	880	1,069	800
Kansas	4,501	4,571	4,783	4,722	4,958	4,941	4,232	4,022	3,959	4,288	4,723
Kentucky	1,309	1,300	1,164	1,188	1,592	1,936	1,495	2,137	3,365	2,180	1,749
Michigan	746	707	623	567	512	437	455	436	656	897	821
Nebraska	241	310	320	472	891	918	886	728	910	896	1,005
North Dakota	12	122	270	312	250	263	316	442	436	283	258
Ohio	971	1,052	1,080	1,182	1,259	1,086	1,115	1,049	1,133	1,099	1,131
Oklahoma	5,626	5,781	7,593	8,786	8,411	8,056	7,421	7,282	6,230	4,802	5,845
South Dakota	1	14	20	23	16	9	44	15	23	22	6
Other	54	77	37	87	45	41	43	30	61	125	117
District 2	17,254	17,360	19,335	21,361	22,532	22,236	19,447	19,437	20,010	18,034	18,658
Alabama	50	72	103	63	41	91	78	76	95	45	44
Arkansas	429	427	573	665	804	1,002	1,114	836	842	615	553
Louisiana	2,240	2,385	2,828	3,611	4,019	3,875	3,856	3,523	3,781	3,707	4,040
Mississippi	375	348	397	441	448	441	386	398	645	695	575
New Mexico	773	1,053	1,418	1,126	1,663	1,904	2,129	1,910	2,077	1,850	1,820
Texas	16,655	16,845	17,003	18,865	19,981	21,519	21,352	18,065	18,526	15,581	14,597
District 3	20,522	21,130	22,322	24,771	26,956	28,832	28,915	24,806	25,966	22,493	21,629
Colorado	289	486	734	1,358	1,509	1,222	855	836	809	706	662
Montana	262	345	451	343	411	495	433	338	348	353	408
Utah	39	79	70	91	92	141	267	383	318	243	253
Wyoming	745	700	917	1,221	915	930	863	762	990	1,074	995
Other	1	2	3	1	9	4	2	1	......	1	......
District 4	1,336	1,612	2,175	3,014	2,936	2,792	2,420	2,320	2,465	2,377	2,318
Alaska	......	......	......	......	......	......	......	4	17	23	48
Arizona	......	......	......	......	1	2	8	19	27	35	23
California	2,361	2,433	2,578	2,353	2,465	2,306	2,238	1,476	1,530	1,709	2,023
Nevada	......	......	......	7	13	3	10	1	2	3	15
Other	6	3	5	6	12	7	7	7	6	16	14
District 5	2,367	2,436	2,583	2,366	2,491	2,318	2,263	1,507	1,582	1,786	2,123
Total, United States	44,516	45,840	49,279	53,930	56,682	58,160	55,024	50,039	51,764	46,751	46,962

Source: Oil and Gas Journal. Prepared by the Independant Petroleum Association of America, March 1962.

Development wells drilled in United States, by States, 1951–61

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Florida	......	......	......	1	1	......	......	......	......	......	......
New York	627	763	696	430	372	495	432	500	237	256	408
Pennsylvania	1,728	1,864	1,487	1,285	701	729	815	626	627	840	635
West Virginia	605	592	595	563	610	666	647	734	777	873	1,112
Other	......	......	......	......	......	8	12	6	12	8	2
District 1	2,960	3,219	2,778	2,279	1,684	1,898	1,906	1,866	1,653	1,977	2,157
Illinois	1,551	1,493	1,740	2,674	3,257	3,036	2,058	1,970	1,966	1,871	1,724
Indiana	810	853	907	663	445	596	599	570	580	703	590
Kansas	3,495	3,726	3,896	3,911	3,940	3,868	3,383	3,178	2,893	3,232	3,837
Kentucky	1,016	994	951	1,015	1,193	1,496	1,185	1,961	2,976	1,967	1,624
Michigan	414	430	344	324	300	269	303	291	476	651	514
Nebraska	107	123	159	287	476	467	412	380	500	504	476
North Dakota	......	86	179	195	181	185	167	307	352	201	184
Ohio	936	1,011	1,058	1,160	1,232	1,073	1,100	1,026	1,094	1,044	1,078
Oklahoma	4,796	5,051	6,851	7,927	7,579	7,189	6,674	6,428	5,403	4,102	5,316
South Dakota	......	......	......	1	......	......	......	......	13	11	......
Other	14	9	17	72	18	1	7	3	19	4	1
District 2	13,139	13,776	16,102	18,229	18,621	18,180	15,888	16,114	16,272	14,280	15,344
Alabama	29	32	28	7	1	61	50	46	72	38	35
Arkansas	330	330	433	508	594	812	899	673	696	470	439
Louisiana	1,861	1,984	2,315	3,041	3,324	3,097	3,177	2,992	3,268	3,155	3,340
Mississippi	201	166	190	263	266	221	192	224	362	428	366
New Mexico	668	888	1,250	970	1,505	1,626	1,862	1,644	1,817	1,600	1,528
Texas	12,247	11,994	11,758	13,675	14,857	15,909	16,348	14,429	15,001	12,415	11,458
District 3	15,336	15,394	15,974	18,464	20,547	21,726	22,528	20,008	21,216	18,106	17,166
Colorado	146	241	370	701	698	547	305	351	353	348	359
Montana	212	247	325	220	239	300	248	202	227	185	224
Utah	7	29	28	26	21	55	146	299	217	147	133
Wyoming	604	527	728	950	653	641	553	503	615	639	604
Other	......	......	......	......	9	......	......	......	......	......	......
District 4	969	1,044	1,451	1,897	1,620	1,543	1,252	1,355	1,412	1,319	1,320
Alaska	......	......	......	......	......	......	......	......	8	15	32
Arizona	......	......	......	......	1	......	......	......	2	12	8
California	1,810	1,836	1,912	1,781	1,935	1,779	1,711	1,108	1,128	1,407	1,743
Nevada	......	......	......	......	3	......	......	......	......	......	1
Other	......	......	......	......	......	......	......	......	......	......	......
District 5	1,810	1,836	1,912	1,781	1,939	1,779	1,711	1,108	1,138	1,434	1,784
Total, United States	34,214	35,269	38,217	42,650	44,411	45,126	43,285	40,451	41,601	37,116	37,771

Wildcat wells drilled in United States, by States, 1951–61

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Florida	2	10	30	30	29	13	9	7	7	5	8
New York		4		5	6	17	11	44	22	44	18
Pennsylvania	10	20	20	46	16	19	18	28	21	20	47
West Virginia	17	14	23	51	30	27	33	22	29	11	8
Other	48	35	13	7	2	8	2	2	9	4	1
District 1	77	83	86	139	83	84	73	101	88	84	82
Illinois	873	656	425	461	635	772	628	449	391	502	474
Indiana	559	424	373	224	261	145	155	307	300	366	210
Kansas	1,006	845	887	811	1,018	1,073	849	844	1,066	1,056	886
Kentucky	293	306	213	173	399	440	310	176	389	223	126
Michigan	332	277	279	243	212	168	152	145	180	246	307
Nebraska	134	187	161	185	415	451	474	348	410	392	529
North Dakota	12	36	91	117	69	78	149	135	84	82	74
Ohio	35	41	22	22	27	13	15	23	30	55	53
Oklahoma	830	730	742	559	832	867	747	854	827	700	529
South Dakota	1	14	20	22	16	9	44	15	10	11	6
Other	40	68	20	15	27	40	36	27	42	121	116
District 2	4,115	3,584	3,233	3,132	3,911	4,056	3,559	3,323	3,738	3,754	3,309
Alabama	21	40	75	56	40	30	28	30	23	7	9
Arkansas	99	97	140	157	210	190	215	163	146	145	114
Louisiana	379	401	513	570	695	778	679	531	513	552	700
Mississippi	174	182	207	178	182	220	194	174	283	267	209
New Mexico	105	165	168	156	158	278	267	266	260	250	292
Texas	4,408	4,851	5,245	5,190	5,124	5,610	5,004	3,636	3,525	3,166	3,139
District 3	5,186	5,736	6,348	6,307	6,409	7,106	6,387	4,800	4,750	4,387	4,463
Colorado	143	245	364	657	811	675	550	485	456	358	303
Montana	50	98	126	123	172	195	185	136	121	168	184
Utah	32	50	42	65	71	86	121	84	101	96	120
Wyoming	141	173	189	271	262	289	310	259	375	435	391
Other	1	2	3	1		4	2	1		1	
District 4	367	568	724	1,117	1,316	1,249	1,168	965	1,053	1,058	998
Alaska								4	9	8	16
Arizona						2	8	19	25	23	15
California	551	597	666	572	530	527	527	368	402	302	280
Nevada				7	10	3	10	1	2	3	14
Other	6	3	5	6	12	7	7	7	6	16	14
District 5	557	600	671	585	552	539	552	399	444	352	339
Total, United States	10,302	10,571	11,062	11,280	12,271	13,034	11,739	9,588	10,073	9,635	9,191

Rotary rigs active in the United States, by States, 1956–61

	1956	1957	1958	1959	1960	1961
Florida	1	1	1	2	2	1
New York	1	1	1	1	1	1
Pennsylvania	6	12	10	11	10	8
Virginia	....	1	....	....	....	....
West Virginia	2	3	4	6	5	9
Other	....	....	....	1	2	1
District 1	10	18	16	21	20	20
Illinois	75	60	46	38	36	37
Indiana	9	6	7	7	7	8
Kansas	169	156	130	138	111	106
Kentucky	10	9	6	7	5	4
Michigan	12	11	9	26	35	22
Nebraska	32	32	22	25	23	25
North Dakota	24	30	33	30	15	15
Ohio	1	1	1	3	4	7
Oklahoma	285	243	204	225	179	197
South Dakota	1	1	1	3	1	1
Other	2	2	4	4	4	2
District 2	620	540	463	504	420	423
Alabama	8	8	7	7	4	5
Arkansas	18	23	20	14	12	13
Louisiana	443	423	309	332	286	275
Mississippi	25	34	44	67	60	58
New Mexico	132	144	109	113	106	103
Texas	1,051	951	720	750	604	628
District 3	1,677	1,583	1,209	1,283	1,072	1,082
Colorado	60	47	35	43	34	27
Montana	38	28	23	22	20	23
Utah	21	46	37	31	29	33
Wyoming	70	67	58	74	62	58
Other	....	....	....	....	....	....
District 4	189	188	153	170	145	141
Alaska	....	....	....	....	6	9
Arizona	1	1	1	1	1	1
California	119	97	80	93	80	82
Nevada	1	1	....	1	1	1
Other	1	1	1	1	2	1
District 5	122	100	82	96	90	94
Total, United States	2,618	2,429	1,923	2,074	1,747	1,760

Source: Hughes Tool Co. Prepared by the Independent Petroleum Association of America, March 1962.

The CHAIRMAN. The next witness is Mr. Edward S. Martin, Liaison Committee of Cooperating Oil & Gas Associations.

Mr. Martin, we are very happy to have you here, sir.

Your father, Senator Martin, was one of the distinguished Members of the Senate and one of the finest Members I have ever served with. He was on this committee and was the ranking Republican Member for a long period and so it is a great pleasure to have his son be a witness before the committee.

Mr. MARTIN. My father asked me to give his best regards to the members of the committee and also the members of the staff.

I went around and met the members of the staff before the hearing, and he is sorry that he doesn't get down more often to visit with you. His health is good but my mother's isn't so he can't come down to Washington as often as he would like to.

The CHAIRMAN. I hope your father is well. I saw him recently and he looked fine. I got a letter from him just the other day. You may proceed, sir.

Senator WILLIAMS. Mr. Martin, I join with the chairman and the other members of the committee of extending our greetings not only to you but to your father with whom we had the pleasure to be associated here a number of years.

Senator CARLSON. Mr. Chairman, I want to associate myself with that because I don't think we ever had a finer Member or I have personally had a closer friend than the Senator from Pennsylvania, Mr. Martin, so I am delighted to have his son here.

Mr. MARTIN. Thank you very much.

Senator TALMADGE. Mr. Chairman, I looked at this name. Unfortunately, when the witness took his seat I was outside of the chamber but I judge he must be the son of former Senator Martin.

Mr. MARTIN. That is correct.

Senator TALMADGE. I wish to associate myself with the remarks of the distinguished chairman and my other colleagues. It was my pleasure to make your distinguished father's acquaintance immediately after I came to the Senate and no man who ever served in the Senate was more admired and respected than your distinguished father.

Mr. MARTIN. Thank you.

Senator TALMADGE. Thank you, Mr. Chairman.

The CHAIRMAN. Proceed, sir.

STATEMENT OF EDWARD S. MARTIN, CHAIRMAN, LIAISON COMMITTEE OF COOPERATING OIL & GAS ASSOCIATIONS

Mr. MARTIN. My name is Edward S. Martin, of Washington, Pa. I appear as chairman of the Liaison Committee of Cooperating Oil & Gas Associations. The liaison committee is a group of 25 State and national independent oil and gas associations.

The States of Alaska, Pennsylvania, Texas, Illinois, North Dakota, Indiana, New Mexico, Colorado, Kansas, Kentucky, Montana, New York, Ohio, Oklahoma, and California are represented.

The basic purpose of the liaison committee is to present the grassroots position on the problem of oil and gas producers and drillers. Each is an independent association and retains its own autonomy.

The associations may disagree on some problems, but on the question of the impact of excessive petroleum imports on the national economy there is no difference of opinion among us.

The liaison committee and its member associations completely endorse the statement just completed by Mr. Harold Decker, president of the Independent Petroleum Association of America. I will not take the committee's time by repeating the points made on that statement.

We realize that the bill now being considered by the committee does not change the President's power to set up either voluntary or mandatory controls on the importation of oil.

We consider it essential to the welfare of our industry to have something written into the law to assure the continuation of at least the present mandatory controls.

For this reason we respectfully request this committee to write into H.R. 11970 the language contained in the so-called Baker amendment.

which was defeated by a small margin in the Ways and Means Committee of the House.

A number of our independent associations asked to appear before this committee. The requests in the interest of saving time had, in most cases, to be denied.

The Texas association will testify after me. We had hoped to have a geographical representation of our local associations in order to present the problems inherent in their particular districts with respect to the oil and gas industry.

But since time does not permit, I had planned to ask two of our associations, one representing the East and the other the West, to take part of my time. But as I understand the committee rules will not permit this so I have asked these gentlemen to sit with me and as I can't be an expert on districts other than my own, they can help me if any member of the committee may have questions.

But I would like to summarize the statement of Mr. John Lavens, Jr., who is president of the Independent Producers & Landowners Association, Tri-State which represents the States of Indiana, Illinois, and Kentucky.

I also would like to summarize a statement of Mr. George W. Anderson, Jr., who is executive vice president of the North Texas Oil & Gas Association, and this statement is specifically joined in by the West Central Texas Oil & Gas Association.

We also have present in the room two representatives of the Ohio Oil & Gas Association, Mr. Richard McConnell, president, and Mr. Ira Corrs, executive vice president of that association. They had filed a statement on their own behalf.

(Mr. Lavens' statement follows:)

STATEMENT OF JOHN R. LAVENS, JR., PRESIDENT OF THE INDEPENDENT OIL PRODUCERS & LAND OWNERS ASSOCIATION, TRI-STATE, INC.

Mr. Chairman and members of the commitee, my name is John R. Lavens, Jr. I live in Evansville, Ind. I am president of the Independent Oil Producers & Land Owners Association, Tri-State, of Illinois, Indiana, and Kentucky. My association is just 1 of the 25 State and National producers associations which is represented by the liaison committee, chairmaned by Mr. Edward Martin. We endorse the statements made here by the Independent Petroleum Association and the liaison committee. To further supplement Mr. Martin's statements, I wish to briefly point out some of the adverse conditions affecting us back home in Illinois, Indiana, and Kentucky.

While the mandatory import control program was a great help to us during the first 2 years of operation, its effectiveness has been eroding since 1960; and the rate of our economic deterioration has been increasing at a greater rate since 1960.

The oil production in our area is lower now than it was in 1956. The number of active rotary rigs declined from an average of 94 in 1956 to 49 in 1961; and by the first part of 1962, it further declined to only 35. Rigs are being stacked in the yards or sold at public auction. Total well completions in 1961 were down 27 percent from the 1956 level. At the present time, there are no reported geophysical or core drilling crews working to explore for formations which have not previously been discovered.

The posted price of crude oil is below the 1956 level despite increases of 19 percent in average hourly wages, 10 percent in oil field machinery prices, and 13 percent in tubular goods. Our employment is down 10 percent since 1956. Scientific training in geology and petroleum engineering in our colleges and universities has been drastically curtailed or abandoned. For example, the number of geology students at the University of Kentucky declined over 50 percent between 1950 and 1960. Students are no longer interested in this type of curriculum as a career preparation.

During the year 1950, 5 percent of the oil produced in Illinois was obtained by secondary recovery. To date, that type of production accounts for 75 percent of our daily oil rate. In other words, we are liquidating our reserves rather than finding new sources. As an illustration, there were 3,885 well completions in 1955 as compared to 2,373 in 1960. In that 5-year period, the number of oil wells completed had declined by two-thirds. Our proven reserves were 700 million barrels in 1956. In 1960 they had declined to 594 million barrels.

The deepest producing well in our area was completed at less than 6,000 feet. Yet, we know there are geologic formations that occur at levels as deep as 11,000 feet. Since our economic situation is at such a low point, there is no incentive to search for the deeper reserves since surveys indicate that the cost of finding and producing oil at the shallower depths runs as high as $3.75 a barrel and sells for $3.

In Illinois, independents drill an average of 80 percent of the total wells. In Indiana and Kentucky, they account for 97 percent of all wells drilled.

Many independent oil companies are liquidating, either through direct sale of their properties, or by failure to return their oil revenues to the business, when a few years ago, most independent producers used all of their dollar return to look for more reserves. They are now diversifying into other industries because of their fear of the future which threatens to allow foreign oil to supplant rather than supplement our supply.

The demand for crude oil and products has increased at a rate of about 5 percent per year during the past decade. Imported oil has absorbed this increase demand and preempted an increasing portion of the rest of the market.

In essence, therefore, the continuity of the future supply of petroleum and its products which is important to our arsenal of defense is directly based on the industrial and financial vigor of our industry. We must, therefore, have an established relationship between domestic production and foreign oil.

(Mr. George Anderson's statement follows:)

STATEMENT OF GEORGE W. ANDERSON, JR., EXECUTIVE VICE PRESIDENT, NORTH TEXAS OIL & GAS ASSOCIATION, WICHITA FALLS, TEX.

Mr. Chairman and members of the Senate Finance Committee, my name is George W. Anderson, Jr. I am executive vice president of the North Texas Oil & Gas Association, Wichita Falls, Tex., representing independent oil producers in 15 counties of north Texas.

Attached for your convenience is a copy of the official statement of our association which was presented to the House Ways and Means Committee on March 22, 1962, during hearings on the Trade Act. This statement points out by factual presentation the depressed conditions in the domestic oil industry in north Texas.

The oil associations representing independent domestic oil producers were unanimous in recommending to the House that an amendment should be written into the Trade Act imposing an overall limitation on the importation of crude oil and all petroleum products, excluding residual fuel oil to be used for fuel, from all sources into all areas of the United States, such imports not to exceed the relationship of 14 percent of domestic crude oil production.

The 14-percent ratio is the relationship which existed in 1956, prior to the continuing decline in the health and vigor of the domestic oil industry. We consider our proposal to be an equitable and fair solution which is urgently needed, and again urge the inclusion of such an amendment in the Trade Act.

The administration gave assurances to certain Congressmen immediately before the vote on the Trade Act in the House that the following matters will be accomplished by the administration:

1. The President's Study Committee created in December of 1961 to review the oil import matter will be prepared to report by September 1, 1962.
2. The quota system for controlling oil imports will be retained under national security authority given the President in the Trade Act.
3. Import volumes will be related to domestic crude oil production in place of estimated demand as presently done.
4. Negotiations were to be undertaken by July 15 with Canada in an effort to solve the problem of increasing imports from Canada.

These assurances were given to House Members from oil-producing States who were concerned with the distressed condition of the domestic oil industry. The assurances were accompanied by recognition that the level of domestic crude oil production is too low, and that total controlled and exempt imports should be held to a stable relationship to domestic production.

These informal assurances indicate that the administration recognizes the serious problem imposed upon the domestic oil industry by excessive imports, and that plans are being made to correct the situation. We suggest that the Senate Finance Committee can be of great assistance by inquiring diligently into the assurances given, and ask the committee to consider the following:

1. We urge the committee to seek official assurances from the administration that the import study be completed and submitted for comment at an early date.

2. We urge the committee to seek official assurance from the administration that the quota system for controlling oil imports will be retained under the national security authority given the President in the Trade Act.

3. We urge the committee to ascertain and make known the permissible volume of oil imports under consideration by the administration and which will be announced upon completion of the import study. We commend the assurance that import volumes will be related to domestic crude oil production, but we submit that it is of vital concern to know what percentage ratio of imports to domestic production will be used. We urge the committee to consider the 14-percent ratio referred to previously, since it is the ratio which existed in 1956 prior to the continuing decline in the health of the domestic industry.

4. We commend the assurance that negotiations are being made with Canada to limit exempt imports, but we urge this committee to inquire of the administration as to the level of imports which will be permitted. Imports from Canada averaged 180,000 barrels daily in 1961, and are expected to average 225,000 barrels daily during 1962. These imports are exempted from import controls by administrative decree. We urge this committee to seek official assurance that the negotiations will be aimed at an agreement limiting Canadian imports at a level not to exceed 150,000 barrels daily. Such an agreement was reached with Mexico limiting their imports to 30,000 barrels daily, and this agreement is being carried out effectively.

The assurances given by the administration are steps in the right direction which should already have been accomplished under the authority contained in the national security provision in the Trade Act. Unless the steps are taken and the details worked out as outlined here, the effects of excessive imports upon the domestic oil industry will not be corrected.

We respectfully submit that the surest way to accomplish these objectives is through the proposed legislation already referred to, which would spell out in the Trade Act an allowable limitation of oil imports at a ratio of 14 percent of domestic production. We urge this committee to give this matter your most throughtful and careful consideration, and in the interest of the national security and the national economy, we solicit your support of an amendment spelled out in the Trade Act which will accomplish the necessary objectives.

That completes my testimony.

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

Any questions?

Thank you very much, sir; give our best to your father.

The next witness is Mr. Foree, Texas Independent Producers.

Senator Tower is recognized to make the presentation.

Senator TOWER. Mr. Chairman, as you may know, the independent oilman is the backbone of the petroleum industry in our country. The independent oilmen have discovered about 80 percent of our known resources, and I might add further that my State of Texas accounts for about 45 percent of the known production in this country, and accounts for about 55 percent of the known oil reserves.

I appreciate the opportunity this morning to present to you a prominent citizens of my State, Mr. Bob Foree, of Dallas, who is the import chairman of the Texas Independent Producers and Royalty Owners Association.

The CHAIRMAN. Senator Yarborough.

Senator YARBOROUGH. Mr. Chairman, in jointly presenting to the committee Mr. Rob Foree, I want to say that while I haven't had an opportunity to study all of his testimony I have studied carefully the amendment that they have offered and is being supported and I desire to point out to the committee that that does not take away from the President power. It merely spells out some things that would require Presidential findings under this strategic materials clause to protect American producers and American industry.

It isn't a petroleum provision that they support. It is general, it would apply to all American production and all American industry, and I think it is a very modest provision. It doesn't shackle the President at all, and I am hopeful after their presentation is over when the committee comes to consider this thing they will give careful consideration to this very modest compromise provision they are supporting here.

The CHAIRMAN. Thank you very much.

Senator YARBOROUGH. I thank the chairman for that. This is a very vital industry. Our percentage of the domestic market, the domestic producers percentage of the American market has been declining steadily for years, and we think that at least for the producing States as the market expands and it does each year, with the growing population of our country, at least the domestic producers should have at least a proportionate share of that growth of the market and that is being denied them now under current import policies.

I thank the chairman.

Mr. Foree is a very knowledgeable man in this, has worked at it for years, a man of very high honor and integrity in our State.

The CHAIRMAN. You may proceed, Mr. Foree.

Mr. FOREE. Thank you, sir.

STATEMENT OF ROBERT L. FOREE, IMPORTS CHAIRMAN OF THE TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION

Mr. FOREE. With your permission, I would like to file the full statement and attempt to summarize what we have written in this statement.

The CHAIRMAN. Without objection.

Mr. FOREE. We are here to discuss the urgent need for a moderate revision of the national security section of the trade expansion bill.

It is true that the present law does give the President sufficient authority to do whatever necessary about oil imports to assure a healthy home producing industry. But, in failing to offer meaningful guidelines for limiting imports found to threaten the national security, it also gives executive department officials opportunity to ignore the whole intent of the law and to continue a program which is not achieving declared objectives.

A word about the history of this problem.

Following congressional investigation of oil imports in 1954, the executive department set up a Cabinet-level study of its own, which concluded that oil imports in excess of the ratio they bore to domestic production in 1954 threaten the national security. The Senate Finance Committee provided for implementation of this finding by writing into the 1955 Trade Agreements Extension Act a national security section authorizing the President to do whatever necessary to terminate this national security threat.

But the executive department did no more than establish a voluntary program that called upon importing companies to police themselves in accordance with governmental recommendations. Showing deep concern, this committee strengthened the national security clause in the 1958 Trade Act by writing definite criteria for the administration to use in measuring effectiveness of its programs instituted under this authority.

This did result in making the voluntary program mandatory. Unfortunately, executive department officials so far have proved unable or unwilling to resist pressures for ever-higher imports. Like the preceding administration, this administration proclaims dedication to the purpose and intent of the present law, but conducts endless studies to delay effective action.

Officials responsible for administering the program seem preoccupied with modifying allocation formulas to balance interests of individual importers.

Responsibility to the interests of domestic producers, on the other hand, is apparently assumed to be the responsibility of Congress.

Thus it boils down to a congressional matter, one which as in past years will depend almost entirely upon what action this committee takes. We fear that failure of Congress to tighten the national security clause in this foreign trade bill would be taken by some as evidence that Congress didn't mean what it said when it adopted this security section in 1955 and strengthened it in the 1958 Trade Extension Act.

Need for congressional action is evident in that the upward trend of oil imports has continued uninterrupted under both the voluntary and the mandatory programs. We are presently importing more than 700,000 barrels each day than we did in 1954, and through 1961 the annual ratio with domestic production has jumped from 16.6 to more than 26 percent.

To assure the objective of preserving any home industry found to be vital to national security, all that is required is a moderate revision in the trade bill which would provide that imports share proportionately with domestic production in the growth of the domestic market, subject of course to executive department flexibility necessary to prevent shortages or meet special emergencies.

Yet some in the administration so far have opposed even the most modest concession in the trade bill, even while refusing to offer really meaningful changes by Presidential order under existing law.

Specifically, we refer to reports concerning a White House staff memorandum which was circulated when this matter was before the House. The memorandum, stressing that administration teams working with oil-State Congressmen had maintained a flexible position regarding the amount of oil to be imported, offered concessions only on these points:

(1) That the administration was conducting another study of the problem.

(2) A system of import quotas for oil would be retained.

(3) Import quotas will be changed from ratio with total demand to domestic production (presumably for crude oil from controlled

sources into districts I to IV, which will cover only one-third of total imports).

(4) New discussions are being undertaken intended to stabilize the growth of imports from exempt sources. primarily Canada.

We believe it should be obvious t'. such "concessions" provide no assurance of the basic consideration: a stable ratio between growth of total imports and domestic production.

I would like at this point to take a few moments to present a series of seven exhibits we have prepared in support of our proposal for moderate revision of the national security clause:

Exhibit I: As evidence of the failure of action to date, witness the uninterrupted climb in imports during periods of no controls——

Senator KERR. Is that of total products, Mr. Foree?

Mr. FOREE. Total imports.

Senator KERR. Crude and product?

Mr. FOREE. Crude and product.

1947–1954, no controls; 1954–57, investigation; 1957 to 1959, voluntary controls; 1959 to 1961, mandatory controls. It has continued upward all the way.

Exhibit II: Now we come to the heart of the matter—the failure to stabilize the ratio of imports to domestic production. In 1947, total imports were 8.6 percent of domestic production. By 1961, they reached 26.3 percent and data just released reveals a percentage of 28.5 for the first half of 1962.

Exhibit III: Here is a pictorial review of source country growth in oil production levels from 1956 through 1961. While U.S. production rose 18.3 percent, Mid-East 63.7 percent, other free world 70.5 percent, and the Communist bloc from 85 to 100 percent. A reasonabl.) stabilization of U.S. imports obviously would not materially affect the growth of oil production in friendly source countries abroad, but it would allow U.S. production an opportunity to grow, which it has not done.

Exhibit IV: This exhibit is a graphic review of the problem of excess growth in oil imports since 1956. The solid top line charts the actual growth in imports, while the dotted bottom line is the growth pattern imports would have followed if they had shared ratably with domestic oil during the 6-year period. Failure of imports to do so has cost the domestic economy 693 million barrels of market, over $2 billion in gross income and serious deterioration in operations. Note, incidentally, that even if imports had been required to share ratably in the market, they would still have enjoyed a substantial growth during the period.

Exhibit V: These are representative of the indexes which you, in effect, wrote into the 1958 security clause by which the President must determine the success of whatever programs he institutes under this authority. Just a glance at these severe decline trends since 1956 and 1957 shows that obviously the import program by these standards is not successful. Indexes shown here include crude prices, number of wells drilleds, State tax revenue, new oil discoveries, number of wildcat wells drilled, and allowable production days in Texas.

Exhibit VI: This is a portrayal of losses in U.S. oil skills resulting from deterioration in industrial health. Since 1956–57 Texas oil producer ranks have diminished 6.6 percent—not counting the many producers who have become inactive in exploration activity and will soon discontinue operations—U.S. oil and gas employees are down 9.2 percent, rotary drilling contractors 27.6 percent, geophysical crews 34.2 percent, and petroleum engineering students cut in half.

The losses—increasing yearly—will be seriously felt as the industry attempts to maintain the operations and discover the new oil needed to meet demands of the future.

Exhibit VII: In this our final exhibit we return to the heart of the imports problem—the need for stability in the ratio of imports to domestic production. As against historic patterns of growth, note first the trend line in ratio that would have been established by the 1954 ratio recommendation made during the period of investigation.

Then note the proposed reduction in ratio desired by independent producers and presented here today by Mr. Decker of IPAA.

Finally, note the trend line that would be established by stabilizing the current ratio imports have to production—a position taken, I might say, by the good Senator Kerr in a recent press conference.

Whatever the level, the basic requirement in stabilization of some ratio between imports and domestic production.

In conclusion, the fundamental concern here involved is to preserve a sufficient share of the U.S. market for a home industry to keep that industry in a position to fulfill its national security obligations.

In short, there must be a stabilized ratio between total imports and domestic production, leaving, of course, ample flexibility in the hands of the President to adjust imports to meet demands of emergency.

(The statement referred to follows:)

STATEMENT OF THE TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION, AUSTIN, TEX., AUGUST 2, 1962

OIL IMPORTS AND THE TRADE BILL

I. HISTORY OF PROBLEM AND PROPOSED SOLUTION

Failure of the present mandatory oil imports program to accomplish objectives clearly intended (see exhibit VIII) when the Senate Finance Committee 4 years ago modified the national security section of the Trade Act is apparent in several ways.

Despite the fact that the executive department responded to the revised national security section by changing its imports program from a voluntary to a mandatory one, the fundamental purpose continued to be largely ignored. Oil imports under the mandatory program, just as under the voluntary one, were permitted to absorb virtually the total growth in our domestic market. In the face of its own conclusion that oil imports are excessive, the executive department has allowed the home-producing industry to suffer ever-more-serious deterioration in all of the indexes which this committee provided the administration to measure effectiveness of whatever action taken under this authority. Also ignored so far has been the promotion of a grave monopoly trend within the petroleum industry resulting from preferential treatment to the foreign production of our leading international oil companies.

A. Why congressional action needed

The present law does indeed give the President ample authority to do whatever necessary about oil imports to assure a healthy home-producing industry. But, in failing to offer a meaningful standard for limiting imports when found to threaten security, it also gives executive department officials an obviously welcome opportunity to ignore the intent and purpose of the law and to hold onto a program which experience shows is not responsive to that law and is not achieving declared objectives.

A word about the history of this problem.

Following congressional investigation of oil imports in 1954, the executive department set up a Cabinet-level study of its own, resulting in the February 1955 report concluding that oil imports in excess of the ratio they bore to domestic production in 1954 (16.6-percent ratio) threaten the national security. The Senate Finance Committee provided for the implementation of this finding by writing into the 1955 Trade Agreements Extension Act a national security section authorizing the President to do whatever necessary to terminate this national security threat. But the executive department contended itself under this very broad and highly flexible authority to do no more than establish a voluntary program, in effect calling upon importing companies to police themselves in accordance with day-to-day governmental recommendations. Evidencing deep concern, this committee undertook to strengthen the national security clause in the 1958 Trade Agreements Extension Act—by writing definite criteria into the section by which the administration was to determine effectiveness of whatever program it instituted under this authority.

In combination with this revised national security section in the 1958 Trade Act, members of this committee and members of the House of Representatives went to great lengths to determine that the administration intended to use this authority. Among the specific points of agreement concerning the national security section which they established were (1) the criteria in the law would be interpreted to limit imports of petroleum and its products at levels which would permit the domestic industry to engage in a vigorous program of exploration at a rate consistent with the demands of our economy, (2) if the means selected by the President to achieve this objective did not effectively limit imports, such program would be reevaluated and a substitute program effected, and (3) such limitation would not be rendered ineffective by circumvention. (See exhibit VIII.)

Now the trade bill is again before you, and the avowed intentions of two administrations to use of this authority under the national security section have not been fulfilled.

The upward trend of oil imports has continued uninterrupted either by the voluntary or the mandatory program. We are presently importing more than 700,000 barrels each day than we did in the year 1954, and the ratio with domestic production has jumped from 16.6 to in excess of 26 percent, running during the first 5 months of this year at 28.9 percent of domestic crude production. Since 1956 the domestic producer has experienced an average annual increase in production of only 0.2 percent, while imports through 1962 will have increased some 530,000 barrels daily. Thus, foreign oil—some 90 percent of which is imported by the handful of large international American oil companies—has enjoyed virtually the total growth in U.S. market, even as these same companies have increased their percentage of U.S. production at the expense of their domestic independent competitors.

In short, executive department officials so far have proved totally unable or unwilling to resist pressures for ever-higher imports, even after their own finding that imports are excessive to the point of threatening national security and their assurances to Congress of good intent. Like the Eisenhower administration, the Kennedy administration proclaims dedication to the purpose and intent of the present law, but conducts studies upon studies to delay effective action. Officials responsible for administering the program seem immersed in concern over modifications in the allocation formula in order to balance interests of individual importers. Responsibility to the interests of domestic producers, on the other hand, is apparently assumed to be the responsibility of Congress.

Thus it boils down to a congressional matter, one which as in past years will depend almost entirely upon what action this committee takes. We very much fear that failure of Congress to tighten the national security clause in this foreign trade bill would be taken by some as evidence that Congress didn't mean what it said when it adopted this security section in 1955 and strengthened it in the 1958 Trade Act extension.

B. Effect of proposed amendment

The proposal here is that the national security section of the pending trade expansion bill be modified by providing more definite guidelines to the executive department. In effect, they prescribe that a national security finding must not be ignored merely because the State Department, importing companies, or source countries prefer a program so flexible that foreign surpluses can be imported here irrespective of the share of the U.S. market accorded home production.

This modification of the security clause will simply say that, in cases where the President has found that the national security is threatened by imports of an article, imports of that article hereafter shall increase only as domestic production increases—subject of course to a broad escape hatch allowing the President wide flexibility when actually necessary to prevent shortages or meet emergencies.

Nothing in the amendment here proposed would appreciably slow the phenomenal growth of foreign oil production or, as a matter of fact, deny foreign oil its present ratio with domestic production in meeting U.S. oil demand.

The question of an imports rollback, or a reduction in the ratio of imports to U.S. production, would not be provided in the amendment, but rather entrusted to Presidential decision. In this connection, it should be emphasized that under the proposed amendment in the law, the administration will retain its present flexibility and authority to adopt "constructive changes," contrary to inferences of certain executive department officials. Nothing here proposed would remove authority of the executive department to institute an effective program or to reduce imports when deemed appropriate to the national security.

C. Administration pledges

This trade bill, however important it may be, is surely no more vital to the Nation than the preservation of home industries which have been found essential to the very security of the United States. Or protecting small business against monopoly encroachment. Or prosperity and full employment at home. Or the international payments balance.

Yet some in the administration so far have opposed even the most modest concession in the trade bill, even while refusing to offer really meaningful changes by Presidential order under existing law.

As in 1958 Congressmen have been vigorously urged by certain executive department officials not to insist upon additional guidelines. They have been assured that, first, the administration has ample authority under existing law to prevent excessive oil imports and, second, that it has every intention of doing so. However good those intentions, the history of this problem reflects a serious need for additional congressional action.

Moreover, we would add, good intentions are even less acceptable if the action contemplated is based upon reports rather widely circulated when this trade bill was before the House.

Specifically, we refer to reports concerning a White House staff memorandum to the President and Interior Department recommendations to the Office of Emergency Planning. The White House memorandum, stressing that administration teams working with oil-State Congressmen had maintained a flexible position regarding the amount of oil to be imported, offered assurances only on these points:

(1) That the administration was conducting a study of the problem.

(2) A system of import quotas for oil would be retained.

(3) Import quotas (presumably for crude oil only coming into districts I–IV from controlled sources—about 35 percent of total oil imports) will be changed from ratio with total demand to domestic production.

(4) New discussions are being undertaken intended to stabilize the growth of imports from exempt sources, primarily Canada.

We believe it should be obvious that such "concessions" provide no assurance of the basic consideration: a stable ratio between growth of imports and domestic production.

Although they incorporate some Tipro-backed features, including the relating of imports to domestic production instead of "total demand," even here no basis is offered for assuming that ratio discussed would be broadened to include total oil imports. Also no assurance is even suggested that such ratio will not be changed every 6 months with the assignment of new quotas or through the several remaining loopholes. Finally, the promise to undertake new negotiations for voluntary containment of Canadian imports has a hollow ring after unsuccessful experiences of the past.

Most of the present loopholes presumably would remain. For example, special treatment for imports from Canada and Mexico, or imports into district V (the west coast) and Puerto Rico, or imports of residual fuel oil and other special products might still be permitted under executive department policy to violate the overall ratio between total imports and domestic production. Additionally, Appeals Board decisions granting higher or new quotas to any company still might not necessitate corresponding reductions elsewhere in order to preserve the overall ratio.

In this connection, it is interesting that when Congress was considering this matter in 1958, the President's special committee studying the voluntary oil import program made available a report declaring that, where imports are increased to accommodate newcomers or take care of hardship cases, this "will be achieved by present importers moving over and accepting a cutback in their allocations." This pledge, among many others, has not been kept.

In short, this administration, like its predecessor, has steadfastly declined to offer assurances that existing authority will be used to limit total imports of crude oil and its derivatives, from all sources and into all areas, to a ratio with domestic production not in excess of the present one.

The fundamental concern here involved is to preserve a sufficient share of the U.S. market for the home industry to keep that industry in a position to fulfill its national security obligations in time of emergency. This objective cannot be achieved unless provision is made for stabilizing the ratio between total imports and domestic production.

A recent report issued by the Bureau of Mines of the Department of the Interior, titled "Method for Evaluating U.S. Crude Oil Resources and Projecting Domestic Crude Oil Availability," illustrates this point: America's defense-vital self-sufficiency in oil production simply cannot long be preserved unless the home industry is permitted to share in market growth. In part this report states:

"In order to provide the gross crude oil revenues needed to develop potential crude oil resources of the United States as projected to 1975, it is essential that the industry regain its 1953 operating level of 85 percent of productive capacity. For the projected period of 1975 this would mean an aggregate production of 48 billion barrels, or 23 percent above the current level. To attain this aggregate production of 48 billion barrels in the 15-year period 1960–75 will require an average annual increase in crude oil production of about 3 percent from the 1961 level."

Since 1956 the domestic producer has enjoyed an annual increase in production of only 0.2 percent while imports have increased annually by 6.1 percent. Therefore, the need for more ratable sharing of the home market becomes obvious. Unless we are to render our home industry incapable of meeting its defense obligations, its share of market growth during the next 15 years must increase from 0.2 to 3 percent, which at current levels represents an annual growth of approximately 204,000 barrels daily. Assuming a 3-percent growth in demand, this still leaves for imports an annual increase of some 57,000 barrels daily.

This can only be accomplished if imports are required to maintain a stable ratio with domestic production and not permitted to absorb total market growth.

II. FAILURE OF IMPORT PROGRAM

In the absence of meaningful guidelines in the law, oil imports have continued to grow in volume and economic impact while the indices of domestic industry health sag further. Failure of the executive department to implement its own and congressional findings calling for effective restraint of oil imports is clearly indicated in the following discussion of seven exhibits attached to this statement.

A. *Uninterrupted growth of imports and program loopholes*

Exhibits I and II chart the growth in total U.S. oil imports during the past 15 years. Review of exhibit I reveals that first Government investigation, then voluntary appeals to importers to maintain reasonable import levels, and finally the current mandatory oil imports program all failed to halt the excessive growth trend in foreign oil.

Exhibit II shows that the mandatory program has yet to reduce on an annual basis total oil imports below 25 percent of domestic crude production.[1] In fact,

[1] Cabinet and congressional oil study groups have, in recent years, recommended a ratio as low as 16.6 percent.

data for 1961 reveals the highest annual ratio of oil imports to domestic production in history—26.3 percent. In the first 5 months of 1962, the imports ratio rose further to 28.9 percent, promising a new record at the year's end.

Several structural flaws in the program are responsible for this failure to reduce imports.

For example, the 9-percent clause—which establishes the level of nonresidual imports from nonexempt sources into districts I–IV—limits quotas to 9 percent of total fuel demand. Hwever, use of total demand as a base for computing quotas has allowed imports to grow in proportion to growth both in fuels that compete with domestic crude for the domestic fuels market and in both residual and nonresidual imports themselves. Consequently, domestic crude production has not only failed to share in market growth but has also had to cut back to make room for increase in imports and other fuels. Thus, the ratio between imports and domestic production has increased.

Also, no provision is made for containing the tremendous increase in imports from exempt sources. Approximately 150,000 barrels daily of oil currently imported into districts I–IV, therefore, are not included in the 9-percent ratio computation.

Exempt sources have been free to increase virtually without restriction. Canada—despite administration pleas to stabilize its exports into the United States—continues to increase its flow and is currently importing into all five districts more than 235,000 barrels daily, as compared with approximately 10,000 barrels daily in 1954. While Mexico has informally agreed to hold its imports temporarily to 30,000 barrels daily, this compares with a negligible total imported immediately prior to the program.

Justification for exempting overland import sources in 1959 rested on the point that these were relatively safe sources during times of emergency. Unfortunately, the exemption has resulted in reduction of domestic oil production rather than decreasing our reliance on relatively unsafe distant sources.

Thus, Canadian oil is actually receiving preferred treatment not only over less accessible foreign oil but also over U.S. production.

Exempt status for Canadian oil also complicates the problem of retaining support of other source countries for U.S. import restrictions. Venezuela, where officials had previously indicated understanding of the need for U.S. oil import curbs, has now protested that its interests are being jeopardized by the preferred status given Canada. Venezuela is naturally reluctant to have its oil exports reduced by whatever amount Canadian imports increase. The result has been protests from Venezuela, which in turn has led some State Department officials to infer a need for relaxing even the principle of import curbs on oil.

Actually, U.S. oil imports restraints serve the best interests of foreign source countries and importing companies no less than domestic producers. Almost without exception the importing companies are on record in support of controls, and no country has yet officially objected. Rather each is simply seeking a competitive advantage, or to maintain the advantage it now enjoys. Thus attempts to confer preferred status to some, while yielding to the pressures from others, has led to seriously excessive imports, out of keeping with the program, purpose and intent.

The fact is that the program has not denied oil production growth to source countries. This is apparent in exhibit III, a pictorial review of source country growth in production levels from 1956 through 1961. While U.S. production increased only 0.4 percent, production in the Middle East increased 63.7 percent, in Venezuela 18.3 percent, Canada 32 percent, and in Russia at least 87 percent.

In addition to exempt sources, the program structure allows importers increased supplies into district V, limited only to what is found to be the difference between domestic supply available there and domestic demand. But domestic supply available to this west coast area is largely determined by purchasing company desires, and these are importing companies constantly seeking a basis for higher import quotas.

Additionally, more need for imports into the west coast can be created simply through the export of domestic oil from district V into districts I–IV. Although small at the moment, amounting to only about a 25,000-barrel daily increase since the program began, this represents a gaping loophole by which imports into this supposedly isolated area actually amounts to imports into districts I–IV where no such need basis is even remotely applicable. It clearly demonstrates, moreover, the need for relating all imports into all districts to an overall percentage ratio with U.S. production, with such special treatment accorded as needed within the overall ratio.

Another loophole involves authorization of those importing crude and products into Puerto Rico to maintain importing levels achieved in 1958. These imports are refined in Puerto Rico; any supply in excess of Puerto Rico need may be imported into districts I–IV. This source of excess supply has gradually increased during the program and now approximates 50,000 barrels daily.

These program weaknesses in restricting total import volume have assured continued failure of imports to share ratably with domestic crude production the growth in the U.S. market for oil.

Exhibit IV indicates in summary form the cost to the domestic producing industry when the domestic industry is not permitted to share ratably with imports in meeting U.S. oil demand.

B. Economic advantage in foreign oil

Another significant shortcoming of the mandatory program is its failure to neutralize the economic advantage imported oil enjoys over domestic oil. Depending on source and type of oil, considerable foreign oil can be produced and delivered at least $1 less than domestic crude. This differential is attributable to lower discovery and production costs, use of foreign-flag tankers, liberal tax credit provisions, and variation in total tax burden.

Failure of the program to consider economic advantages of foreign oil has led to two undesirable trends. First, there is constant pressure by importers, source countries, and inland refiners to increase unneeded import supply into the United States. While importers and sources countries are interested in increasing their holdings in what amounts to a very profitable market, refiners are encouraged to increase their refinery output to maximize their quota allotments. The latter trend tends not only to maintain pressure for increase in imports but also leads to excessive refining of domestic crude.

The second effect is a continuous erosion of domestic crude and product prices. Although the mandatory program immediately followed two widespread rounds of crude price reduction throughout the United States, it failed to stop this erosion. In the first 15 months of the program more than 1.1 million barrels in domestic crude production suffered cuts ranging from 3 to 25 cents per barrel.

By January 1961 crude prices averaged 45 cents less than the replacement cost of $3.38 quoted by the Bureau of Mines. In 1961, approximately 200,000 barrels in daily production suffered a new price reduction of approximately 12 cents per barrel. Crude prices today are some 20 cents below their 1957 level, and the threat of even more severe reduction looms on the horizon unless a more realistic imports program is effected.

III. DETERIORATION IN DOMESTIC INDUSTRY

The declared intent and objective of the mandatory imports program has been "to insure a stable, healthy industry in the United States capable of exploring for and developing new hemisphere reserves to replace those being depleted."[1] Its purpose is clear—a vigorous domestic oil-producing industry capable of maintaining defense-vital domestic oil reserves.

By mid-1957 serious deterioration was evident. Reduction in exploration activity combined with excessive inventories prompted a Special Cabinet Committee on Energy Problems to note:

"* * * If we are to have enough oil to meet our national security needs, there must be a limitation on imports that will insure a proper balance between imports and domestic production."[2]

Thus, the mandatory program was designed to reverse the trends of deterioration in the domestic industry that began in 1957 and continued uninterrupted during the voluntary oil imports control program. It has failed to do so.

[1] Statement of President Dwight D. Eisenhower on Mar. 10, 1959.
[2] Report of President Eisenhower's Special Cabinet Committee, July 1957.

A. Trends in industry activity

Others before this committee have submitted in detail the story of decline in domestic oil industry indices of health. To avoid lengthy repetition this association submits exhibit V—a glance at some of the more severe trends of decline in the industry with some emphasis on the particularly serious situation in Texas.

Exhibit V shows, for example, that in the past 5 years, the annual total of allowable production days in Texas has dropped 47.8 percent. This is reflected in actual total and average daily production for the State for each year since 1956 as follows:

Year	Total crude condensate production	Average daily production
1956	1,107,808	3,027
1957	1,073,867	2,942
1958	940,166	2,576
1959	971,978	2,663
1960	927,444	2,534
1961	939,510	2,574

From 1957 through 1961, Texas production dropped 453,000 barrels daily. Thus far in 1962 the trend continues downward. Through June, allowable days totaled 50—the lowest first half total in the history of Texas proration.

Restricted opportunity to produce, combined with the effects of a 6.8-percent drop in national crude prices since 1959 (see exhibit V), has cost the State of Texas and its local governments untold millions of dollars in tax revenues. Annual revenue from the State oil production tax alone has dropped $30 million—a 19.5-percent drop since 1956–57.

Turning to the national picture, exhibit V shows serious reductions in the past 5 years in: total number of U.S. wells drilled (down 19.3 percent); annual discovery of new oil reserves (down 22.7 percent); and total number of U.S. wildcat wells drilled (down 29.5 percent). Inescapably these factors are interrelated as total and wildcat drilling activity drops, so must the discovery of new, defense-vital oil reserves. In turn, the industry's lack of opportunity to grow even at reasonable rates in production with stable prices aggravates this cycle by reducing further the necessary drilling activity.

B. Irreparable loss of skills

Exhibit VI summarizes the inevitable aftermath of such reduction in activity; the loss of jobs and professional skills. Here is reflected the true crisis facing the Nation and its oil industry, for such loss directly affects the industry's ability to recover from the current era of oversupply in the future when security needs may demand rapid restoration of exploration and development activity. Replacement in the future of these trained personnel and the skills they represent will take many years to achieve.

In other words, today's crisis in the domestic oil-producing industry jeopardizes the availability of oil not today but 5, 10, or 20 years from now.

Again a review of decline since 1956, exhibit VI shows reduction in ranks of the following:

Texas oil producers down 6.6 percent.
U.S. oil/gas production employees down 9.2 percent.
Rotary drilling contractors down 27.6 percent.
Geophysical (exploration) crews down 34.2 percent.
U.S. petroleum engineering students down 44.4 percent.

C. Reserve producing capacity

The problem of maintaining a reasonable reserve producing capacity lies at the very heart of oil import program objectives and, therefore, must be considered in any evaluation of import restriction. Reserve capacity, attainable either through existing well facilities or industry ability to expand development rapidly, is necessary for national security purposes. National security objectives are endangered, however, when the home industry is compelled to maintain reserve capacity out of proportion to its share of market growth.

This seeming anomaly becomes clear when it is recognized that reserve capacity at some point tends to be self-defeating. Reserve capacity is an expensive burden borne by the producer. Excessive capacity in relation to markets renders him financially unable to maintain long-range exploration and development activity needed to maintain healthy growth in domestic reserves. If the producer holds too much reserve capacity too long, not only is he deprived of fund to search for new reserves, but the idle capacity tends to become useless in emergency by virtue of failure to maintain pipeline and other facilities for utilizing it in case of emergency. This was demonstrated dramatically during the Suez crisis.

There are two sources, Independent Petroleum Association of America and the National Petroleum Council, which periodically compute national reserve capacity on a district basis. The following table incorporates their study results since 1954.

Reserve crude productive capacity in the United States, 1954–61[1]

Year	Total productive capacity estimated by—		Total U.S. crude production (in thousand barrels daily)	Total reserve capacity based on data of—	
	IPAA[2]	NPC[3]		IPAA	NPC
1954	7,926	[4] 8,331	6,342	1,584	1,989
1955	8,442		6,807	1,635	
1956	8,929		7,161	1,778	
1957	9,250	9,867	7,170	2,080	2,697
1958	9,493		6,710	2,783	
1959	9,656		7,054	2,602	
1960	9,708	10,585	7,032	2,676	3,553
1961	9,892		7,188	2,704	

[1] As of Jan. 1.

[2] Average rate of production from existing wells that could be maintained from 6 to 12 months without further development and with no significant loss in ultimate recovery.

[3] Estimated that the assumed rate of production would decrease over a year's time by 7.6 percent in the absence of drilling.

[4] As of July 1.

The most recent estimates of reserve capacity by both sources range from 27 to 37 percent of total capacity. In the absence of any clear standard as to how much reserve capacity the Nation needs, it might be noted that both estimates are considerably in excess of the 15 percent suggested by the Paley Commission in 1959 as adequate and supported as desirable in May 1962 by the administration's Office of Oil and Gas in the Department of Interior. Furthermore, both study groups do not consider in their estimates the additional supply that could be made available by rapid development.

IV. NEED FOR CONGRESSIONAL ACTION

To assure the national objective of preserving any home industry already found to be vital to national security, all that is required is a moderate revision in the national security clause of the trade expansion bill. Thus would standards or guidelines be provided by law which allow that industry to share proportionately with total imports in the growth of the domestic market, subject of course to executive department flexibility necessary to prevent shortages or meet special emergencies.

The present mandatory oil imports program has proved unsuccessful because of the absence of such an overall ratio limitation. Those administering the program have tended to yield constantly to pressures for upward revision in import levels in all categories, with the result that oil imports absorb virtually the total growth in the domestic market. Imports last year achieved an all-time high of 1,889,000 barrels per day—a half million barrel per day increase during the past 5 years when domestic production was denied any increase. They will break even that record this year unless action is taken.

Through exemptions, differential bases, and individual "hardship" allocations, the present program has been rendered ineffective in terms of the objectives cited for it when Congress wrote the national security clause into the Reciprocal Trade Act. Imports from Canada and Mexico have been granted exemption on grounds of relative safety in times of emergency; oil imports into the west coast are relatively uncontrolled on "deficit area" grounds; imports through Puerto Rico are given special liberal treatment; certain products are permitted on a special "need" basis. In consequence, the only imported oil which has not been accorded some preferential status consists largely of crude oil originating in Venezuela and the Middle East.

What are the objectives of such an amendment to the national security clause in the trade bill?

First, in the case of a defense-vital commodity like oil where there has been a finding that imports threaten security, total imports shall grow in a stable relationship to domestic production, thus assuring the home industry its proportionate share of the U.S. oil market.

Second, in order to preserve such stable ratio between total imports and domestic production, any disportionate increase in some products would be offset by equivalent reduction in others, thereby maintaining the overall percentage ratio.

Third, in order to prevent any shortage of any oil product, ample safety valves would be provided to allow for any imports into any area which the President might find actually necessary at any time.

The changes in the law sought by those concerned with a healthy domestic oil producing industry are entirely consistent with the purpose and intent of the national security clause and in no way conflict with valid objectives of the Nation's foreign trade policy. A limitation on imports involving a Nation's security is already an accepted principle, unchallenged by any of our international commitments. The only question remaining is whether such limitations shall be rendered effective in terms of avowed intent. Through this proposed amendment, Congress now has at its disposal reasonable means for assuring this objective in the law, without violating either national tradition or legislative form and without removing necessary executive department flexibility.

Favorable action on this proposed revision of the national security clause in the trade expansion bill of 1962 is respectfully urged. At stake is the preservation of a home oil-producing industry—and in turn the maintenance of self-sufficiency in providing a munition of war on which the very security of America and her free world allies depends.

EXHIBIT I

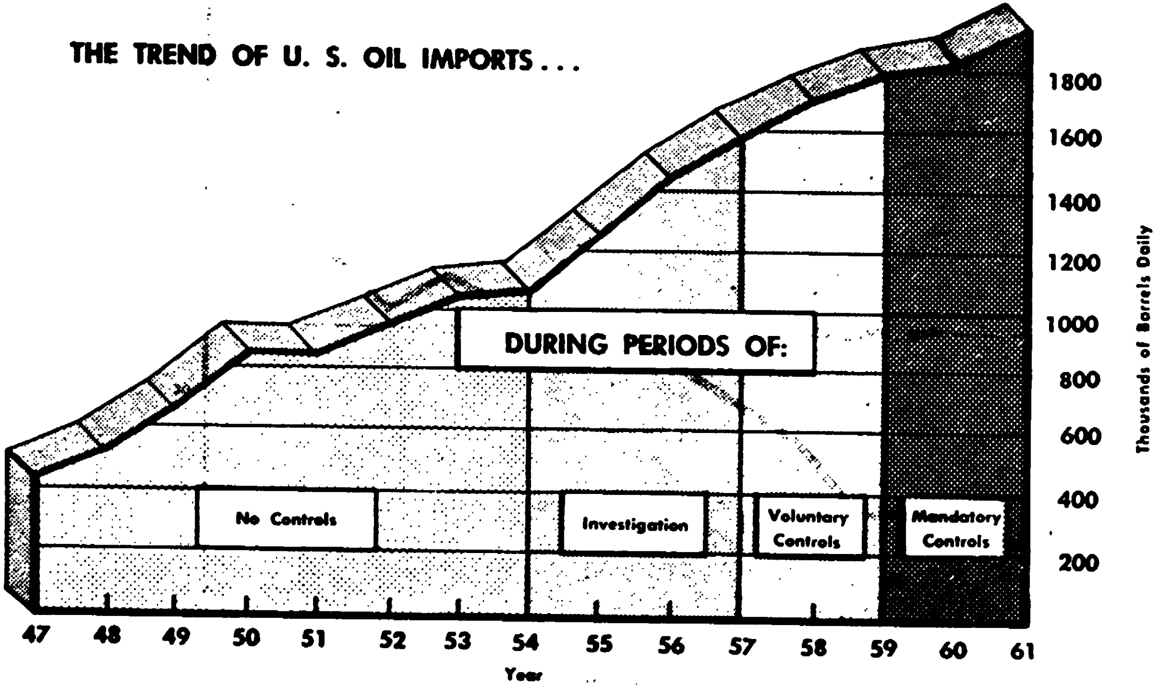


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EXHIBIT II

RATIO OF TOTAL OIL IMPORTS TO DOMESTIC CRUDE PRODUCTION: 1947-1961

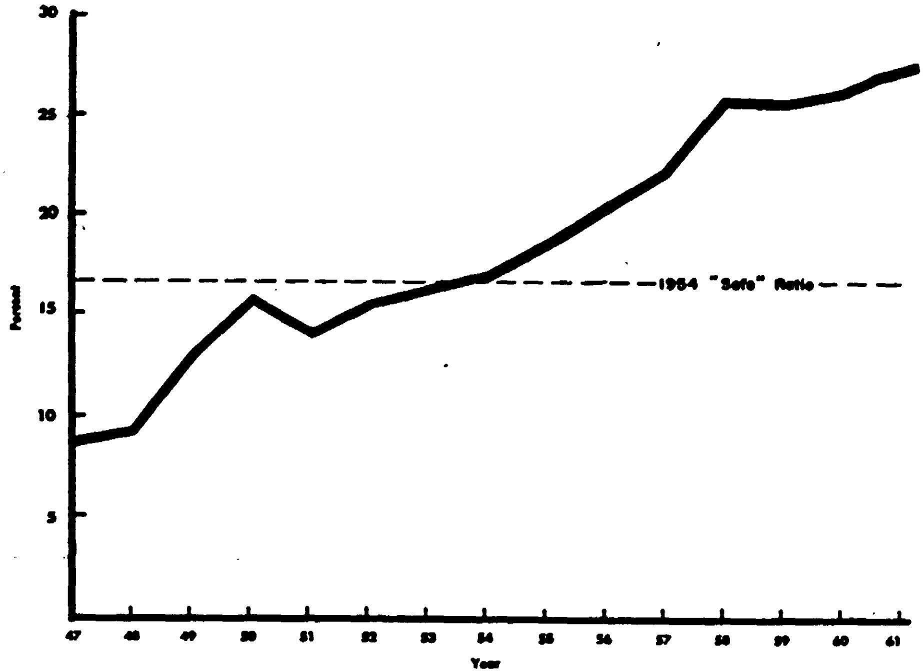
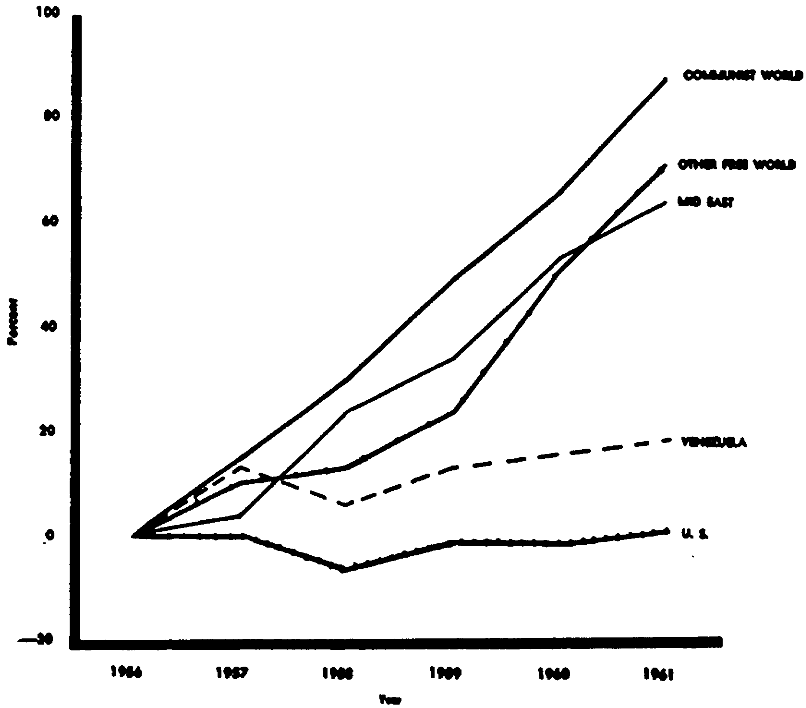


EXHIBIT III

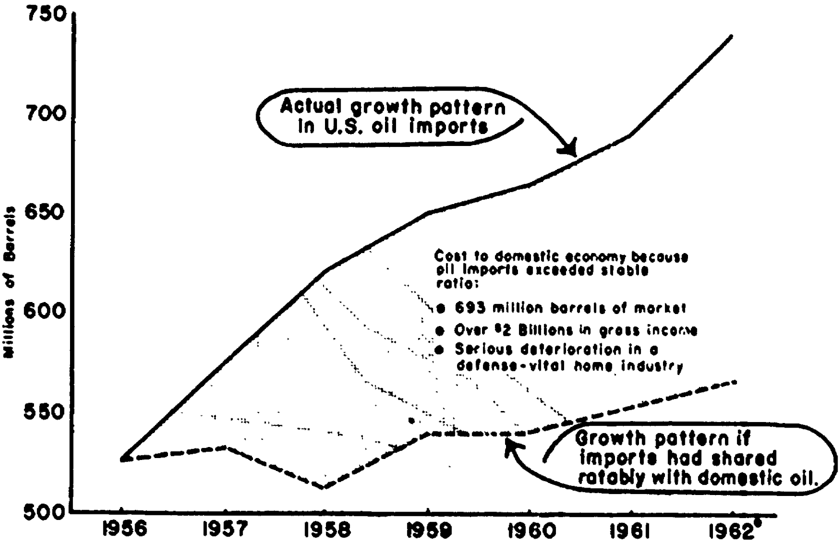
Rate of Growth* in Crude Oil Production by Source Areas in the World: 1956 - 1961



*Related to 1956 production levels

EXHIBIT IV

THE PROBLEM OF EXCESS GROWTH IN U.S. OIL IMPORTS
1956 - 62



*Projected

EXHIBIT V

DECLINE IN INDUSTRY HEALTH INDICES
(1956 - 57 = 100)

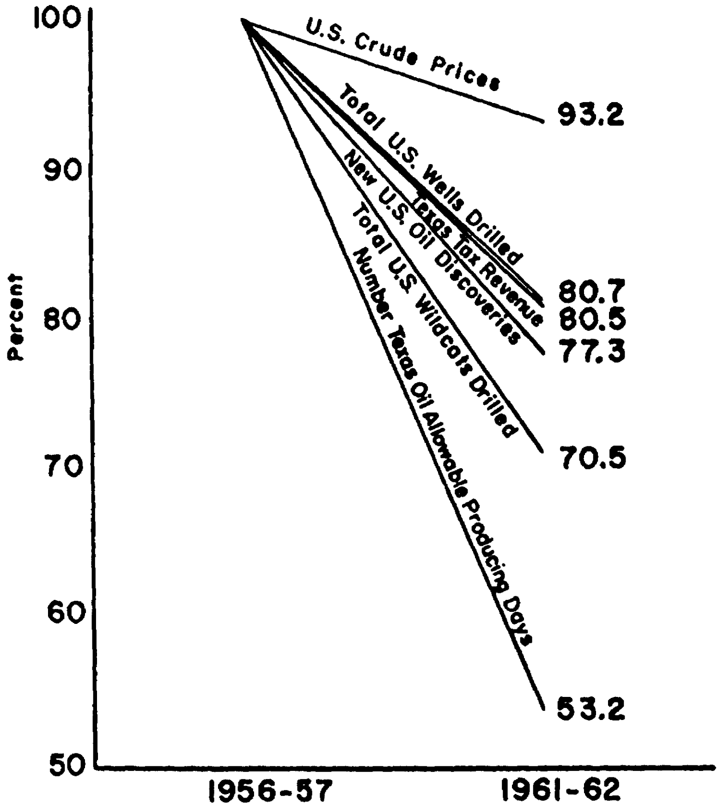


EXHIBIT VI

LOSS OF IRREPLACEABLE U.S. OIL SKILLS
(1956 - 57 = 100)

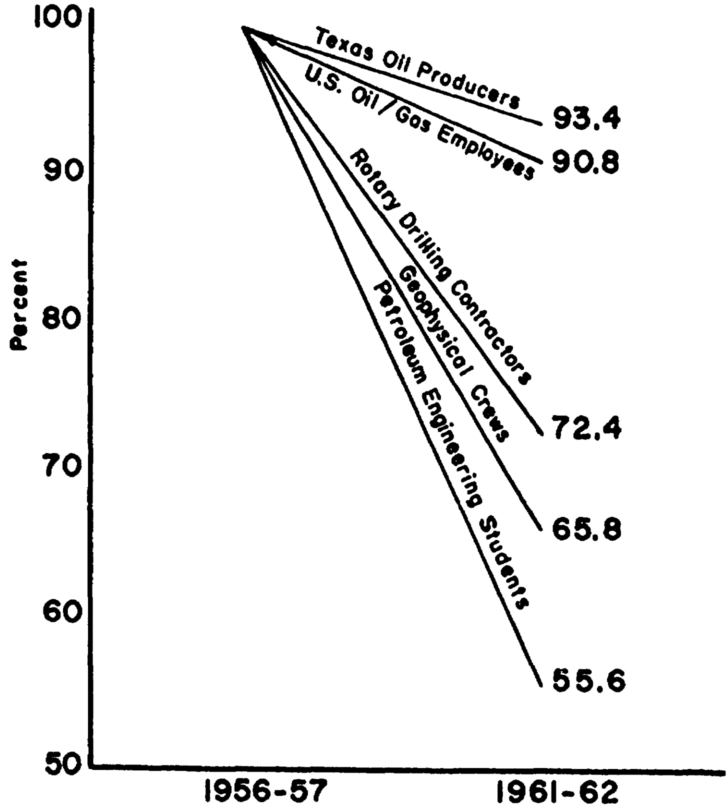


EXHIBIT VII

A RELENTLESS GROWTH IN RATIO OF IMPORTS TO DOMESTIC CRUDE PRODUCTION

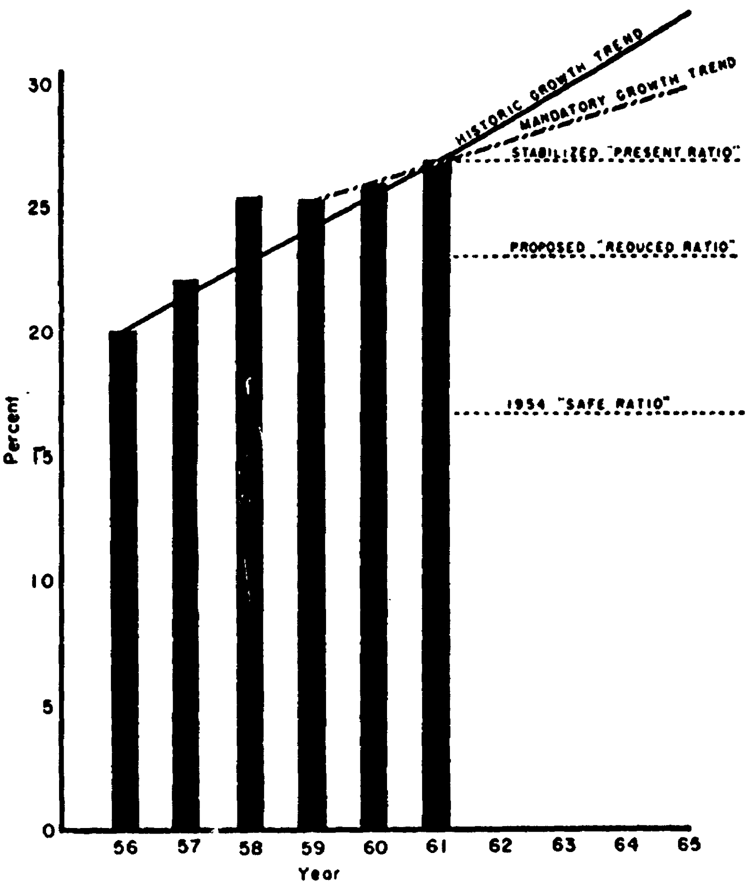


EXHIBIT VIII

MEMORANDUM, IN RE CONGRESSIONAL INTENT OF NATIONAL SECURITY CLAUSE OF TRADE AGREEMENTS EXTENSION ACT OF 1958

On June 20, 1958, Senator Robert S. Kerr sought to render unmistakable the intent of the national security section to the Trade Agreements Extension Act of 1958.

When Secretary of State John Foster Dulles appeared for the Eisenhower administration before the Senate Finance Committee, Senator Kerr questioned him at length to ascertain that executive department understanding coincided with congressional understanding of the provisions of this section. To accomplish this, he read lengthily from an exchange which took place on the floor of the House of Representatives between Ways and Means Chairman Wilbur Mills and Congressman Frank Ikard. In each case Secretary Dulles was asked if he agreed with the response Chairman Mills made to those questions, and in each case Secretary Dulles affirmed his concurrence with the conclusions offered by Chairman Mills.

Among the specific points of agreement established through this means were (1) that the criteria in the law would be interpreted to limit imports of petroleum and its products at levels which would permit the domestic industry to engage in a vigorous program of exploration at a rate consistent with the demands of our economy, (2) that if the means selected by the President to achieve this objective did not effectively limit imports to this end, such program would be reevaluated and a substitute program effected, and (3) such limitation would not be rendered ineffective by circumvention.

For example, Secretary Dulles agreed with the following statement attributed to Chairman Mills by Senator Kerr:

"If drilling and exploration activities do not reach a satisfactory level, then under this provision, the President or his designate would have the responsibility of reevaluating existing programs for the regulation and control of imports to see that they meet the requirements of the new standards in the committee bill."

Asked if he agreed with that statement, Secretary Dulles replied: "Yes, sir."

Later, Chairman Mills was quoted by Senator Kerr as follows:

"When a decision is taken to restrict imports in the interest of national security, it is our intention that the decision be effective and not rendered ineffective by circumvention."

Senator Kerr asked Secretary Dulles: "Do you agree with that?"

Secretary Dulles replied: "Yes, sir."

Excerpts from report of the Senate Finance Committee on Trade Agreements Extension Act of 1958—July 15, 1958:

"SECTION 8. THE PREVENTION OF THREATS TO NATIONAL SECURITY

"* * * The committee amended the House bill to provide that when the Director has advised the President that he is of the opinion that the said article is being imported in such quantities or under such circumstances as to threaten to impair the national security, the President shall take the needed action *unless* he finds that the imports of the article are not being imported in quantities which threaten the national security. The House bill was thereby strengthened in this respect * * *.

"In order to further strengthen the section, the Finance Committee added language so that adjustments in imports which may threaten the security must be made in the derivatives of raw materials or products as well as in the materials or products themselves. The need alone would serve only to spur the importation of the finished or semifinished products which are, in the final analysis, the very items most essential to the defense of the country.

"Another important strengthening amendment was added to the bill by the Finance Committee. This amendment would direct the President, in the administration of the national security amendment to recognize that the country's national security is tied closely to its internal economic welfare. The President is to take into consideration the impact of foreign competition on the economic welfare of individual domestic industries and give attention to unemployment, loss of skills, decreases in revenue to the Government, State and Federal, and to other serious effects resulting from the displacement of domestic products by excessive imports * * *.

"* * * This amendment has as its aim the maintenance of a strong internal economy as an integral part of our national security * * *."

The CHAIRMAN. Thank you, Mr. Foree.

Any questions?

Senator DOUGLAS. Pardon me for just a minute. You mention in your statement that 90 percent of foreign oil is imported by a handful of large international American oil companies. I wonder for the sake of the record if you could identify these companies?

Mr. FOREE. Well, I believe I can identify most of them. Standard of Jersey, the Mobil, the Gulf, the Atlantic, the Sun, Sun Oil Co., the Tidewater.

Senator DOUGLAS. Is the Tidewater the Getty company?

Mr. FOREE. Yes, sir.

Senator DOUGLAS. J. Paul Getty company?

Mr. FOREE. Yes, sir. Incidentally, Texaco is also among the large importers.

Senator KERR. There are two others he hasn't named.

Mr. FOREE. Yes, Standard of California, the Indiana company.

Senator DOUGLAS. Standard of Indiana.

Mr. FOREE. And the Standard of Ohio.

Senator KERR. Did you mention Shell?

Mr. FOREE. No, sir; but I would like to.

Senator DOUGLAS. So that means four Standard companies, plus Shell, Atlantic, Tidewater——

Senator KERR. Texaco.

Senator DOUGLAS. Gulf.

Mr. FOREE. Texaco.

Senator DOUGLAS. Is the Humble Oil Co. a member of your association?

Mr. FOREE. No, sir.

Senator DOUGLAS. Am I correct in understanding that the Humble Oil Co. is a wholly owned subsidiary of one of the Standard companies?

Mr. FOREE. I think that is right.

Senator KERR. Will the Senator yield?

Senator DOUGLAS. Yes.

Senator KERR. Just as a matter of information, the great question in the industry is whether the Humble is a subsidiary of New Jersey or vice versa.

Senator DOUGLAS. In other words, the Humble may not be as humble as it sounds.

Senator KERR. Yes.

Mr. FOREE. Senator, we have no integrated companies in our organization. We also go a little further than that and limit the amount of dues that any one individual producer can pay.

Senator DOUGLAS. Do your companies have any refineries?

Mr. FOREE. No, sir.

Senator DOUGLAS. They are pure producing, extracting companies?

Mr. FOREE. That is right.

Senator DOUGLAS. You have to sell your oil then to the companies which have refineries?

Mr. FOREE. Yes, sir. We are called independents but actually we are dependents.

Senator DOUGLAS. I was going to ask if you were satisfied with the price which you received from these refineries owned by the larger companies?

Mr. FOREE. No, sir; we are not.

Senator DOUGLAS. You think monopolistic practices are being carried on against you?

Mr. FOREE. I don't know what you call them but we sure don't like it. [Laughter.]

Senator KERR. The fact about the business is that the domestic producers mainly have to find their market with other refiners than the ones you mentioned. That is the big companies that you referred to as the principal importers are the ones who have processed more and more of this increasing flow of imports feeding the products into this domestic market, and the domestic producers in the main are, as you say, dependent; the independent producers in the main are dependent upon domestic refiners unrelated to the large importers for a market for the production of the independent producers in the main?

Mr. FOREE. Yes, sir; and some of these companies that you speak of have publicly stated that they propose to become self-sufficient in production, which means they don't intend to buy anything from us.

Senator KERR. Some of these larger importers?

Mr. FOREE. Yes, sir; they have said that publicly.

Senator DOUGLAS. Do you have any friends among the domestic refiners that will take your oil?

Mr. FOREE. Well, I sell it in the marketplace to whomever I might get to buy it.

Senator DOUGLAS. I understand. But in competitive buyers do you have any friends who will buy from you?

Mr. FOREE. Well, we have ratable take in Texas; we have a ratable take of production in Texas and they are required to take ratably from each producer in each field.

So you don't have to have a friend, the law says they must be your friend.

Senator DOUGLAS. You mean no refinery can refuse to take a given quota of your oil?

Mr. FOREE. A purchaser of crude oil in a given field must take ratably from all of the producers in there. He cannot pick out one producer, his friends.

Senator DOUGLAS. A refinery must do that?

Mr. FOREE. We deal with the purchasers of oil. We do not deal with the refinery in itself. We deal with a pipeline company which has a purchasing company.

Senator DOUGLAS. How can the big refineries purchase only from their own fields if there is such a law? Are they trying to repeal the law?

Mr. FOREE. No; and they do not in Texas do that. But they——

Senator DOUGLAS. What do they do? Do they do this in Oklahoma?

Mr. FOREE. No; Oklahoma has its own proration.

Senator DOUGLAS. Do they do it in Kansas?

Mr. FOREE. No, sir; Kansas—there are three States that really prorate as we see it. Texas, Oklahoma, and Kansas.

Senator DOUGLAS. These are the big fields, aren't they?

Mr. FOREE. Yes, sir; Texas is 800,000 barrels a day, Kansas 300——

Senator KERR. Oklahoma is about 530,000.

Mr. FOREE. We are doing better in the Panhandle, Senator.

Senator KERR. Oklahoma is about 530,000. Lousiana is about 800, I think.

Mr. FOREE. Yes.

Senator DOUGLAS. Louisiana, can they purchase on a restricted basis?

Mr. FOREE. Well, Louisiana is more flexible than the other three States.

Senator DOUGLAS. That is a very flexible word, "flexible." What do you mean by "flexible"?

Mr. FOREE. Well, I mean this that I have seen cases where a company nominated high in Louisiana and low in Texas and they got their nomination high in Louisiana and low in Texas; that is what I mean by flexible.

Senator DOUGLAS. Do you suspect that the big companies in Louisiana discriminate in favor of their own fields as compared with the independent drillers?

Mr. FOREE. Not only in Louisiana, sir, but in other States.

Senator DOUGLAS. But do you think it exists in Louisiana?

Mr. FOREE. Certainly.

Senator DOUGLAS. In what other States does it exist.

Mr. FOREE. Well, Wyoming, Montana.

Senator KERR. All of them except the three he mentioned.

Senator DOUGLAS. That is very interesting.

Mr. FOREE. Yes; it is.

Senator DOUGLAS. I wonder if this isn't cause for action under antitrust.

Senator KERR. I don't think so. If a company owns, produces, and processes it and sells it, in the absence of a law compelling them to take——

Senator DOUGLAS. But if it refuses to take oil from independent producers.

Senator KERR. That would be just like a farmer that was both a producer of feed grain and cattle, if he produces his own feed grain to feed his own cattle, it would be a little rugged for the law to say that if some other farmer had feed grain but no cattle he would have to buy his feed grain.

Senator DOUGLAS. If you have a well, and because you lack a pipeline or refinery you can't sell your oil, it is pretty rough.

Senator KERR. I would say to the Senator in the main the oil in these fields is purchased by pipeline companies who are common carriers and who are not owned by the refiners.

Senator DOUGLAS. How can there be any discrimination if they are common carriers? A common carrier is not supposed to discriminate against any shipper who wants to present himself.

Senator KERR. Their actions are not necessarily limited to what they are supposed to do.

Senator DOUGLAS. Well, this is what I am trying to probe. The witness is very delicate in bringing up these matters, but I want to know if there is any——

Mr. FOREE. No, you are mistaken, I am not delicate about it.

Senator DOUGLAS. Good. Then take the gloves off.

Mr. FOREE. I have got them off. I am ready.

Texas production has declined 450,000 barrels in 1956. Now, total U.S. production has not declined nor has it advanced during that time. So other States have taken up the 450,000 barrels that Texas lost. Now, you can't force anybody to buy your oil. You can only force them to take it ratably, but not as much as you might want them to. You have to sell what he is willing to buy. So they come to Texas and say, "We are willing to buy x barrels." Well, you can't say to them, "You have got to buy x plus," but you can say and we do say, "You have got to buy it ratably across the State."

Senator DOUGLAS. You have been trying to get laws similar to those in Texas, Oklahoma, and Kansas adopted in other States?

Mr. FOREE. I think it would be very helpful.

Senator DOUGLAS. Would you like national action?

Mr. FOREE. No, sir; I don't believe it is required at this time.

Senator DOUGLAS. Thank you.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Foree.

Mr. FOREE. Thank you.

The CHAIRMAN. The next witness is Mr. Walter Stilley, Jr., of the Hardwood Plywood Manufacturers Committee.

Take a seat, sir, and proceed.

Senator Thurmond.

Senator THURMOND. Mr. Chairman and members of the committee, it is a great pleasure for me to appear here for the purpose of introducing the next speaker before your committee.

I have known Mr. Stilley for 25 or 30 years. He has been in the plywood business, I believe, since 1921. He is an expert on this subject. I know of no man in the United States who knows more about this subject and I feel he will present to the committee information that will be very helpful to the committee in its deliberations and decision when it comes to this facet of the trade bill.

It is a great pleasure for me to present Mr. Stilley. He is an able man. He is a man of character. He is highly respected, and I am sure that he will be very helpful to the committee.

If the chairman will excuse me now, I have a committee meeting and I will go.

The CHAIRMAN. Senator, we are very happy to have you before our committee.

Senator THURMOND. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed.

STATEMENT OF WALTER A. STILLEY, JR., PRESIDENT, STILLEY PLYWOOD CO., APPEARING ON BEHALF OF THE HARDWOOD PLYWOOD AND VENEER MANUFACTURERS

Mr. STILLEY. Mr. Chairman, members of the committee, my name is Walter A. Stilley, Jr., I am president of the Stilley Plywood Co., Conway, S.C.

I am appearing here on behalf of over 100 hardwood plywood and veneer manufacturers who have been seriously injured by hardwood plywood imports.

The hardwood plywood and veneer industry is located throughout the Southern States, New England, the Lake States, Pacific Coast States, and a number of plants in the South Central States.

The industry employs approximately 35,000 workers and has an annual payroll in excess of $125 million. In addition to our labor costs, which represent between 25 percent and 30 percent of our total costs, we purchase logs, veneer, and other materials required in the manufacture of plywood with an added value of approximately $250 million. We believe we make a sufficient contribution to our economic welfare in order to continue as an industry.

The total of our local, State, and Federal taxes are considerable. Our income taxes in the past 10 years have been minimal because of the extremely low profits of our industry caused by the unfair competition of the low-priced imported hardwood plywood.

As a word of explanation, the term "veneer" means a thin ply of wood which is used as the plies to form a plywood panel. Plywood is used in many products but primarily in paneling, doors, furniture, and kitchen cabinets.

The hardwood plywood producer and the veneer manufacturer are small business concerns, located usually in a small community where our payroll is the sustaining life of the community.

Hardwood plywood imports have exceeded over 1 billion square feet for the past 3 years. In 1960 and 1961 hardwood plywood imports took approximately 55 percent of all hardwood plywood sales in the United States. This is compared to 7 percent in 1951.

In the 5 months of 1962 hardwood plywood imports have amounted to 602 million square feet, an increase over the like 1961 period of approximately 230 million square feet, or 60 percent.

Based on past history of hardwood plywood imports, the total hardwood plywood imports for 1962 will be approximately 1.5 billion square feet and may represent 60 to 70 percent of the total sales of hardwood plywood in the year 1962.

The hardwood plywood imports come primarily from low-wage countries with Japan the leader for many years. Imports from Japan were 322 million square feet; from Taiwan, 88 million square feet; from the Philippine Islands, 80 million square feet; and from the Korean Republic, 22 million square feet for the first 5 months of 1962.

These figures show an increase over the like period of 1957 of 64 million square feet from Japan, 83 million square feet from Taiwan, 64 million square feet from the Philippine Islands, and 22 million square feet or 100 percent from Korea.

We think it should be noted that our Government put these countries into the hardwood plywood business in spite of the protests of our industry that the imports would come primarily to our country and do serious damage to the growth and financial soundness of our industry. The labor cost in these countries is a mere fraction of the wages paid in our plants.

This enables these countries to sell f.o.b. the United States, duty paid, at prices considerably under our cost of production.

Our industry has not been lax in its effort to survive the deluge of low-priced foreign-produced plywood. In 1955 we filed an application for escape clause relief with the Tariff Commission and, while the facts as reported clearly established injury, the Tariff Commission chose to find no injury on the ground that the trend of injury had not existed for a sufficient period of time.

Immediately following the decision of the Tariff Commission the imports skyrocketed. In 1958, in desperation, as our profits had vanished and our operations had been reduced to a part-time basis, we filed a second escape clause application with the Tariff Commission.

At this time over 50 percent of our markets had been taken over. Although the Commission reported that 40 percent of the firms in the industry had operated in the red in 1958, in a 4-to-2 decision found that low-priced imported Lauan plywood had established a market of its own and that domestic industry had not been injured, although it made the same product with sold for like uses.

Two of the Commissioners found injury and recommended an annual quota on Lauan plywood of 500 million square feet. In the first 5 months of 1962 the imports of Lauan plywood approximated 500 million square feet.

We think you will recognize that we do have a grave concern over the effect on our business of the Trade Expansion Act of 1962, as passed by the House.

Under this bill, as passed by the House, duties on plywood may be reduced by 50 percent. The State Department has not indicated that it will suggest a cutback of imports of plywood from the low-labor-cost countries. It may determine that we are expendable and support the position of the hardwood plywood importers and the foreign producers that a 50-percent reduction in duty should be made.

With the governments of these countries joining in the effort to secure tariff reductions allowed by this bill, our small industry, with no political influence, will have little chance to continue operations as an industry.

In reply to questions from the floor of the House, it was stated by the proponents of this bill that the hardwood plywood industry would not be injured by H.R. 11970.

Unfortunately, this is not so, as the bill permits a 50-percent reduction in duty on plywood and there is not an adequate peril point or escape clause in the bill.

We believe the congressional proponents of the bill either were so deeply prejudiced in favor of the bill or were so misled or misinformed that they, in turn, misled the inquiring Congressmen.

It is regrettable that there was not full understanding of the effects of this bill in the House.

H.R. 11970 purports to provide a peril point provision but this provision is wholly ineffective as it places no restraint whatsoever on the President making tariff concessions.

Under the bill the President supplies the Tariff Commission with a list, for advice only. He may go ahead with tariff reductions after 6 months, regardless of a finding of injury by the Tariff Commission. The Tariff Commission is charged with rendering to the President advice of the economic effect of a tariff reduction.

There is no restraint on the President's action and not even provision for publication of a Commission report.

An additional factor which cannot be ignored is that the bill proposes to authorize reductions of tariffs according to categories of commodities, not by product as provided in the present act. The determination of the categories are to be made by the President. Thus, the President has an unrestricted authority to reduce tariffs on the basis of commodity categories which are also determined by him.

This seems to us to be an absolute power over American industry and, as we will show, there is no recourse or relief from errors made in exercise of this power.

In the absence of an absolute requirement that peril point injury findings restrict the President from reduction of tariffs, there must be a prohibition against further reduction of duties on products where the imports have equaled or exceeded a fixed percentage of the domestic sales of such products or, as an alternative, a reserve list should be made a part of the bill which should include all products where imports have substantially increased their proportion of the domestic market in the past 10 years.

Hardwood plywood should be placed on a list of reserved products as the absorption of the market in 1962 will probably be as much as 65 percent. Imports represented 7 percent in 1951.

It is repeated over and over that there is adequate relief for injured American industry in the bill. The purported relief is called adjustment assistance. The term "adequate" is used in a very relative sense. The proponents of the bill have included language to justify their contention that there is relief, but they also included language which effectively forecloses proof of injury.

In order to insure against any slipup, it is provided that relief, adjustment assistance, for an American industry, a firm, or a worker, is at the pleasure of the President without recourse of any appeal.

The bill proposes four alleged avenues for adjustment assistance. We wish to emphasize that these provisions are so expertly drawn that only careful analysis will show that these provisions are a subterfuge. There is no probability of relief or any form of assistance for industry or firms. There may be a possibility for the worker whose political influence through the unions may gain him consideration.

The bill has stricken the definition of industry. The Senate, in 1955, included the definition of domestic industry.

This Senate amendment to the House bill provided that a domestic industry means—

that portion or subdivision of the producing organizations manufacturing, assembling, processing, extracting, growing or otherwise producing like or directly competitive products or articles.

In a conference between the House and the Senate the words "in commercial quantities" were added at the end of this definition. This amendment was made by the Senate in order to insure that the domestic producers directly affected by imports would have the opportunity for a factual determination of the effect of imports on the manufacture by them of a product like or directly competitive with the imported article.

The definition of industry permitted the measurement of the direct impact of imports on the producers which were directly affected by the imports. It prevented the inclusion under a general industry categorization of products not like or directly competitive with the imports.

The elimination of this definition will permit the President or the Tariff Commission to make their own rules of what constitutes the domestic industry. No longer will the direct product impact be the consideration. A product may be made of steel or of wood, the industry may be ruled to be the steel or wood industry which includes thousands of products which may not be directly competitive with the imported product or the domestic product which is under an assault from imports.

How will small producers such as us prove injury if we can no longer qualify as an industry?

To be specific, the hardwood plywood industry, under a Tariff Commission ruling, is defined as the producers of hardwood plywood, excluding what is known as container plywood.

The container plywood industry is considered a separate industry and so is the softwood plywood industry. This finding was made by the Tariff Commission under the definition now in the act as a result of the Senate amendment in 1955.

If this definition is eliminated the President, in his sole determination, may decide that the entire plywood industry or the entire wood products industry or the entire forest products industry, is the domestic industry.

We would automatically be foreclosed from any consideration of the injury resulting to us from the imports of hardwood plywood but would have to establish that all segments of the forest products industry were being injured as the direct result of imports.

An impossible task.

We urge that the Senate restore to H.R. 11970 the definition of industry as contained in the present act.

A key hurdle to overcome in order to qualify for what is said to be adequate relief is the requirement that injury is due directly to imports. The present act requires only that the imports shall have contributed substantially to the injury or threat of injury.

Other economic factors should not be wholly excluded, where imports contribute substantially should be a fair criteria.

The criteria for finding of injury by the Tariff Commission are the economic factors which it considers relevant, including unemployment, underemployment, closed plants, and inability to make a profit. If an industry is fortunate enough to establish injury under this criteria, which permits any economic factors to be used regardless of whether they relate to the industry or trade, a second hurdle must be taken in order to reach the adjustment assistance.

The President, having before him the Tariff Commission's finding of injury, in his pleasure determines whether the industry is injured. If he finds injury then he may make a choice of three remedies, or a combination of the three: the first, to an industry an increase in tariffs or a quota; second, to firms, loans, technical advice, or tax carrybacks; third, an unemployment payment to the workers.

We must forget the tariff increases as the State Department's Mr. Ball testified in the hearings in the House that the administration does not intend to grant tariff relief as this will not assist foreign countries.

It is believed the adjustment assistance for firms and workers is adequate for injury resulting from increased imports.

Therefore, an industry, firm, or worker will be limited in the relief he can secure by way of the other adjustment assistance. If there is no intent to grant this type of relief, then the tariff relief provision is a subterfuge.

The bill proposes an increase in unemployment and the destruction of an unknown number of industries. There is no effort to deny this but it is misleading to contend that the adjustment assistance is an honest relief proposal. Let us look first at the adjustment assistance for firms.

Relief for the worker is tied into injury to his firm, so a firm's injury is a necessary requisite to worker aid. We would like to have an explanation of how a firm can prove a case for adjustment assistance.

There is no possibility for a firm to obtain relief as this provision is presently written.

No. 1, the firm must establish industry injury as a prerequisite to the establishment of a firm's direct injury from imports. If the firm establishes industry injury and firm injury, then at the pleasure of the President a certificate may be issued. The certificate will entitle the firm to go to the Secretary of Commerce to apply for adjustment assistance.

If the firm again proves the direct injury to itself, it must qualify for a loan, which must be secured, and it must prove that it can, in a new venture, become a sound and economic factor in our economy. The firm submits to bureaucratic domination and control of its policy and management as a condition of the loan or technical assistance.

The conditions of obtaining the adjustment assistance are such as to almost constitute nationalization of the injured firm. How would this provision affect our industry?

Unfortunately, our industry cannot convert to the manufacture of any other products. We would have to dispose of all of our one-purpose machinery and our plants. This would mean liquidating our business as hardwood plywood and veneer producers and the entering into production of a wholly new product in which we must guarantee that we will be successful.

The proponents of the bill do not tell what new fields we can enter or how long we can stay before imports will drive us out. We are afraid that few, if any, of the firms in our domestic industry will qualify for these generous loans.

As independent Americans we would not want to qualify for Government management and domination of our business. This is a proposal to destroy or nationalize small business or possibly the elimination of small business to insure nationalization of big business.

Let us take a look at the adjustment assistance for the workers unemployed as the result of imports. They should have a better chance for the dole as a worker and family represents voting power and their unions wield great political power. A worker petitioning for adjustment assistance is required to show industry injury as a prerequisite, then that his unemployment is the result of injury to his firm from imports.

Again, after a Tariff Commission report, the President, at his pleasure, may certify the worker to the Secretary of Labor. Where certification is granted by the President, the worker must establish the injury to his firm by imports and the consequent unemployment to the satisfaction of the Secretary of Labor. When he has established his right, he will be entitled to 65 percent of his average weekly wage for a minimum of 52 weeks or for a maximum of 65 weeks if he has not completed his retraining program.

We do not know exactly the number of employees who will qualify for this relief but we do know that there are thousands of employees in our industry who will be entitled to this relief if this bill becomes a law. They will make every effort to obtain these payments. The Iron & Steel Institute reported that imports have resulted in the loss of 40,000 jobs in the steel industry. Steelworkers average approximately $120 a week; 65 percent of $120 is $78 for 52 weeks or $3,380 annually, the minimum for each steelworker unemployed as the result of imports; 40,000 workers will qualify for $133,200,000 of adjustment assistance for 1 year.

For 65 weeks, the total for the steelworkers above will be $202,-800,000. Add this to thousands of our workers and thousands of pottery workers, chemical workers, show workers and others, and the thousands in the years to come, and the cost of this adjustment assistance program can be in the billions within a very short time.

Although the bill provides that State unemployment compensation shall be deducted when payable, 44 States prohibit payments where Federal payments are made. Therefore, in those States, full adjustment assistance would be paid.

Another and more serious objection to the employment adjustment assistance is that it will create a base and a period for all unemployment compensation. Once it is established what an unemployed person is entitled to, a higher percentage of his wages for a longer period of time than is now provided in the unemployment compensation laws, the workers and the unions can with absolute justification demand similar unemployment compensation for everyone who becomes unemployed.

How can you discriminate? A worker who loses his employment due to imports should have no greater standing in the eyes of our Government than a worker who has lost his position due to automation. Both were employed and both should be entitled to equal consideration under the law.

We would like to suggest that the committee ask the Department of Labor to determine what would be the increased cost of all unemployment compensation if the present basis was increased to 65 percent of the average weekly wage and a period of payment a minimum of 52 weeks. We believe the answer wounld be staggering and will demonstrate the danger of such a provision.

We think that this bill makes unemployment too attractive for any workingman. The many workers would relish being unemployed with 65 percent of their weekly pay coming in for a year without their lifting a hand.

Many who have been forced to shorter weeks would fare much better by the deal and the employer will discontinue spreading the work. We would venture to say that a good number of the 5 million unemployed today can trace their job loss to imports. In any event, they will try to.

The payments required under this bill will increase our tax burden and create a larger deficit in our budget. Just how this will help our dollar value and balance of payment and gold problem, we cannot begin to guess.

The firms in my industry cannot convert to the manufacture of new products without an entirely new machinery setup. Nevertheless, we do not want loans under adjustment assistance. If Congress determines that the interest of foreign producers supersedes the interests of our industry and we are expendable, then we would prefer to liquidate promptly and salvage as much as possible from our assets.

What happens to our workers must be the Government's concern and not ours as the Government has taken away from us the right to compete, to provide jobs, and to make our own economic determinations.

We have talked with our employees. We have told them of the threat to our industry and our effort to combat it. We have explained to them the meaning of adjustment assistance and the method of obtaining it. They prefer to have a job in our plants, but if they are to be unemployed then they expect the Government to pay them for their sacrifice.

We would like to have your committee appoint a staff to inquire of the Department of Commerce for the assembly of a list of products where the imports exceed 10 percent of the domestic market sales. From this list your committee can determine the products of industries which should not be subject to additional duty concessions. From these figures a base quota can be created for such products or a reserve list can be compiled which would prohibit further concessions.

Second, Congress should eliminate from the bill all the adjustment assistance proposals. These provisions will create greater problems for the workers, industry, and the taxpayer. Adjustment assistance could well lead to socialization of all our small industries. The expense of unemployment compensation, the loans, and so forth, will create a larger deficit in our budget, require increase in taxes and further imperil the value of our dollar.

Third, we ask that your committee consider writing an adequate peril point provision and an adequate escape clause provision to give these provisions a genuine meaning. A criteria for injury under both should be realistic and forthright without loopholes such as exist in this bill which will permit the avoidance of a factual finding. The President's authority to reject factual findings should have the approval of Congress.

On behalf of the hardwood plywood and veneer manufacturers I thank you for hearing our plea. We would appreciate any suggestion you may wish to offer to me and if we can provide you with a draft of amendments which will embody our suggestions we will be delighted to do so.

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

Mr. STILLEY. Thank you.

The CHAIRMAN. Our next witness is Mr. Charles K. Lovejoy, chairman of the Government Relations Committee of the Fountain Pen & Mechanical Pencil Manufacturers Association, Inc. Please proceed, Mr. Lovejoy.

STATEMENT BY CHARLES K. LOVEJOY, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, FOUNTAIN PEN & MECHANICAL PENCIL MANUFACTURERS' ASSOCIATION, INC.

Mr. LOVEJOY. Mr. Chairman and gentlemen of the committee, my name is Charles K. Lovejoy, vice president of Scripto, Inc., Atlanta, Ga. I am also chairman of the Government Relations Committee of the Fountain Pen & Mechanical Pencil Manufacturers' Association, Inc., of Washington, D.C. This assocation is composed of 65 member companies which produce approximately 75 percent of the total dollar value of all mechanical writing instruments in the United States. We would like to submit the following statement for your consideration in regard to H.R. 11970, the Trade Expansion Act of 1962. A similar statement was presented in March 1962 before the House Ways and Means Committee in regard to H.R. 9900.

Our committee has made an effort to remain current on developments and the progress made by this proposed legislation in the House of Representatives, and we are pleased to note that we were not alone in general support of the Trade Expansion Act; nor were we alone in our criticism of certain provisions of the original bill in regard to its failure to: (1) Provide specific reciprocity (2) recognize other trade barriers, and (3) provide "adjustment" assistance before rather than after the fact.

We feel that the new bill, H.R. 11970, is a more adequate instrument than H.R. 9900 since it has reinstituted certain powers of the Tariff Commission and a degree of the traditional checks and balances between the executives and legislative branches. Legal recourse, an important element in our free society, has been returned to the document. The President has also been directed to recognize other trade barriers, and to limit application of the most-favored-nation clause if adequate concessions are not granted by the countries in question; that is, if restrictions are unjustifiable. Although some of the recommendations of industry have been taken into account, we do not feel that the document, H.R. 11970, fully responds to the needs of industry in general and the pen and pencil manufacturing industry in particular. For example, the original bill, H.R. 9900, as well as the new bill, H.R. 11970, fails to recognize the desirability of specific reciprocity on like goods. We recognize that there might be negotiating limitations in certain areas, but feel this is a necessary and realistic consideration in the categories composed of manufacturer goods where competition is most keen. As foreign facilities, designs, and procedures improve, as there is ample reason to believe they will, we can only compete effectively at home and abroad if all producers, foreign and domestic, are subject to similar competitive conditions.

In addition we would like to point out that the Trade Expansion Act should not be considered a panacea to current domestic and international economic problems. Application of various provisions of the bill, without other legislative measures to improve the domestic economic climate, could put U.S. industry at a serious competitive disadvantage. Whereas we support the principles of free trade, we support first and foremost the principles of free enterprise. No one questions the need for the United States to maintain its leadership position in the world, politically as well as economically. We do feel, however, that the strength of the United States lies in the cumulative strength of its parts, private and public. To transfer strength from any one facet to another would destroy the balance which has made our high standard of living possible.

In trade debates, the efficiency of various segments of U.S. industry has been challenged. Shouldn't the efficiency of Government in relation to control or subsidy of business be challenged as well? Business incentives nurturing economic growth, followed by international policies applied by a mindful Government responding to the needs of its constituents would lead us toward a comparable competitive position that we have enjoyed in our own unparalleled common market. This approach, it seems to us, is more logical and practical than to force us to attach our business sights to an unknown with the assurance that there will be a Government-designed cushion to catch us if we fall. Provided with the means to refuel, given reasonable time to accomplish this end, and given equal access to all markets, domestically and internationally, we could maintain and improve our present position and hopefully capture a considerable portion of new markets. This accomplished, we would provide more jobs, fulfill our productive capacity, and contribute to the economic wealth and strength of our country to a greater degree than can be assured by any other means.

It is on this basis that we have modified our original testimony before the Ways and Means Committee to respond to certain provisions of the new bill, H.R. 11970.

The companies represented in our industry cover the gamut of business objectives—from those devoted to domestic sales to those of diversified production for both the domestic and foreign markets. We have an excellent record with respect to our own industry's progressive export policy. Last year we exported approximately $26 million worth of our products, or better than 17 percent of this industry's annual production of mechanical writing instruments and parts.

Imports of mechanical writing instruments and parts into this country have been relatively low, totaling $500,000 in 1961. However, the trend of further tariff reductions with the recent GATT negotiations, plus the proposed tariff cuts in the Trade Expansion Act would effect new competitive pressures from abroad and necessitate our investing still more money in plant modernization, research, improved designing, and more efficient marketing methods to enable us not only to hold our own but also to grow in the competitive world markets. This could be extremely hard on small business unless new incentives are provided or present financial burdens are alleviated. For this reason, we are asking the Congress and the administration to proceed cautiously in authorizing further tariff reductions for our industry. A reasonable, cautious policy, complemented by other necessary legislative measures to alleviate domestic pressures, would provide us with the time necessary to make the adjustments and effect the efficiencies required to compete more effectively in domestic and world markets.

In relation to reciprocity, we ask for quid pro quo. In other words, we ask that our foreign trade negotiators negotiate concessions for the writing instrument exports from the United States directly in return for concessions granted on imports of writing instruments into the United States. Historically, concessions have been granted on the import of writing instruments into the United States in return for import concessions on other products exported from the United States. As we expressed earlier, we feel it is not only desirable but necessary to obtain specific reciprocity in the increasingly competitive manufactured goods area. There is no indication in the revised bill, H.R. 11970, that this will be attained. It should be demanded in all instances possible.

In the new bill, other trade barriers are at least recognized. Originally in H.R. 9900 tariffs were overemphasized to the exclusion of other trade barriers which frequently negate any tariff concessions. The final negotiating document should demand that other trade restrictions such as quotas, taxes, surtaxes, licenses, and prior deposits, to name a few, should be taken into full consideration in determining concessions. These nontariff barriers must be eliminated or reduced along with tariff barriers if tariff concessions are to be meaningful. As an example: The GATT negotiations, recently concluded, resulted in a further 20 percent cut in the duty on fountain pens and mechanical pencils and parts imported into the United States. The only concessions of which we are aware that our industry received in return were reductions in the Japanese import duty from 25 to 20 percent on ordinary pens; and 40 to 30 percent on pens with precious metal parts; plus a reduction in the United Kingdom import duty from 30 to 24 percent on writing instruments and parts wholly or partially of precious metals. This is a purely academic concession as far as Japan is concerned because Japan has established a worldwide import quota equivalent to United States $196,000 for 1962. Where does this leave us when we give a 20-percent reduction in duties to all of the members of GATT and the free world exporting writing instruments to the United States and, in return, we receive practically no concessions on writing instruments from GATT nations and only meaningless concessions from a country which severely limits our products with nontariff devices? We recognize chapter 6, section 252 attempts to deal with this problem; however, we wish to point out a problem of semantics that might occur with the term "unjustifiable." An "unjustifiable" restriction to us might reasonably be considered justifiable to the country in question. When the point of reference differs, whose judgment shall prevail? Weak application of this new policy on our part could easily let the judgment of others prevail.

We would like to pose a question: How can our industry continue to thrive the way our Government says it wants us to do if we have to compete on a minimal or no-U.S. duty basis on the domestic market with producers in Europe and, even worse, Japan, where labor rates are one-sixth of ours, unless we are granted access to their markets on an equivalent basis?

One of the members of our committee recently completed a trip around the world. He visited representative plants in many manufacturing countries. He found that these plants have the same efficient equipment as those in this country, and, in many instances, the equipment is much newer. Product design and quality have been improved and, in some cases, are equal to those of American producers. If we are to successfully compete under these circumstances, we must not be burdened with negotiated disadvantages applicable to either our domestic or export markets.

We recommend that serious consideration be given to the implications of the authority which section 211 of chapter 2 grants to the President to eliminate entirely duties on those categories of articles where the European Economic Community and the United States combined account for 80 percent or more of their world export value. This authority to eliminate tariffs embraces the potential power to destroy industry. We believe that if cuts are permitted, these should be made in the five equal annual installment method outlined in section 253(a) of the bill and that these equal installments should not exceed 25 percent at any one time.

The question of adjustment assistance, as provided under title III, is also of grave concern to us. This portion of the bill sounds as though we are going to be revived after burial, a hard-to-believe feat for any administration to accomplish. As we mentioned earlier, provisions in this bill or other legislative measures to provide incentives and assistance before the removal of tariff barriers would be far more beneficial to business and to our national economy.

In the interest of fairness and equity to all workers, we urge the elimination of special assistance to workers because your committee's favorable action, Mr. Chairman, would in no way affect the protection they would otherwise have under State unemployment compensation laws. The Departments of Labor and Commerce estimate that some 90,000 would become eligible for out-of-work and training benefits provided in H.R. 11970 within the 5-year span of the measure. Within the same 5-year period, it is estimated that over 30 million workers will receive State unemployment compensation benefits and these workers will also be possible recipients of the training advantages provided in the recently enacted Manpower Development and Training Act. Why should special provision in the way of bigger benefits and longer training periods be made available for 90,000 workers, thus placing them in a favored position over 30 million workers who will be recipients of the usual State benefit amounts and the training allotments provided in the Manpower Development and Training Act?

You cannot talk about expanding foreign trade without talking about certain tax measures confronting us. Some years ago, our Government suggested and encouraged the establishment of subsidiaries in foreign countries in order to maintain our position in these markets and to help develop foreign economies. Many of us did this. You are presently considering a bill which would make U.S. taxes applicable to the income of legitimate foreign operations even though this income were not repatriated to the United States. This would increase the cost of manufacture in foreign subsidiaries, a cost that our foreign competitors would not have to bear. In effect, this would be like tying one of a fighter's hands behind his back before he enters the ring. Certain provisions of the Trade Expansion Act combined with the proposed tax bill could well prove to be too great a burden for our industry to bear.

Another tax matter which bothers us greatly is the 10-percent manufacturers excise tax. Congress placed this tax on pens and mechanical pencils back during the Korean emergency in 1951. We have repeatedly asked for its repeal and have been consistently ignored. Times have changed. Last year, the industry turned out almost a billion ballpoint pens and sold them for an average of about 10 cents apiece. Originally, this tax was levied as a temporary extension of the jewelry tax. Yet, over the years, we have witnessed an almost catastrophic decline in ballpoint pen prices to the point where you can buy them at the corner store for a nickel and still we struggle along with this ridiculous luxury tax burden. Writing instruments are not luxuries; rather, they are utility tools required by schoolchildren, workers, teachers, and many other people in their daily activities.

The point we wish to make is that we need the $7 million that this excise tax syphons and drains out of our industry each year so that we can, indeed, dedicate ourselves to essential research and development, as the Department of Commerce and the administration tell us we must do if we are to successfully compete in the world market.

In summary, we would like to emphasize that the Fountain Pen & Mechanical Pencil Manufacturers' Association, Inc., favors the principle of freer trade and that we are in sympathy with the administration's aims in that respect.

We wish to emphasize that any tariff reductions should be implemented in equal installments over a period of years on a reciprocal basis. The elimination of quotas, taxes, surtaxes, licenses, prior deposits, and other trade barriers should receive equal consideration. Business incentives such as realistic depreciation schedules, repeal of the manufacturers excise tax and other inducements to help industry grow in a competitive market should be pursued by the Government with equal vigor. We also oppose the Treasury Department's proposed taxes on subsidiaries abroad. Further, the peril point and escape-clause portions of the bill should be carefully drafted to insure they will alleviate, in a fair and equitable manner, any possible injury to segments of our industry.

We ask that you proceed carefully in the study of the various issues that we have identified as of concern to the industry to insure that we may continue to compete, to grow, and to be a contributing force within the American economy.

Thank you, gentlemen.

The CHAIRMAN. Thank you, Mr. Lovejoy.

The next witness is Mr. Tyre Taylor of the Southern States Industrial Council.

Mr. Taylor is an old friend of mine and I certainly welcome him to the committee.

STATEMENT OF TYRE TAYLOR, GENERAL COUNSEL, SOUTHERN STATES INDUSTRIAL COUNCIL

Mr. TAYLOR. Thank you, sir.

My name is Tyre Taylor and my address is 1511 K Street, NW., here in Washington.

The headquarters of the council are in the Stahlman Building in Nashville, Tenn. The council's membership is comprised of some 2,000 industrial and business concerns representing all lines of manufacturing and processing in the 16 Southern States from Maryland to Texas, inclusive.

Mr. Chairman, we are deeply grateful for this opportunity to be here and I shall be brief.

At a meeting of the council's board of directors at Ponte Vedra, Fla., last May, the following recommendations pertaining to foreign trade were unanimously adopted:

In the opinion of the council, the President's revolutionary proposal that he be given virtually unlimited authority to raise and lower tariffs is clearly unconstitutional and should be rejected. Instead, the council recommends:

1. Elimination of the balance-of-payments deficits and the drain upon our gold reserves through reduction in foreign economic aid.

2. The restoration of Congress' authority over tariffmaking.

3. An immediate review of the entire trade agreements program with a view to such rate adjustment and/or the imposition of such quotas as are necessary to protect American producers and workers from unreasonable and unfair competition based upon cheap foreign labor.

4. Inclusion in whatever legislation is adopted of adequate provisions for the protection of individual American industries from injury due to indiscriminate imports.

These relief provisions should be precise, self-enforcing and should not be left to the discretion of the President or anyone except Congress.

5. Elimination of the General Agreements on Tariffs and Trade (GATT) from tariffmaking.

6. Rejection of the idea of Government subsidies for domestic industries injured by the trade-agreements program.

7. The establishment of a joint watchdog committee comprised of members of the Ways and Means and Senate Finance Committees to keep constant watch over the effects of imports upon U.S industries, including employment, profits, and prices.

The first of these recommendations we should like to stress is No. 2—the restoration of Congress' authority over tariffmaking. The power to regulate foreign commerce is expressly and exclusively vested in Congress by paragraph (3), section 8, article I of the Constitution which says:

> The Congress shall have the power * * * to regulate commerce with foreign nations, and among the several States, and with the Indian tribes.

In the entire 146 years between the time the Constitution was ratified in 1788 until 1934, when the Reciprocal Trade Agreements Act became law, there was never any question but that tariffmaking was exclusively a prerogative of Congress.

The enactment of this law whereby Congress delegated its tariffmaking power to the executive branch of the Government marked the beginning of an historic change in the relationship between the Congress and the Executive, a glacier-like change which has seen the powers of the former steadily and progressively eroded and those of the latter increase until the present Chief Executive has been emboldened to seek for himself the most important congressional power of all—the power of taxation.

Aside from the broad principle of separation of powers which the framers of the Constitution sought to establish, there is a very real, down-to-earth reason why full tariffmaking power should be restored to Congress.

This is the fact that the impact of changes in our tariff structure are first felt locally—the tariff has been called a local issue—and consequently our Representatives and Senators have a far more intimate knowledge of this impact than does the State Department, to which responsibility for lowering tariffs has been delegated.

This is so of any appointed official no matter how conscientious and dedicated he or she may be.

It has been said that the restoration of the tariffmaking powers to Congress would result in a return to the old discredited system of logrolling and the principle of "you scratch my back and I'll scratch yours" would again prevail.

This, we suggest, need not necessarily be so. The Tariff Commission could be made an independent agency whose decisions would be final, subject only to review by Congress. In order that its decision should reflect—or at least take fully into account—the needs and exigencies of our foreign policy, the State Department might be given representation on the Commission.

Most of the statement from the council's declaration of policy which I read to you was written, adopted, and reaffirmed with the present Trade Agreements Act in mind.

However, this hearing involves a proposal which is, in many of its aspects, new and revolutionary. As President Kennedy said in his January 25 message to Congress:

"It"—meaning the present Trade Agreements Act—"must be replaced by a wholly new instrument." He proposes:

1. A general authority to reduce existing tariffs by 50 percent in reciprocal negotiations. To do this, he would employ a variety of techniques, including negotiations on broad categories or subcategories of products.

2. A special authority to be used in negotiating with EEC to reduce or eliminate all tariffs on those groups of products where the United States and the EEC together account for 80 percent or more of free world trade in a representative period.

Obviously, if these authorities are granted, American producers and their employees will be placed at the mercy of our rabidly internationalist, one-world State Department and would exist and operate only by bureaucratic sufferance.

To the council, this is an intolerable prospect. If our southern industry is to exist at the sufferance of anyone, we would much prefer that such life-and-death powers be vested in Congress.

As matters now stand—and this would be greatly aggravated should this proposal become law—the executive branch has effectively interposed itself between Congress and the electorate.

Also implicit in the President's proposal is the idea advanced in the Herter-Clayton report of "rationalizing" production. The report says:

> Without restrictive tariffs or other impediments to the movement of goods across national frontiers, production would be rationalized on the basis of comparative advantage * * *.

Mr. Kennedy expresses it this way:

> Indeed freer movement of trade between America and the Common Market would bolster the economy of the entire free world, stimulating each nation to do most what it does best * * *.

I suppose if the cotton textile industry were "rationalized" there would be no cotton textile industry in the United States and we should have to rely—in times of both war and peace—upon foreign, lower cost suppliers of this second of three requisites to survival: food, clothing, and shelter.

I need only to mention the disastrous impact this would have upon our defense.

To remedy—or at least ameliorate—the condition of industries and workers who were idled as a result of low-cost foreign competition, the President proposes a number of palliatives, including what he calls trade adjustment assistance, readjustment allowances, vocational education, and so on.

To be meaningful, these proposed relief measures would have to cost far more than this debt-ridden, deficit-plagued Government would be able to pay.

Moreover, as Representative John Dent, of Pennsylvania, observed in the course of an address to the House on February 5:

> What good is the kind of "freedom" we are moving toward today when a great percentage of our people would not be allowed to work at the trade of their fathers, would not be allowed to live in the communities where their roots are deep, will be put into some position where the Government says they must work?

What good, indeed?

In conclusion, may I say that the council is not opposed to free trade under any and all conditions. It might work—we think it probably would—in an economic environment where Government guards economic freedom in all phases of our economy; protects the property and other constitutional rights of the individual citizen; and where the profit motive is permitted to force and inspire the individual to serve a free market in his efforts to serve his own interests.

By this, I mean we should stop or drastically reduce foreign aid and put an end to monopoly unionism and industrywide bargaining.

But in our present largely collectivized and Government-dominated economic environment, under the measure proposed free trade could only nurture further expropriation, more featherbedding, more unemployment, and more confiscatory taxation, a greater budget, a larger national debt, more rotting dollars—all leading sooner or later and probably sooner rather than later—to a lower standard of living in this country.

Thank you, Mr. Chairman and gentlemen of the committee.

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

The next witness is Mr. Robert L. L. McCormick, of the McCormick Associates.

Senator KERR (presiding). All right, Mr. McCormick.

STATEMENT OF ROBERT L. L. McCORMICK, PRESIDENT, McCORMICK ASSOCIATES, INC.

Mr. McCORMICK. My name is Robert McCormick, president, McCormick Associates, Washington, D. C. I reside on Old Georgetown Pike, McLean, Va.

Presently, and in the past, I have had numerous clients on foreign trade matters. But, today I speak as a private citizen, not representing any client specifically.

My statement is divided into three parts:

First, "No case has been established for the urgency of this measure."

Second, "The so-called adjustment assistance in title III contains a most dangerous precedent."

Third, "The detrimental effects of H.R. 11970 on the public revenue."

In view of the committee's time limitations, several appendixes are listed at the end of the oral statement and attached.

I. NO CASE HAS BEEN ESTABLISHED FOR THE URGENCY OF THIS MEASURE

Federal officials have stressed the urgency for the passage of H.R. 11970, the administration's tariff reduction bill.

This stress on urgency is not new.

Congressional history shows urgent executive demands for the trade agreements law of 1934, and for 11 requested extensions.

The 1934 law was urgently demanded to increase our exports and help end the depression. The depression remained.

Later Congress was asked to pass urgent extensions to assist our allies, help win the war, reconvert our economy from the war, and help our allies do the same.

More recently, we heard the urgent cry, "Trade, not aid," and Congress was thus asked to remedy the world dollar shortage.

Now we hear the 12th such request for a tariff cut—with a new name, and said to be urgent because of our dwindling dollar supplies. This is the exact opposite of the last previous official crisis—and with a new one added to meet the threat of the Common Market.

On the latest urgency, Acting Secretary Ball testified to the House:

> But if American producers are to have a fair chance * * * *we cannot afford to delay.* We must be able to assure them of access to that market as soon as possible.
>
> * * * *prompt action is imperative.*
>
> First, the enactment of the Trade Expansion Act at this session can have a major effect on developments within the Common Market itself.
>
> By enacting the Trade Expansion Act we will make a strong declaration not only of our intention but our ability to work toward a world of expanding trade. [Emphasis added.]

Must Congress immediately grant the President sweeping authority in order to permit him to deal with the EEC?

Before we accept this argument, let us look at the facts:

First, are the European Economic Community internal arrangements finalized? Arguments over federalism versus union still split EEC members. Are we dealing with a Zollverein, a new state, or something in between; or are the Europeans? On this, the French Foreign Minister stated:

> *If the Common Market had a function and objectives that were purely economic, then we would be guided solely by a preoccupation with efficiency and any larger (free trade) system would be desirable, if it were better than a purely European system.*
>
> *However, that is not the case, for our objective is first and essentially political. We are trying to build a political union.*
>
> The customs union and the economic union are means to obtain this end, and that is what has become clear the moment when both movements began to enter into reality. [Emphasis added.]

As of July 30, the EEC had reached a partial, complicated internal agricultural trade agreement phased over 7½ years to free agricultural shipments among the six members. Admittedly, no one knows if it will work at all. Many details such as pricing policy are still not even agreed. (See Wall Street Journal, Aug. 1, 1962, p. 10.) And remember self-sufficiency by 1964 in nontropical agricultural products is a key policy of the present EEC.

Second, we do not know what nations will be in the EEC. The accession of the United Kingdom and other members in the European free trade area (EFTA) to the EEC is definitely in doubt.

The United Kingdom has announced that in no event will it accede prior to 1964. The current Brussels Conference appears deadlocked. Under bitter parliamentary attack from all sides, the matter is to be debated in London this week, sponsored by a conservative government which has slipped in 12 consecutive by-elections by an average of 20 percent electoral loss. Unless this morning's newspapers come up with something sensational, no one knows if the United Kingdom will ever enter the EEC.

The meeting with the Commonwealth nations on this in September may well have fallen through—according to Lord Home and Mr. Heath. Even the first timid step taken at Brussels this spring, providing for a 1970 deadline for the end of Empire preference on manufactures from Commonwealth nations, met violent Commonwealth attack. So far, the Commonwealth nations also object violently and with demonstrable strength on agricultural exports. And we must not forget that the Commonwealth nations hold strong cards as the principal purchasers of Britain's manufactures. If their agriculture is out, what happens to the United Kingdom's customers? If their agriculture is in, what happens to ours?

Third, why legislate into an hypothetical vacuum? A much-touted key, if most hypothetical, provision of H.R. 11970 would permit free trade where 80 percent of world trade originates in the United States and the EEC. But no one knows who will compose the EEC.

Would not legislating into such a vacuum be irresponsible? Yet, the President's foreign trade message of January 25, 1962, states as his second key point or priority the need for the 80-percent authority (his first priority item is the overall 50-percent tariff reduction authority.)

Here the Executive is asking for authority to bargain into a complete vacuum. If Britain joins the Common Market, a very large number of products would come under the 80-percent authority. If Britain does not do so, virtually nothing would come in under the 80-percent authority; the New York Journal of Commerce recently listed oleomargarine and a few other products as being the only ones.

The Washington Post of June 10 also points this out as follows:

> *What will happen to the President's trade program if the United Kingdom does not join the Common Market?* That question has gained in relevance during recent weeks, as the odds on Britain's entry have fluctuated. Two principal consequences are discernible. *First, the power to bargain to zero tariffs on products in which the United States and the Common Market account for 80 percent of world trade would mean very little.* Without the United Kingdom in the Common Market, there are not many such trade categories. *This provision clearly is based on the assumption that the British will join.* [Emphasis added.]

If Britain, Sweden, and Switzerland join the Common Market, the 80 percent would apply to practically all forms of manufactured goods. With them out, it would apply to practically no manufactured goods. Will they all enter? We don't know.

Again, one might reasonably ask, What are we talking about? 80 percent of what? This key 80 percent cannot be computed.

Yet the Congress is being asked to delegate away its constitutional authority to a formula upon which the basic computation is 80 percent of X.

Is not such a provision unconstitutional, irresponsible, or absurd?

Where do Japan, Canada, and other industrialized nations fit into the 80-percent formula—again conjecture?

Nor does the 80-percent formula under H.R. 11970 permit change. For example, if Japan's trade soars on optics or textiles, and thus destroys the European Economic Community/United States 80 percent of world trade formula, would the original tariff reduction hold or not? The bill contains no flexibility provision; yet world markets are flexible, often volatile.

As of this writing, the 80-percent provision makes no sense at all.

(Appendix A, "More on the lack of urgency in meeting the Common Market problem," contains further details on this.)

II. THE SO-CALLED ADJUSTMENT ASSISTANCE IN TITLE III CONTAINS A MOST DANGEROUS PRECEDENT

The mere existence of title III, as well as statements by official proponents of H.R. 11970, indicate clearly that the tariff reductions it contemplates will cause injury to businesses and to workers. Recently Mr. Ball stated abroad that the title III, so-called adjustment assistance, would be used as a preferred method to the escape clause. Is this not unwise and dangerous?

A. Subsidies for businesses—a dangerous precedent—another RFC: H.R. 11970 provides that, when a firm has been grievously injured by imports, the Federal Government may subsidize its conversion to another business through loans, technical advice, and tax advantages; and presumably decide into which business it wishes the injured industry to convert. This is both unsound in principle, proved faulty in many RFC cases, and is highly arbitrary in nature.

When a producer's sales have been destroyed by imports, the Government may decide that he should convert into the electronics or motel business. He may decide he doesn't want to. Who makes the decision? Obviously, the hand which dispenses the money.

And, further, such subsidy is discriminatory against the taxpaying businesses which the Federal Government wants the import-injured businessman to enter. Why should an electronics manufacturer's or a motel owner's taxes be used to finance someone else to come into his own business and thus give him new competition—buttressed by special Federal aids and tax advantages?

And, besides, if the other business is worth converting into, presumably people are already operating reasonably successfully in it.

Is the Federal Government going to invent new businesses for the import-injured firms? Are we to return to the RFC days—loans for snake and alligator farms?

To underscore the absurdities of this RFC-type proposal in H.R. 11970, let us cite a few examples of businesses where RFC——

Senator McCarthy. The RFC wasn't a bad operation, was it? It paid out pretty well. It took up slack where the financial institutions of this country lost confidence and I don't think it adds much to the testimony to go on about the RFC and perhaps these offbeat, few very strange loans they made.

We are holding hearings for about 18 days on a trade bill and I don't particularly want to sit here and listen to a review of the RFC.

If you want to testify on the trade bill, and the weaknesses of this proposition, fine. But this has been a long session of Congress and if you are skipping, I would suggest that you skip this.

Mr. McCormick. Well, first, I accept the rebuke, sir, but I would refer you to the first Hoover Commission report and the Fulbright hearings on the RFC and I would refer you to the——

Senator McCarthy. I know about the Fulbright hearings and the first Hoover Commission. This is the same principle.

All right, go ahead.

Mr. McCormick. Let us cite a few examples of businesses where RFC-type convertibility will not prove easy:

(1) Cherry and other fruit orchards.

(2) Plate glass factories, with their massive special machines—as well as steel mills or blast furnaces.

(3) Heavy steel or aluminum forges.

(4) String clothespin works, or, for that matter, straightpin factories.

(5) Lead, zinc, or coal mines; or oil wells.

(6) Cattle or sheep ranches.

(7) Vineyards. Are champagne bottling equipment, wine vats and wine tuns suitable for beer—an already overcrowded industry?

(8) Pecan, olive, and almond trees.

(9) Hardwood plywood mills.

(10) Fishing industries: their only past conversions into other forms of endeavor were successfully accomplished in war—in 1776, 1812, and 1861.

Of course, Government defense or stockpiling contracts can help sometimes. It will, however, take a rather skilled bureaucrat to apply these remedies to glass, tuna, shrimp, cherries, apples, wine, or nuts.

The 4,233 pages of hearings on H.R. 9900 (over 2 million words) contain not a single example of where or how an import-injured industry can be converted into some other line of business.

The theory of Federal officials does not necessarily create facts.

Are we setting here an RFC precedent which will proliferate every time our economy gyrates, subsidies when a plant loses a defense contract, moneys to combat new technologies, subsidies when a form of transportation is bested by another form of transportation?

Are we to have such subsidies when public taste changes: when marble soda fountains or trolley cars disappear?

B. Subsidies for workers—another questionable precedent—another WPA: In this bill is another fact crucial to the well-being of our citizens: workers will lose their jobs.

Do we want another WPA, again probably to proliferate?

On this, Mr. Wilbur Mills, as quoted in the New Republic said:

On the issue of "adjustment assistance" to labor, wise words were spoken, 2 days before the President's message, by Representative Wilbur D. Mills. He said:

"Why should a worker who is out of a job due to import competition be placed in a more favorable light (if that is to be done) than any worker who is unemployed due to cancellation of defense contracts, closing of defense installations, or technological advances? Does the fact that increased trade is a matter of national policy justify singling out this area for special treatment? Why are we more concerned with causation than with the realities of people out of work?"

It testifies to the maturity of his audience that Congressman Mills said the above (together with much more in equally good sense) before a meeting of the AFL-CIO, and was warmly applauded.

The Government will then pay these unfortunate fellow citizens 65 percent of approximately what they have been earning (or an estimated $61 a week) for a period, sometimes as much as 78 weeks.

And, as a prerequisite to obtaining any compensation, the Federal Government will force the workers to train for some other job—presumably a job of the Government's choosing.

Otherwise, the worker will receive no help—again, Government by decree.

This unemployment compensation amount greatly exceeds the present unemployment compensation provisions. It is discriminatory against unfortunate fellow citizens who lose employment through causes other than imports.

We all cannot but sympathize deeply with a man who loses his job because of imports—especially when he didn't need to lose this job in the first place.

Is this fact sufficient reason for favoring him over any other citizen, unfortunately jobless, through forces beyond his own control?

In addition, will title III prove the lever whereby the taxpayers will eventually be asked to increase Federal unemployment benefits to equivalent amounts for all unemployed workers in order to eliminate the discrimination in H.R. 11970?

Will H.R. 11970 be the death knell of the State-administered unemployment compensation systems?

Do we need the escape clause and peril point as guardrails on the cliffside: or title III as a federally subsidized hospital at the bottom? No previous administration has favored this approach.

(See appendix B, "Injury as a national policy," for further details on this matter.)

III. THE DETRIMENTAL EFFECTS OF H.R. 11970 ON THE PUBLIC REVENUE

By the time it takes full effect, H.R. 11970 will cost the American taxpayers at least $659 million a year—and probably much more—perhaps in the neighborhood of $800 million to $1 billion a year. This includes money paid out for subsidies plus the revenue losses to be sustained.

This important aspect of this measure, overlooked so far, is its main fiscal consequence.

A. Revenue outgo. The first administration bill asked for $100 million. The official Federal witnesses also mentioned 90,000 persons to be paid for being unemployed, staged over a 5-year period.

Ninety thousand unemployment, staged over a 5-year period, would be 18,000 workers unemployed each year through imports—and domestic industry believes this estimate low—very, very low, indeed.

If these 18,000 workers were to receive $61 a week, on the average, for a year—and H.R. 11970 sometimes permits payments up to 78 weeks—each would receive $3,172 for 52 weeks (not the whole 78 weeks.) Totaled for 1 year, we come out with $57,096,000 a year as a modest estimate of the annual unemployment compensation cost of this program—without subsidies to business; without the technical assistance; without the retraining of labor; without swelling the Federal payroll; without technicians, research and travel; without the other possible 26 weeks of unemployment payments. Five years times $57,096,000 is $285,480,000 which is the cost of the unemployment benefits alone.

Congress has long experience in initial estimates of Federal subsidies—inevitably on the low side—$300 million, $500 million, or $1 billion might be a more realistic 5-year estimate of this program's revenue outgo over 5 years.

B. Revenue losses. But this inevitably large cost to the Treasury would not be all. An even more substantial annual Federal revenue loss would occur—the virtual destruction of tariffs for revenue.

Three reductions in Federal revenue are implicit in H.R. 11970:

(1) The tariff cuts of 50 percent would apply to a very great many imports.

(2) Assuming United Kingdom accession to the EEC free trade on products where 80 percent of world trade originates here and in the EEC combined would bring a further drastic reduction to zero.

(3) Lastly, elimination of all duties of 5 percent or less would further reduce the revenue—low duties, mainly giving revenue and usually lacking in protective effects.

The following table is in our opinion a reasonable study of the eventual effect upon the public revenue of the customs revenue losses which H.R. 11790 would entail. Based on 1960 customs figures, it is indicated as over $600 million per annum (and we have tried to be conservative in our estimates; revenue loss projections based upon the higher 1962 customs revenues would be higher). Our estimates based on 1960 projected are as follows:

(The table referred to follows:)

TABLE I.—*Estimated effects of H.R. 11970 on U.S. dutiable imports for consumption based upon 1960 imports*

[In millions]

Commodity group	Imports	Calculated duty [1]	Estimated duty after H.R. 11970, as now written, would take effect
Animals and products, edible	$573	$49	$25
Animals and products, inedible	196	27	14
Vegetable food products and beverages	1,226	144	72
Vegetable products, inedible	350	48	24
Textile fibers and manufactures	998	230	200
Wood and paper	568	41	21
Nonmetallic minerals	1,667	117	59
Metals and manufactures	1,382	130	80
Machinery and vehicles	1,245	139	90
Chemicals and related products	196	26	5
Miscellaneous (includes photographic goods, toys, scientific instruments, clocks, and watches)	471	117	25
Total	8,872	1,077	475

[1] Department of Commerce states that calculated duty is the "amount of customs duties (including import excise tax), estimated by the Bureau of International Programs from basic data of the Bureau of the Census."

NOTE.—The total shown for calculated duty approximates the customs receipts collected in 1960 which amounted to $1,086,089,164.

Mr. McCormick. Looking at such a $602 million revenue loss over a 10-year period—and again we are estimating far on the low side—we are speaking conservatively of an eventual $6 billion which would have to be picked up from other revenue sources or obtained by increasing the national debt in comparable proportions.

At a time of deficit financing—and this holds for the foreseeable future—it would be a serious question of judgment to precommit an annual revenue curtailment of some $602 million at a minimum, or $6 billion in toto over 10 years.

To summarize, if H.R. 11970 is enacted into law, we will, in effect:

First, throw away 173 years' precedent of using customs duties as an important source of revenue; and,

Second, almost entirely destroy tariffs as a source of protection.

As Congressman Bow has pointed out (Congressional Record, p. 11076 of June 27, 1962), we will thus be destroying a principle developed, fostered, and pressed by our first six Presidents; and, in effect, espoused by our whole Federal Government from 1789 to 1962.

Because of the time limitations today, we have not included in the text of this statement the following appendixes, which are being submitted to the committee for the record:

Appendix A. More on the lack of urgency in meeting the Common Market problem.

Appendix B. Injury as national policy?

Appendix C. Hardships to displaced workers under H.R. 11970.

Appendix D. H.R. 11970 has no true reciprocity provisions.

Appendix E. The deterioration of U.S. high labor content goods in world trade.

Appendix F. Lack of overall business support for H.R. 11970.

Appendix G. A sensible congressional control over escape clause decisions.

Appendix H. Weakening the escape clause and peril points.

Appendix I. Other deficiencies in H.R. 11970.

We would particularly like to call your attention to appendix G, which shows the function of congressional review of escape clause decisions. We are particularly disturbed by the House action described in this appendix, entitled "A Sensible Congressional Control Over Escape Clause Decisions."

In 1955 and 1958, we were told that a constitutional majority of both Houses of Congress could not overturn an escape clause decision—two-thirds being required.

Now in 1962, we are told that a constitutional majority of both Houses can overturn such decisions as this wording is incorporated in H.R. 11970.

Appendix G describes this matter. If the Senate were to reinstate—on a simple constitutional majority basis—the privilege in present law, two advantages would be gained:

First, congressional control would have been reestablished.

Second, domestic industry would have reasonable recourse in overturned escape clauses.

(The appendixes referred to follow:)

APPENDIX A

MORE OF THE LACK OF URGENCY IN MEETING THE COMMON MARKET PROBLEM

"BRUSSELS, July 28.—The betting odds on Britain's entry into the European Common Market were reduced to 50–50 this weekend as London's negotiations with the six European member nations neared climax" (Gaston Coblentz, Herald Tribune News Service).

The idea that somehow the United States had to race into the Common Market is now rather definitely being proven wrong. In this connection, I would like to cite excerpts from an article by William S. White in the Washington Evening Star of June 4, 1962:

"*The long-common assumption here that Britain's entry into the low-tariff European Common Market was practically foreordained always was dangerously premature.*

"Now it looks as though the British not only are a long way off in time from going in, but actually may not be able to go in at all without intolerable cost to their ancient ties with British Commonwealth nations like Australia and Canada.

"*There have been great and avoidable political miscalculations on both sides of the ocean.* Six months ago the British tended—when in this country at least—to suggest that the real question was not whether Britain could make a reasonable deal with the European Common Market countries, headed by France and West Germany.

"U.S. TARIFF FACTOR

"*The real question, they intimated, was whether the U.S. Congress would ever approve the broad tariff-cutting authority required if the United States itself is to be able to bargain usefully with the Common Market.*

"*The history of this tariff bill in the House Ways and Means Committee shows how very wrong was this idea.* The committee's chairman, Wilbur Mills, of Arkansas, has done just about what those who knew him always thought he would. He has brought the bill forward with a quiet mixture of power and persuasion to the point where there is not much reason to fear that the House will reject any of its principal features. The British want the United States to have that legislation; and the United States wants Britain in the Common Market.

"British estimates of the alleged unreadiness of Congress to act were wrong because Britons asked the wrong people. Representative Mills is outwardly, but only outwardly, a 'country boy.' The British got their information mostly from young city slickers who made the fairly common mistake of Ivy League State Department types of supposing they knew more about Mills' committee than Mills did.

"*On the American side, the error was in assuming that because British entry into the Common Market was sensible economically—it was also inevitable.* This notion underestimated the latent opposition in England within the ruling Conservative Party, not to mention the Labor Party. And it missed the apparently implacable resolve of Charles de Gaulle of France not to let Britain into the Common Market on terms preserving British self-respect and Britain's old position as the politically dominant power in Europe.

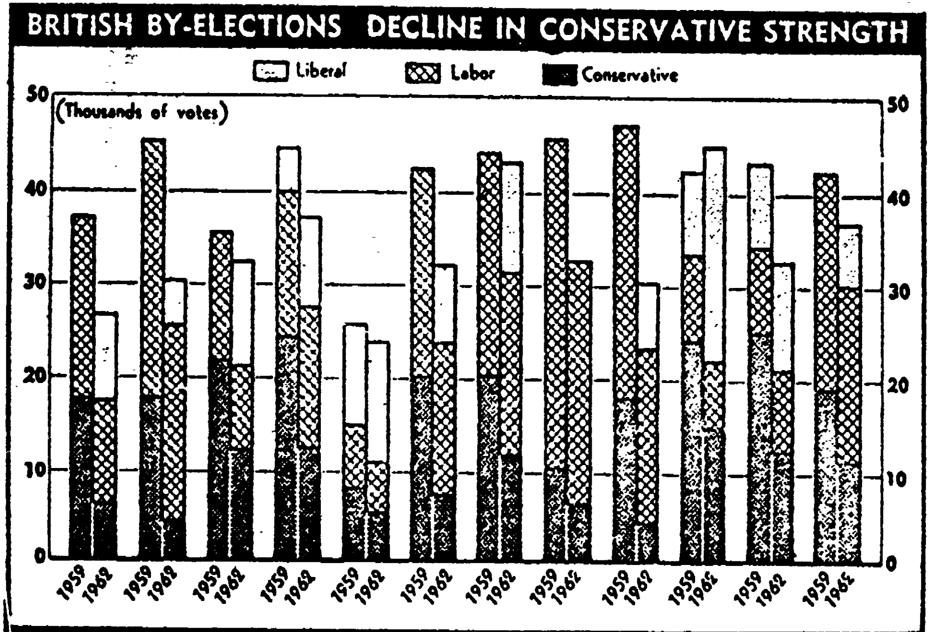
"The misunderstanding was not helped by British official visitors here. Instead of dealing candidly and in tune with the realities of British politics at home, they often left the impression here that Conservative opposition was largely confined to a handful of 'ultraconservative' Colonel Blimps grumbling in London's clubs.

"OUTLOOK CLOUDY

"*So the position now is that British negotiations with the Common Market—and notably with France, which clearly expects to be headboss of it all—are in no way promising * * *.*" [Emphasis added.]

At home, the conservative National Farmers Union in Britain, important in some 75 to 100 Conservative seats, lies near the base root of the political strength of the incumbent government, and has expressed strong opposition. (Incidentally, the Conservatives may not even be in office too long if the present by-election trend continues as Members of Parliament resign or die.) While the Labor Party's "constituency" element may favor joining the EEC, a more numerous voting Labor group, the British trade unions, are not favorable to it. While some might not consider Commonwealth or United Kingdom politics pertinent here, facts cannot be overlooked. Table II reflects this.

TABLE II


BRITISH BY-ELECTIONS DECLINE IN CONSERVATIVE STRENGTH
Liberal
Labor
Conservative
(Thousands of votes)
0
10
20
30
40
50
1959
1962

"The 12 by-elections shown on chart are spotted throughout England and Scotland. The constituencies were, from left to right, Leicester Northeast, West Lothian, Derbyshire West, Middlesbrough West, Montgomery, Derby North, Stockton-on-Tees, Pontefract, Middlesbrough East, Orpington, Blackpool, and Lincoln." (New York Times, July 22, 1962.)

A BRITISH VIEW ON THE LACK OF URGENCY IN ADHERING TO THE EEC

Speaking to the Manufacturing Chemists' Association, Inc., during their 90th annual meeting, June 9, 1962, at the Greenbrier in White Sulphur Springs, W. Va., Mr. Lincoln Steel, British national chairman of the International Chamber of Commerce, pointed out the long and difficult path which lies ahead before we know whether Britain will ever join the EEC—before we will ever know if the provision permitting elimination of U.S. duties where U.S. and EEC world trade equals 80 percent of the total will ever become effective. Speaking as a private British citizen, Mr. Steel said:

BRITAIN AND THE COMMON MARKET

"The Treaty of Rome, establishing the European Economic Community, that is to say France, Germany, Italy, the three countries of Benelux, Holland, Belgium, and Luxembourg, was signed just over 5 years ago, and the Community (the 'Common Market' of the Six) has been in existence for nearly 4½ years.

"It was in August last year that the Prime Minister of the United Kingdom announced in the House of Commons that the British Government wished to enter into negotiations with the Community with a view to membership under article 237 of the treaty. I think it is perhaps worth giving the exact wording of this article as it appears in the unofficial English translation:

" 'Any European State may apply to become a member of the Community. It shall address its application to the Council which, after obtaining the opinion of the Commission, shall act by means of a unanimous vote.

" 'The conditions of admission and the amendments to this treaty necessitated thereby shall be the subject of an agreement between the member states and the applicant state. Such agreement shall be submitted to all the contracting states for ratification in accordance with their respective constitutional rules.'

"There is just one point to which I think it is worth drawing attention and that is that the word 'amendments' appears in the English version as quoted by the Prime Minister at the time, whereas the French version uses the word 'adaptations.' It is perhaps not surprising that the French were quick to point out after the Prime Minister's statement that the intention of the wording in the treaty was to cover only the inevitable adaptations such as voting rights that would have to be made if a new member joined the club and that in their view there was no question of substantial amendment to the main clauses of the treaty.

"In October last year Mr. Heath, the Lord Privy Seal, made a lengthy statement to the member governments of the Community in Brussels and this, in effect, was the formal opening of the negotiations for British entry. Since that date an immense amount of examination on the technical side relating to the problems of entry has been undertaken, but there has been very little progress to date insofar as agreement between the British and the Six is concerned. The crux of the negotiations is still to come. The problem is immensely complicated and on an occasion like this it is difficult to know where to start, and perhaps even more difficult to know when and how to stop. But tonight I am proposing, at the risk of substantial oversimplification, to make just a very brief reference to what might be called the political aspects of the treaty, then to discuss some two or three of the technical problems, to give some indication of the likely progress of negotiations and a purely personal assessment of the chances of their success.

"Some 3 or 4 years ago, I was talking to one of the leading architects of the Treaty of Rome, and one of those who took part in the work of the Spaak committee which led up to it. In the course of conversation he carried my mind back to the time when the French had refused to ratify the treaty establishing the European Defense Community, and prospects of any European political cohesion looked pretty bleak. My informant told me at that time that he and a number of his friends had decided that further progress on political lines toward political unity was hopeless, but that if they could get a substantial degree of economic unity between the Six, this would be a hopeful step forward, and that if they could form a customs union, then increasing economic unity would lead inevitably to some form of effective political association.

"It was in the background of thoughts like these that the Treaty of Rome was drafted, and it has become abundantly clear that with the continued progress toward economic unity on the part of the Six, the original political overtones are now becoming much more significant. They are bound to affect both the thoughts of the existing members of the club and the desires and intentions of the outside world, whether they are potential candidates for membership or are likely to remain completely outside.

"Now in forming this Economic Community the real cornerstone was the decision to proceed to a customs union, that is to say a group of countries presenting a uniform tariff to the whole of the outside world, with complete freedom from tariffs on any transactions between the members of the Community. It was in fact a reproduction on a far greater scale of the original German 'Zollerein' which was the foundation of the present German state. It is, however, this very reliance on the customs union which at one and the same time is an attraction to a potential new member who does or expects to do a lot of trade with the other members of the club, but also in the case of Great Britain raises a series of immensely difficult and complicated problems in relation to its present trading pattern with the Commonwealth. I am going to give just two instances, butter and bananas.

"If the United Kingdom were to join the community and adopt completely the external tariff of the Six without any exceptions or derogations in favor of the Commonwealth, it would have a profound and possibly disastrous effect on the economies of a large number of other countries, some it is true exceedingly small, but whose existence cannot either in equity or in good sense be ignored.

"I know that any form of preference, and perhaps in particular Commonwealth preference, is an evocative and emotive word in the United States, but I think perhaps it is insufficiently realized that that particular piece of Commonwealth preference which would be gravely affected by British membership of a customs union is simply and solely free entry into the United Kingdom.

"For many years now virtually everything imported into England from the Commonwealth overseas, whether it happens to be from the developed countries enjoying high standards, such as Canada, Australia, and New Zealand, or countries such as those in the West Indies which are in a much earlier stage of development, are, with virtually no exception, admitted completely free of any duty or quantitative restriction. There are for example no less than 12 British territories in the Caribbean, the so-called Little Eight (Barbados, the Windward, and Leeward Islands), Jamaica, Trinidad, British Guiana, and British Honduras. Most of them are largely dependent for their export earnings on bananas sold free of duty in the United Kingdom. Their economies would be gravely shaken if in the future they had to pay a duty of 20 percent, while bananas from the Cameroons, which at present enjoy a form of associate membership of the Six, were allowed to go in duty-free; and it is not only with bananas, but with sugar and spices and a range of tropical products and fruits that problems would arise. *To sign the Treaty of Rome, blind, without any arrangements being negotiated for these territories and others in a similar position scattered around the world, would, I think, be an act of political folly. To leave them out on a limb with a complete disregard for their economies might mean 12 new Cubas in the Caribbean and on the mainland of Central America.*

"Now let us take the case of New Zealand and butter. New Zealand, favored with soil and climate which is ideal for growing high-quality grass virtually throughout the year, is probably the cheapest, as well as one of the most efficient producers of milk and dairy products in the whole world. What would happen in New Zealand if the United Kingdom made no provision for the problem of New Zealand farm products? The common tariff on butter in the Six is also about 20 percent. To sign the Treaty of Rome on the dotted line would mean that New Zealand butter would pay this tariff on entry into the United Kingdom, whereas Dutch and Danish butter, if Denmark also joins the club, would be allowed in free. When we think that similar circumstances would apply to New Zealand mutton, lamb, and cheese, and when we realize that far and away the largest part of New Zealand's exports consists of agricultural products, with two-thirds going to the United Kingdom, *it is not surprising that the New Zealand Government could never willingly accept the British membership of the Community unless some substantial safeguards had been obtained to cover New Zealand's problems.*

"Time does not permit even to relate a series of other special difficulties that have to be taken care of, the sisal from Tanganyika, the cloves from Zanzibar, nutmegs from Grenada, and a host of other items, perhaps trivial in themselves in terms of the total quantum of world trade, but all vitally important to the tiny territories concerned. Nor have I dealt with the problem of manufactured goods, both from the developed and developing territories. This is equally complicated, and failure to obtain a solution would have the most important long-term political effects. *India, Pakistan, and Hong Kong for example, are rapidly industrializing.* The Western World is giving or lending immense sums to help them. Their economies, however, can never be fully sustaining unless they export manufactured goods in addition to the traditional primary products. *If the United Kingdom, instead of admitting everything free from the Commonwealth, puts up trade barriers, it could only mean that either these countries will suffer substantially, or that we and the rest of the Western World may feel compelled to grant them even more direct aid in the form of gifts of money or of the softest of soft loans.*

"How are we to solve these problems? Mr. Heath, in his statement of October last said it would be a tragedy if British entry into the Community forced other members of the Commonwealth to change their whole pattern of trade and, consequently perhaps, their political orientation. He pointed out, however, that the problems of Commonwealth trade had analogies, particularly in the problem of the French when they negotiated the Treaty of Rome, and that special provision was made either in the treaty or in its accompanying protocols, to cover these difficulties. Thus, for example, the overseas dependent territories of the Six were given a special form of associated membership of the Community. This was of course of the greatest importance of British associated territories might be solved in the same way. At the same time, he suggested that as far as some products were concerned, notably agricultural products from temperate climates (which is just another way of saying 'butter from New Zealand'), might be solved if the Community could in effect guarantee them comparable outlets, so that if they lost in exports to the United Kingdom as such, they would gain in exports to the rest of the Community. You will see, however, that solutions of this kind may not appeal overmuch to the Six. *It is doubtful, for example, if France would be anxious to see comparable outlets on the Continent for New Zealand butter, or Australian wheat.*

"*So we come back to the fact that, although the negotiations between the European Economic Community and the United Kingdom have been in hand since October, there appears on the face of it to have been very little progress as far as agreed terms of admission are concerned.* What has happened is that there has been a fuller knowledge and appreciation of the complexity of the problem by all the experts who are engaged in preparing proofs for the negotiators. *It is true that a few days ago it was announced that the United Kingdom was prepared, as part of the package deal, to end the preference on manufactured goods from the developed Commonwealth over a period of years. The amount of trade involved was not very large, and it may have come as a surprise to the British negotiators when the reaction from Australia and New Zealand in particular was so fierce. I imagine that the real problem here is that, whereas such an arrangement for a death in three cuts extending over 7 years might be tolerable for the relatively small quantity of trade done, they are desperately afraid lest it should be taken as a precedent for similar action in trades of immensely greater importance.*

"Well, there it is, the British Government has gone an immense way to meet the Six by agreeing in principle to accept all the main underlying objectives of the Treaty of Rome. It is now, as I see it, for the Six to show willing and to recognize in a practical and helpful manner the grave problems which the British Government, the Commonwealth, and in fact for that matter the rest of the world, have to face. *If the attitude of the Six, not as individuals but as a group, is tough and obstructive, then the British Government will be faced with the appalling dilemma of either initialling an agreement which might well be rejected by Parliament, split the Conservative Party and put the Socialists in power, or of pulling out entirely from the negotiations and starting again from square one.* No man can forecast with any certainty what is likely to happen over the next few months and for that matter the dice may already have been thrown at the recent meeting between the Prime Minister and President de Gaulle.

"As far as my own personal opinion is concerned, *I find it difficult to imagine that any satisfactory outline agreement will be arrived at quickly. There is still much hard bargaining ahead. On the other hand if the French and the Germans make the decision that they would really like to have the United Kingdom as a full* *and loyal member of the Community then they have only to instruct their negotiators on what is admittedly a more complicated position and put the same sort of concessions to the British view that were conceded to the French at the time when the Treaty of Rome was negotiated.*" [Emphasis added.]

The latest quotation from Britain, from the New York Herald Tribune by a staff correspondent from London, is as follows:

TWO BRITISH PARTY GROUPS OPPOSE MARKET ENTRY

"Conservative and Labor Party back-bench groups moved last night to fight against the Government's last major drive to join the Common Market.

"The Conservatives, politically the more important because they represent a growing section of opinion in the majority party, presented a motion asking the Government not to renege on its promises to protect the Commonwealth, British agriculture, and its fellow members of the European Free Trade Association.

"It had 40 Tory signatures, and, by their example, the sponsors are hoping to gather at least another 20 adherents in their call to 'stand firm.'

"Meanwhile, the Labor Committee of Britain and the Common Market circulated to every opposition member a lengthy statement sharply criticizing the way Lord Privy Seal Edward Heath has conducted the negotiations in Brussels.

"The statement contained a message from Lord Attlee, the former Labor Prime Minister, stating: 'I do not think it would be wise for Britain to enter the Common Market on the terms which seem to be contemplated by Mr. Heath and the present government.'"

APPENDIX B

INJURY AS A NATIONAL POLICY?

Title III of H.R. 11970 and statements by Federal officials are the first recognition since 1934 that tariff reductions involve injury to industry and workers.

Previous statements of national leaders disavowed injury to industry and workers as follows:

"The exercise of the authority which I propose must be carefully weighed in the light of the latest information so as to give assurance that no sound and important American interest will be injuriously disturbed. The adjustment of our foreign-trade relations must rest on the premise of undertaking to benefit and not to injure such interests. In a time of difficulty and unemployment such as this, the highest consideration of the position of the different branches of American production is required" (from text of President Franklin D. Roosevelt's message to Congress (H. Doc. 273, 73d Cong., 2d sess.), "Operation of the Trade Agreements Program, June 1934 to April 1948, 1949, Pt. 11," U.S. Tariff Commission).

"We have reduced duties only in those cases in which, after a most careful examination of all relevant factors, it was found that existing duties were unnecessarily and unduly burdensome, and we have done so only in those cases in which other countries have agreed to accord better treatment to our exports in return for tariff adjustments on our part. We have reduced duties only to the extent to which, after an equally careful examination, it was found that such adjustments would not be prejudicial to any established branch of production in agriculture, in mining, or in manufacturing industry. Where necessary, as an additional safeguard, we have limited the amount of imports which would be permitted to come in at the reduced rate of duty" (from testimony of Secretary of State Cordell Hull, on H.J. Res. 407, before the House Ways and Means Committee, 76th Cong., 1940).

"I have had drawn to my attention statements to the effect that this increased authority might be used in such a way as to endanger or 'trade out' segments of American industry, American agriculture, or American labor. No such action was taken under President Roosevelt and Cordell Hull, and no such action will take place under my Presidency" (from President Harry Truman's letter to House Speaker Sam Rayburn, Congressional Record, Sept. 8, 1949, p. 12647).

"I wish also to comment on the administration of this legislation if it is enacted into law. Obviously, it would ill serve our Nation's interest to undermine American industry or to take steps which would lower the high wages received by our working men and women. Repeatedly I have emphasized that our own country's economic strength is a pillar of freedom and will be, administered to the benefit of the Nation's economic strength and not to its detriment. No American industry will be placed in jeopardy by the administration of this measure. Were we to do so, we would undermine the ideal for which we have made so many sacrifices and are doing so much throughout the world to preserve. This plain truth has dictated the retention of existing peril-point and escape-clause safeguards in the legislation" (from President Dwight D. Eisenhower, in a letter to the Honorable Joe Martin, Feb. 17, 1955).

The discretion in H.R. 11970 is placed in the Executive to permit specific industries to be sacrificed for broader national interest. This would be a wholly new policy of doubtful wisdom.

APPENDIX C

HARDSHIPS TO DISPLACED WORKERS UNDER H.R. 11970

No worker wishes to lose his job. That is the first fact of the matter. Nor does he wish to retrain for another. He does not want to be shipped from Terre Haute or Kaskaskia, Ind., to San Diego to work in a missile factory. He does not want to lose years and years of union or company seniority. He does not like to lose the money implicit in the distress sale of his home. He does not like to become a member of a new trade union. He does not like leaving his friends and relatives behind in a community where he has raised his young ones and maintains his family roots.

In other words, H.R. 11970 would treat the worker, under Government edict, as if he were some sort of a commodity, not as an American citizen. I believe that is not what the import-vulnerable worker wants; nor is it the fate that our Nation wants him to undergo.

The average worker does not want to have his job sacrificed to try out an unproved theory. He would prefer to keep his job safe from imports in the first place and not to be retreaded after he is out. Experience in Pennsylvania, West Virginia, and elsewhere has already shown this to be the worker's viewpoint on readjustment and retraining. The administration should require some State Department officials to interview the wor' ers at the bus terminals in some depressed towns at 5 or 6 some Monday morning. They would see how the workers feel about retraining and leaving home all week to earn a living. Whether imports or automation are responsible, the worker doesn't like it, and doesn't want it.

The provisions of this bill would be particularly harmful for our middle-aged workers. Let us take actual examples. Take men who have worked on woolen looms for 20 years. Passaic, N.J., offers poignant examples. Suddenly to be thrown out of work through imports, what are such workers to do? For what can they be retrained? They have spent their mature lives in developing most difficult and complex skills. Are they to start all over again at the bottom of the ladder? Where?

And quite apart from this, there is the problem of the worker's months and months of delay implicit in this bill.

The workers, industry or union could come in before the Tariff Commission and seek assistance by escape-clause relief in a manner similar to present law. For that the deadline is 120 days. Or workers could apply to the Tariff Commission for readjustment assistance—the deadline here being 60 days.

The Commission could recommend tariff relief or readjustment to the President.

The President could then act for tariff relief, adjustment for industry, adjustment for workers, or any combination—or none.

For the worker, this will entail a long and painful waiting period. Even in the most obvious and clear-cut cases, industry's course has never been easy in showing that injury has been sustained due to imports—nor will it be any lead-pipe cinch to establish the fact that the worker has been displaced due to imports. In the meantime, the worker is out on the street patiently wondering if he qualifies for the specialized type of relief specified in this bill—when he doesn't want the relief in the first place; he wants to keep his job.

The basic questions here are, then:

(1) What industry is the worker to be retrained for?
(2) Where does he go physically?
(3) Will he get a permanent job if he goes there?
(4) What happens to his union seniority?
(5) How long will he keep the job?
(6) What happens to his present home and family?

Appendix D

H.R. 11970 Has No True Reciprocity Provisions

It is generally known and has been an accepted fact by businessman for years that the concessions we have made have not been matched by reciprocal concessions abroad. By reducing our own tariffs by over 80 percent, we have achieved little. The H.R. 9900 testimony lists foreign restrictions against U.S. exports. The testimony to you by Messrs. Charles Shuman and Homer Brinkley list hundreds of barricades against U.S. agricultural exports.

An effort was made in the Committee on Ways and Means to require reciprocity with respect to agricultural products. This was resisted strongly by the Executive and was written into the measure in a watered-down form which leaves almost complete discretion in the Executive—a provision actually weaker than the one in present law.

I question leaving this discretion in the Executive without teeth; and I would like in this connection to point out—on the subject of discrimination against U.S. exports—that presently in force is the Tariff Act of 1930, which includes the following language:

"Sec. 338. Discrimination by Foreign Countries

"(a) *Additional duties.*—The President, when he finds that the public interest will be served thereby, shall by proclamation specify and declare new or additional duties as hereinafter provided upon articles wholly or in part the growth or product of, or imported in a vessel of, any foreign country whenever he shall find as a fact that such country—

* * * * * * *

"(2) Discriminates in fact against the commerce of the United States, directly or indirectly, by law or administrative regulation or practice, by or in respect to any customs, tonnage, or port duty, fee, charge, exaction, classification, regulation, condition, restriction, or prohibition, in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of any foreign country.

"(b) *Exclusion from importation.*—If at any time the President shall find it to be a fact that any foreign country has not only discriminated against the commerce of the United States, as aforesaid, but has, after the issuance of a proclamation as authorized in subdivision (a) of this section, maintained or increased its said discriminations against the commerce of the United States, the President is hereby authorized, if he deems it consistent with the interests of the United States, to issue a further proclamation directing that such products of said country or such articles imported in its vessels as he shall deem consistent with the public interests shall be excluded from importation into the United States."

While this language has never been invoked, it remains in law and could be invoked in many cases today if the executive so desired.

While obviously some form of discretion must be left to the executive on reciprocity, the Congress should have a much stronger mandate placed in this bill in order to insure that the myriads of protective devices used to keep American goods out of foreign markets are relaxed or done away with. In this connection, Mr. James M. Ashley's brilliant testimony on "tough Yankee horse trading" by the State Department on automobiles is cited.

"A curious omission in H.R. 9900 is its lack of any requirement for reciprocity in trade agreements, except in the case of tropical agricultural commodities in section 218. It is generally conceded that other countries have not matched U.S. trade concessions in past negotiations. Perhaps the omission of a reciprocity requirement in H.R. 9900 is tacit admission that true reciprocity will not, and cannot, be forthcoming.

"Following the announcement of the latest GATT negotiations, there has been much discussion of the 'concession' we won whereby the ultimate EEC external tariff on U.S. automobiles was reduced from 29 to 22 percent. The 29 percent import duty was the originally proposed external tariff for the EEC but was not yet in effect. Actually the import duty which has been paid on U.S. automobiles exported to the Benelux countries and to Germany has been 18 percent and is now to be raised to 22 percent. These four countries in past years have accounted for more than 75 percent of the U.S. automobiles sold in EEC countries. France has imposed a 29 percent import duty on U.S. automobiles plus a discriminatory annual use tax of $202.55 for cars over 16 fiscal horsepower—the class into which almost all U.S. autos fall. The French import duty will be reduced from 29 to 22 percent, but the use tax remains. The Italian import duty has been in a range from 35 to 45 percent plus an annual registration fee based on horsepower which amounts to $240 on a six-cylinder Chevrolet, and an annual road tax which amounts to $379.20 for a Ford Galaxie compared to $29 for their domestically made Fiat. The Italian import duties will be reduced to 22 percent, but the registration and road taxes remain.

"In return for an increase in duty from 18 to 22 percent in the four countries where the bulk of U.S. automobiles have been sold in the EEC, and a reduction of duty, but not of discriminatory supplementary taxes in the two countries which together purchased 2,917 U.S. automobiles in 1961, we reduced our import duties on foreign automobiles from 8½ to 6½ percent. The results of our negotiators' efforts seem hardly to justify the fanfare with which they were announced.

"True reciprocity is unlikely to be forthcoming from the European Common Market because the Common Market is the economic way station en route to the political federation of Europe. It is understandable that it will not permit its freedom train to be derailed; that is, to put it in practical terms, it will not give up the discriminatory trade policies by which it intends to weld an economic and political entity with a homogeneous mass market and mass production industries to match.

"Offers made by the United States to the EEC bloc and extended then to all most favored nations including Japan are not likely to inspire true reciprocity. Common Market countries have been discriminating against Japan, and under GATT have denied most-favored-nation treatment to Japan, because of her low-wage rates. If we open our door wider to Japan as well as to the Common Market, the latter would gain little net advantage. Despite concessions which would give them a relatively advantageous position over American competition, EEC producers would be forced to meet Japanese price competition on an even tariff basis in the U.S. market. In my judgment, this effectively reduces our bargaining power with the EEC.

"Fear in Europe of Japan as a low labor cost competitor underlines our own contention that wage differentials are a meaningful determinant in the directions which international trade takes."

This keen analysis by Mr. Ashley does not represent any new situation. Hamilton's 1791 Report on Manufactures stated:

"But the system which has been mentioned is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is, that the *United States*, are, to a certain extent, in the situation of a country precluded from foreign commerce. They can, indeed, without difficulty, obtain from abroad the manufactured supplies of which they are in want; but they *experience numerous and very injurious impediments to the omission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.*

"In such a position of things, the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victims of a system * * *.

"Remarks of this kind are not made in the spirit of complaint. It is for the nations whose regulations are alluded to, to judge for themselves, whether, by aiming at too much, they do not lose more than they gain. It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy.

"It is no small consolation that, already, the measures which have embarrassed our trade have accelerated internal improvements which, upon the whole, have bettered our affairs." [Emphasis added.]

One hundred seventy-one years later, it is neither a contrast nor a consolation to read some 200 pages in the 1962 hearings on H.R. 9900, listing today's restrictions abroad against U.S. exports.

And in addition, we would like to point out that, with respect to agricultural commodities, the European Common Market has already expressed its intention to become self-sufficient in all nontropical products for which it has the capability by 1964 without regard to Britain.

Are we to expect, through a vague and loose working in this measure, suddenly to have the Europeans reverse this very major policy?

We would hope that the administration's insistence upon a reciprocity provision with no teeth in it does not mean that they intend to act unilaterally on reductions in trade barriers as has been so often the case over the past 28 years.

APPENDIX E

THE DETERIORATION OF U.S. HIGH LABOR CONTENT GOODS IN WORLD TRADE

One matter which concerned many members of the committee was testimony based upon a very thorough, able, and uncontested study by the Libbey-Owens-Ford Glass Co. of the relative world trade position of U.S. goods with a high labor content. (A copy of this study may be obtained from Mr. James M. Ashley, vice president, Libbey-Owens-Ford Glass Co., 811 Madison Avenue, Toledo 3, Ohio.)

The record is clear from this historic study that in the decade, 1950–60, the U.S. world trade position declined seriously in virtually all products with a high labor content—airplanes being the single major example. In this connection, we would like to cite the testimony to Congress of Mr. James Ashley, vice president of the Libbey-Owens-Ford Glass Co., and president of the Trade Relations Council of the United States:

"Industry leaders have testified before this committee and before the Tariff Commission that, as far as their own industries are concerned, their higher labor costs have priced them out of world markets. They have also said that the successive reductions in U.S. import duties, which have made us a low tariff country among major industrial nations, have made it increasingly difficult to meet low-wage foreign competition in this market. Proponents of the administration's trade program have answered that, although hourly wage rates are much higher in the United States, superior American productivity more than offsets the wage rate differential.

"Believing that this committee would like to consider more than isolated facts pertaining to individual industries on the one hand or unsupported assertions on the other, I refer now to an import-export study covering all product classifications. This study is attached to the copies of this statement distributed to members of your committee. It appeared in the Congressional Record of February 5, 1962, beginning on page A834.

"If it is true that labor costs are at prejudice to U.S. sales in world markets, this fact should be apparent in a comparison of the product-by-product import and export records of 2 different years separated by enough time to allow an important cost element to influence results. And U.S. exports of products with high labor content should show a less favorable trend line than products with low labor content.

"In our study, all of the imports and exports of the year 1951, as listed in the official figures of the Bureau of Census, were segregated as to high and low labor content items. Imports and exports of each item were added together to get the dollar volume total of foreign trade in those items, and the export percentages calculated. The identical process was repeated for 1960—still the latest year for which official figures are available. The product-by-product share of market measures the strength of each domestic industry against that of its foreign competitors in a given year. And a comparison of the share of market in each product in 1960 with the share of market of the same product in the earlier year indicates whether the product registered a gain or loss in competitive position.

"Perhaps some explanation of high and low labor content is in order. A tree, as it stands in the forest, has inherent value. Some labor is added by the work of felling it, trimming branches, and transporting the log to the point of sale, but the inherent value of the tree is still a large percentge of the sale price of the log. More value is added by labor at the sawmill in cutting the log into boards. Still more value is added by labor in finished wood manufactures, where the labor of the carpenter, joiner, and finisher completes the chair. A chair, then, is a relatively high labor content item while a log is a relatively low labor content item.

"That seems too obvious to need comment. But in individual company operations, labor cost, for bookkeeping purposes, includes only the money paid by that factory to its own employees. The labor in prior processing of materials is concealed under the heading 'Cost of Materials.'

"Under that bookkeeping approach, it might be said that labor accounts for a relatively small percentage of the cost of a machine tool. But machine tools are really iron ore in a highly processed form. The labor of mining the ore, transporting it, smelting it into pig iron, and making it into steel mill products to be sold to the machine tool factory is all part of the cost of the machine tool. And if labor cost is truly at prejudice to U.S. export sales, we would expect to see the competitive position of machine tools deteriorate by comparison with the competitive position of a product with smaller labor content—for example, pig iron.

"Between the years 1951 and 1960, U.S. foreign trade—the sum of all that we buy from foreign countries and all that we ship, but not necessarily *sell*, to foreign countries increased from about $25½ billion to almost $35 billion. In 1951, the U.S. export share of this trade was 57.9 percent. In 1960, the export share of this trade was 58.1 percent. Not a significant change—two-tenths of 1 percent.

"What is significant, and what the official figures of the Bureau of Census show, is that the *character* of our exports has changed. U.S. exports have registered *gains* in share of market in raw materials and manufactures with relatively low-labor content. Live animals. Hides and skins. Furs. Fodders and feeds. Crude synthetic rubber. Natural gums, resins and balsams. Oilseeds. Raw cotton. Goat hair. Logs. Paper base stocks. Pig iron. Scrap iron.

"These gains were offset by *losses* in share of market in exports of manufactures with relatively high labor content. Leather manufactures. Fur manufactures. Grain manufactures. Rubber manufactures. Cotton manufactures. Products made from man-made fibers. Steel mill products. Metals manufactures. All kinds of machinery except agricultural. All kinds of vehicles except aircraft.

"This is true in small industries as well as large, and applies to the whole range of products in foreign trade—as the footnotes to the various tables clearly show.

"If the trend toward the export of more low labor content items and fewer high labor content items is allowed to continue, massive unemployment in manufacturing industry will be the inevitable consequence. Equally serious, the manufacturing segment of the economy will provide no growth—no new job opportunities for our expanding population. If this frightening trend has developed under our existing import duty schedules, it will be accelerated if import duties on manufactured goods are cut in half or eliminated altogether—as they would be under the provisions of H.R. 9900 as presently drafted.

"Let us take an example of an industry where our export position appears favorable. Electrical machinery and apparatus. How can this be considered unsatisfactory when U.S. exports were 74 percent of our foreign trade in those items? By considering the figures for a single year, it is impossible to judge whether the industry in question is growing competitively stronger or competitively weaker. It is true that our exports of electrical machinery and apparatus were 74 percent of our foreign trade in those items in 1960. But in 1956, they were 85 percent. In 1951, they were 96 percent. In 1926, they were 97 percent. Like the work of the medical internist, it is the function of business analysis to diagnose cancer in its early stages. This cancer is demonstrably present."

This Libbey-Owens-Ford study has had wide impact. Its circulation is already in the tens of thousands.

Appendix F

Lack of Overall Business Support for H.R. 11970

Spokesmen for the administration have stated or implied that the instant measure has substantial overall business support. For example, the President's address on May 4, in New Orleans, La., specifically included the word "business" as supporting the measure.

Many businesses and associations of businessmen support the measure and many oppose it.

However, none of the better recognized large overall associations of businessmen can really be said to support H.R. 11970. Specifically—

(1) The National Association of Manufacturers is neutral on title II, trade agreements. It strongly opposes title III, tariff adjustment and other adjustment assistance.

(2) The committee for economic development, in a report with 14 separate statements and dissents, some of them signed by several members, generally supports title II, trade agreements, but oppose title III, tariff adjustment and other adjustment assistance.

(3) The U.S. Chamber of Commerce has stopped much of its propaganda on this measure since its annual meeting of May 2, 1962. In view of the statements placed in the Congressional Record on May 8, by Congressmen King and Stratton, of New York, I think it is fair to say that the national chamber's membership has a neutral position. The Associated Press says the the main membership vote—for neutrality—was "overwhelming." Their failure to appear here in person yesterday underscores their problem.

(4) The overwhelming number of large and small businesses and business associations especially manufacturers which testified before the House were either against the bill; or else, while favoring healthy world trade, stipulated specific qualifications totally unacceptable to the measure's proponents.

Thus, we are here concerned with the measure designed to help business, but which most business does not wish.

In particular, Congress is placed in the curious position of being asked to vote Federal subsidies for import-vulnerable businesses that do not wish to receive the subsidies. Usually, it's the other way around.

Appendix G

A Sensible Congressional Control Over Escape Clause Decisions

An amendment, which has been approved by the Committee on Ways and Means to H.R. 11970, would permit the Congress, by a majority vote of both Houses, to overturn the President's decision when he disagrees with, or rejects, a Tariff Commission escape clause recommendation. This provision would not be any help to domestic producers.

Here is what would happen under this amendment. Let me say the President would turn down a Tariff Commission recommendation as he recently did on straight pins and baseball gloves. Under the amendment, as accepted in the Ways and Means Committee version of H.R. 11970, any Member of either House could introduce a resolution in his House to overturn the President's rejection and reinstate the Tariff Commission's recommendation. (As a matter of fact, he can do that right now, except that such a resolution, if passed, would almost inevitably be vetoed.)

A resolution of disapproval as in H.R. 11970 would go to the Senate Finance Committee or to the House Committee on Ways and Means, and could be there lost, even with no hearings, if these committees should so choose. If the two committees should report the rejection resolution favorably, it would be acted upon by Senate and/or House in the regular manner—without privilege.

There are major matters of procedure in H.R. 11970 as passed by the House—compared against the Reorganization Act and against the Trade Agreements Extension Act of 1958, the present law.

The major provisions of the present trade agreements law which H.R. 11970 would drop are two:

First, the 1958 law makes a resolution of disapproval of a Presidential disapproval of a Tariff Commisison recommendation by any one Member of either House highly privileged.

Second, the 1958 law requires a two-thirds vote of both Houses to overturn the President (an obvious impossibility and, hence, never yet invoked by Senators and Congressmen friendly to domestic industries.)

"Privileged" is the important word in the 1958 law; the two-thirds is "window dressing" in that Congress can overturn any Executive action by a two-thirds vote of both Houses whenever it wishes.

Under section 7 of the 1958 act, if the Finance or Ways and Means Committee were to hold up a resolution to overturn the President's decision for more than 10 days, any Member of either House could move its discharge from committee and the vote on such a discharge motion would be highly privilegde. In laymen's terms, this means it goes to the front of the line of bills to be voted upon. Or it may be that, within the 10-day period, the committee will have reported the bill favorably or unfavorably.

Under section 7(e) (1) of the 1958 law, when the House or Senate has voted to discharge the committee of, or the committee has reported out, the disapproval measure, any Member can then move for the whole House to vote to overturn the President's recommendation. Again, this motion is highly privileged.

This is almost identical to the procedure in the Reorganization Act under which over 50 congressional actions have been taken on a similar privileged basis. Under the Reorganization Act which stemmed from the First Hoover Commission and later amended, the congressional veto powers were weaker than under present law whereby one House can veto a reorganization plan.

For many years, scores of reorganization plans have been submitted to the Congress and have, by law, been upheld or overturned by simple majorities (constitutional) either of one House or of both Houses.

If such a procedure is constitutional in the case of the reorganization legislation, it would be equal in its applicability to tariff proclamations.

Anything else would mean that the scores of reorganization plans which have occurred since the First Hoover Commission in the late forties are null and void. It would, for example, be quite a shock to the Department of Health, Education, and Welfare to know that it has not been existing for the last 9 years. (Reorganization Plan No. 1 of 1953.)

Reorganization plans are highly privileged. In fact, the 1958 Trade Agreements Extension Act's wording was based upon language in the early reorganization acts in the privileged wording and techniques followed.

In the present trade agreements law, any one Member can move to discharge the cognizant committee and any one Member can move for the House to vote to overthrow the President's decision. Both motions are privileged. But it is so hopeless for a Member to obtain the two-thirds vote that no proponents of the industries which have been denied relief by the President have even gone through the effort.

The House change in H.R. 11970 does not amount to much, since it does only this:

The two-thirds majority to overturn in the 1958 act would be replaced by a majority of Members (a constitutional majority) in H.R. 11970.

The high privilege in the present law would be dropped.

Thus, the two-thirds formula was dropped; so was the privilege.

This is a fair enough swap. Under the law, the domestic industry has virtually nothing; nor will it have anything under the House version of H.R. 11970.

A fair trade. Nothing for nothing.

Under H.R. 11970, it would be very difficult or impossible for most individual or small industries to get a disapproval motion out of committee or to muster a majority of both Houses. Without the privilege, the House amendment is virtually useless. Even with the privilege, a motion to disapprove can mainly be an annoying harassment in that every time the President overturns the Tariff Commission, any single Member could distress the machinery of either House by evoking these two privileged motions.

If, as under the present Reorganization Act, the industry were to be entitled to a one-House veto and high privilege—using as a precedent the Hoover Reorganization Acts—this would conform to existing congressional practice, and prevent the Executive from running roughshod over the constitutional rights of the Congress in article I, section 8.

In effect, the House has accepted an amendment which is no concession or help to domestic industry.

Appendix H

Weakening the Escape Clause and Peril Points

The Congress over recent years has been burdened with requests to do something to improve the escape clause. The historical record of actions under the escape clause is set forth in the following table:

Present status of escape-clause applications (June 1962)

	Number
I. Investigations instituted by the Commission:	
(a) Dismissed at applicant's request	9
(b) Terminated without formal findings	9
(c) Cases pending	3
(d) Completed cases	112
Total of I	133
II. Investigations completed by the Commission:	
(a) Relief rejected by Commission	71
(b) 3-3 cases	8
(c) Relief recommended	33
Total of II	112
III. Cases sent to the President:	
(a) Relief rejected by President	26
(b) Relief invoked by President	15
Total of III	41

Thus we see relief granted in only 15 or 11 percent of the 133 cases initiated; 13 percent granted in the 112 cases completed.

Yet, the escape clause would be weakened even further in H.R. 11970. The definition of industry would be, in effect, made so broad as to make it extremely difficult to obtain relief. In addition, any relief obtained would be statutorily set as temporary.

When the escape clause has proven so unsatisfactory in executing the purposes Congress intended for it, how can it be considered as reasonable to weaken it even further?

The peril points would be in effect destroyed

The peril points have long been considered by Congress as a most effective method of preventing negotiations from reducing tariffs to levels below which American industry would be injured. For many years, these peril points were abided by. It is only in the most recent negotiations at Geneva that, in scores of cases, our negotiators went below the peril points.

As H.R. 11970 is now written, there would be a public hearing but there would be no requirement that any attention whatsoever be paid to the recommendations of domestic industry and of the Tariff Commission.

Thus, a principle long held by the Congress would go into discard.

Appendix I

Other Deficiencies in H.R. 11970

The inadequacies of H.R. 11970 also include some other weaknesses. These include:

(a) *The complexity of obtaining relief.*—Both for labor and for business, the cost, complexity, and delay in obtaining relief is almost monumental. This measure could become a lawyer's paradise—and besides there is no assurance whatsoever that after having gone to the time, trouble, and expense, any relief will be forthcoming to anyone, business and labor alike.

(b) *More bureaucracy.*—An inevitable growth of bureaucracy will occur under this measure. The adjustment assistance features require detailed advice to management on loans, technical assistance and the like. The determinations as to whether or not the labor, union or nonunion, is injured by imports will be a complex technical matter. Administering the relief and retraining will take money and manpower. The already overburdened staff of the Tariff Commission will have another large job thrown at it—adjustment assistance. In addition, the established departments and agencies, as specified in the bill, would be concerned with its administration in the adjustment phases and would necessarily require more manpower.

(*c*) *Transshipments from Communist countries.*—No real attempt appears to have been made in the measure to prevent the transshipment of goods from Communist countries. We have seen already how easy it is to transship goods from Japan via such areas as Hong Kong. The measure could permit vast transshipments into Europe (which trades freely with the Communist bloc) into the United States.

(*d*) *Exports at the expense of the domestic economy.*—The measure encourages exports at the expense of import-vulnerable industries. This is a historical departure from our customary method of equalizing the impact of trade between various segments of our economy and not discriminating for one in favor of the other. This traditional principle is vitiated (or more likely destroyed) in H.R. 11970.

The bill's main purpose is to encourage exports. Another of its main thrusts is to encourage imports. The idea here is that exports will increase at a rate greater than imports. Regardless of whether this will prove to be the fact, encouragement of one form of American trade at the expense of another is open to question.

(*e*) *Will exports increase faster than imports?*—The premise that exports will increase faster than imports is pure blue sky. The record shows that this is not the case. Even without eliminating our vast subsidized exports, recent months show that the proportionate increase in our imports has exceeded the proportionate increase in our exports.

(*f*) *Relative tariff levels.*—In H.R. 11970 there has been a consistent failure to require other countries to meet past tariff reductions of the United States by comparable reductions in their own tariffs and other restrictions. It is said by official spokesmen and their friends that, just pass H.R. 11970, and other countries will come down in their tariffs to levels comparable to ours. This is not the case at the moment, as the following figures from a survey of the Joint Economic Committee quoted by the Morgan Guaranty Trust Co. indicate:

Industrial tariffs (weighted averages)

	Percent		Percent
Japan	19	Australia	12
Austria	19	United States	11
United Kingdom	17	Norway	11
New Zealand	17	Benelux	11
Italy	16	West Germany	9
Canada	16	Sweden	8
France	15	Switzerland	8
EEC	14	Denmark	6

Source: Joint Economic Committee.

It is unreasonable to expect a reduction in our duties of 6½ percent to zero on automobiles to be matched by reduction of 22 percent to zero in EEC tariffs on our automobiles abroad. Past reductions like this have not been met. It is said that our future reductions will be met, but experience shows the contrary. The easiest way for us to solve this serious problem would be to increase our own duties to levels commensurate with those of other nations—or conversely, require them to reduce theirs to our levels—before the bargaining begins.

(*g*) *Japan.*—The most-favored-nation clause under H.R. 11970 will extend all our concessions to Japan and the Orient. This will vitiate most of the usefulness of the law as it applies to the EEC in that Japan will end up the primary beneficiary of many of the reductions in tariffs to zero—and as we have noted previously, there is no flexibility provision in H.R. 11970 whereby when one nation causes the 80-percent formula to be broken, tariffs automatically readjust.

(*h*) *The consumer.*—On protecting the consumer by imports this argument is much overstated. Two facts should be noted. The United States has strict antitrust laws and tough competition. This is not new.

Alexander Hamilton was of the opinion that competition here was sufficient to keep prices down, tariffs or no tariffs:

"But, though it were true that the immediate and certain effect of regulations controlling the competition of foreign with domestic fabrics was an increase in price, it is universally true that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attained to perfection, and has engaged in the prosecution of it a certain number of persons, it invariably becomes cheaper. Being free from the heavy charges which attend the importation of foreign commodities, it can be afforded, and accordingly seldom or never fails to be sold, cheaper, in process of time, than was the foreign article for which it is a substitute. The internal competition which takes place soon does away with everything like monopoly, and by degrees reduces the price of the article to the minimum of a reasonable profit on the capital employed. This accords with the reason of the thing and with experience.

"Whence it follows, that it is the interest of a community, with a view to eventual and permanent economy, to encourage the growth of manufactures. In a national view, a temporary enhancement of price must always be well compensated by a permanent reduction of it" (Alexander Hamilton, "Report on Manufactures").

But quite apart from this, the tendency on the importing nation—and this is only a wise course of commercial action—is to set prices in the United States at the highest possible level necessary to seize the market from the U.S. producer. In other words, if the U.S. shirt wholesales for $2 and the foreign-made shirt wholesales for 50 cents—over the long run, not at first—the tendency of the exporter from abroad or the U.S. importer will be to set the eventual shirt price at a figure of $1.90 or thereabouts, just enough to cut under the price in the American market and thus get the largest possible profit.

Thus this argument of protecting the consumer is vastly overrated. Its results have always over the long run proven to be chimerical.

(*i*) *Jobs.*—Congress and the American public have been belabored with wild statistics on the subject of jobs due to exports and jobs vulnerable to imports. Administration spokesmen have made some remarkable statements on this point. I will not belabor or insult the committee by quoting and refuting these wild statistics, since they are so obviously full of water.

One fact is very simple. If it takes 100,000 man-hours to make X widgits for export, it also takes 100,000 man-hours for making X widgits for the domestic market.

Exports make jobs here. Import destroy jobs here. The proportions, on the average, equalize out.

Highly automated plants make for less jobs than those with a higher labor content—on exports and imports alike; $1 million in exports from a highly automated plant thus means less jobs than $1 million imports on a high labor content item.

Further, a domestically produced item requires two hauls—one, the haul of the raw material into the factory; the other, the haul of the finished product out of the factory to the point of consumption. The import requires one domestic haul: from the seaport to the point of consumption.

(*j*) *Our "export surplus."*—Administration spokesmen have made much of our so-called export surplus. Under questioning, they have cut the $5 billion in half—eliminating Public Law 480 food, foreign aid, and other materials given away. If they took the trouble, they could probably eliminate the other half by deleting charity and the U.S. goods purchased with loans made by international or Federal banking instrumentalities and U.S. companies' shipments of goods to their foreign subsidiaries.

In other words, the so-called export surplus has been much overstated. Probably little if any exists at all.

Senator CARLSON (presiding). The next witness will be Mr. Harold O. Toor, National Shoe Manufacturers Association, New England Shoe & Leather Association.

Mr. Toor, you may proceed, sir.

STATEMENT OF HAROLD O. TOOR, TREASURER OF THE NATIONAL SHOE MANUFACTURERS ASSOCIATION, AND REPRESENTING THE NEW ENGLAND SHOE & LEATHER ASSOCIATION AND THE ST. LOUIS MANUFACTURERS ASSOCIATION

Mr. TOOR. My name is Harold O. Toor. I am treasurer of the National Shoe Manufacturers Association, president of the H. O. Toor Shoe Corp., and chairman of the board of the Freeman Shoe Co.

I am representing the National Shoe Manufacturers Association, the New England Shoe & Leather Association, and the St. Louis Shoe Manufacturers Association, which together include over 500 manufacturers producing at least 90 percent of all the footwear made in the United States.

Mr. Thomas Shannon, our counsel, is with me to help out if I need such help.

The leather shoe manufacturing industry is an essential industry whose products were rationed in World War II.

It is made up of approximately 850 companies with over 1,300 factories in counties represented by 262 congressional districts in 38 States. These factories are in over 650 communities.

In many cases, they provide the major economic support of the community. In certain States, for example, such as Maine, New Hampshire, and Massachusetts, shoe manufacturing, according to the three-digit standard industrial classification of manufacturing for 1959, was the largest manufacturing industry employer; in Missouri it was the 2d largest; and in Wisconsin and Pennsylvania it was the 11th.

We generate a payroll in the United States, if we include suppliers of materials, equipment, and machinery, at somewhere between 350,000 and 400,000 employees.

In certain cases where our manufacturers have opened new factories, the community has estimated that a 500-person payroll affects the economic welfare of 1,500 to 2,000 people.

On the basis of this assumption, the activities of shoe manufacturing in the United States affect the economic welfare of a million to a million and a half citizens.

The shoe industry is vitally important to hundreds of small communities throughout the Nation.

The shoe manufacturing industry is one of the most competitive in the Nation. Concentration in shoe manufacturing in the United States is minimal.

The first 4 companies, according to the Census Bureau, in 1961 produced 23.4 percent and the first 50 companies 51.6 percent of total output.

In 1939, the first 4 produced 23.2 percent and the top 50 produced 51.3 percent, or about the same as today.

The shoe industry remains for the most part in the hands of the small entrepreneur or businessman.

Exit and entry in the shoe manufacturing industry is relatively easy. Buildings and machinery may be leased, and production undertaken with a relatively small amount of capital as compared with the investment required to enter manufacturing industry generally.

Conditions in the industry are relatively fluid; over the last 11 years 603 factories have ceased operation, while around 445 factories have begun shoe manufacturing.

An index of the intensive competition prevailing in shoe manufacturing is provided by the Department of Commerce figures for average factory value of all shoes produced.

The average factory value was only $3.80 per pair in 1961, as compared with $3.44 in 1950. This rather amazing picture is confirmed at retail where over 58 percent of the women's shoes sell at $6 a pair, or below; over 60 percent of all men's shoes at $10, or below; and over 72 percent of all children's shoes at or below $6 a pair.

The intense conflict prevailing in shoe manufacturing is further illustrated by the fact that of the approximately 850 companies in the industry around a third report losses to the Internal Revenue Service each year.

The earnings of the entire industry average about 2 percent on sales, after taxes; the middle 50 percent of the companies, from 0.9 to 2.7 percent.

The shoe manufacturing industry of the United States recognizes the necessity of a policy and program of trade expansion as a national objective. We endorsed and supported the proposed Orderly Marketing Act of 1961, under which foreign manufacturers would share in the growth of our domestic market.

We would like to support the proposed trade expansion bill, H.R. 11970. We have grave doubts, however, that we can survive as a healthy industry under this legislation unless there is an improved safeguard for businesses such as ours which face increasingly severe competition from imports.

The table below reveals that over the past decade under the Trade Agreements Act our markets have been opened to footwear products of the world and a steady expansion has taken place in imports of footwear.

(The table referred to follows:)

U.S. foreign trade in footwear (other than rubber footwear and slipper socks), 1951–62

Year	U.S. domestic production	Imports		Exports	
		Million pairs	Million dollars	Million pairs	Million dollars
1962 (6 months)	323.9	33.4	40.5	1.4	4.3
1961 (6 months)	304.8	16.3	26.9	1.5	4.3
1961	599.8	36.8	59.8	3.0	9.0
1960	598.4	26.6	53.3	3.2	9.4
1959	638.2	22.3	44.4	3.5	11.4
1958	587.1	23.6	32.9	4.2	13.4
1957	597.6	11.0	22.2	4.4	13.9
1956	591.8	10.0	18.5	4.5	14.1
1955	585.4	7.8	13.6	4.6	14.4
1954	530.4	5.6	10.4	4.7	14.6
1953	532.0	6.9	12.7	5.2	16.2
1952	533.2	5.3	11.1	4.8	15.3
1951	481.9	5.4	11.0	4.2	14.0
Percent change, 1961 over 1957	+0.36	+234.5	+169.4	−31.8	−35.3
Percent change, 1962 (6 months), 1961 (6 months)	+6.4	+105.5	+50.5	−6.7	(1)

1 No change.

Since 1960 imports have expanded at an increasingly rapid rate.

For the first 6 months of 1962 they have more than doubled. At the present time, imports are running at the rate of 10.3 percent of U.S. production. If the gain continues for the year, which is likely, imports will exceed 70 million pairs in 1962. If the gain in imports in 1963 is 50 percent, and 1964 and 1965 only 25 percent, at the end of 1965 we shall be importing over 160 million pairs, or 24.6 percent of an estimated 1965 population of 650 million pairs.

In summary, we shall have lost in the first half of the sixties practically all of our potential growth.

This flood of imports will have a marked effect on actual and potential employment in shoe manufacturing. It is not surprising that the president of the AFL-CIO mentioned in his presentation before this committee the problems of shoeworkers arising from the great increase in imports.

On the average each 3,500 production workers in the shoe industry working a 35- to 40-hour week, 50 weeks a year, produces about 10 million pairs of shoes a year.

This output in turn provides employment for another estimated 1,200 workers in the supplying trades. A total of 4,700 workers, therefore, are provided with job opportunities in the manufacture of each 10 million pairs of shoes.

This would mean that in 1961 at least 16,000 employment opportunities were lost in the leather shoe and supplying industries through imports. If imports reach 160 million pairs by the end of 1965, then another 58,000 employment opportunities will have been sacrificed in the leather shoe and supplying industries. The support the shoe and allied payrolls give in hundreds of small communities through the Nation may well mean that directly or indirectly, a total of anywhere from 75,000 to 100,000 additional people may be affected by this trend.

This flood of imports not only reduces employment opportunities for shoeworkers, but it forces shoe manufacturers to make arrangements of one type or another in foreign countries to produce shoes or shoe parts.

A few manufacturers, thoroughly discouraged by the import flood, are investing in facilities abroad or making other arrangements so that they may import footwear or parts and thus remain competitive.

Unless some action is taken to adjust imports to an orderly growth, this movement will grow apace, and we shall see dozens of factories moved from this country to Europe.

What will happen to the workers in the small towns of Maine, Pennsylvania, Arkansas, Missouri, Georgia, Tennessee, Illinois, and others. It is the height of sophistry to assume that the adjustment provision of this bill will take care of all these people.

The employment data that I have cited clearly indicate that at present reduced tariff rates, imports of footwear have essentially free entry into the United States. Further encouragement to imports is not needed. There is positive evidence that at existing duty rates—5 percent and 10 percent through 20 percent—the United States has made a substantial contribution to the objective of trade expansion in footwear.

In contrast, our export trade in footwear has not shared in this expansion, principally because of higher costs here but also because of restrictions of one type or another in foreign countries.

The question may be asked: How can foreign shoe manufacturers make such substantial inroads in U.S. markets if the domestic shoe industry is modern, has built at least 80 new plants with over 3½ million square feet of space since 1950, is keenly competitive, alert to changes in markets, and possesses an excessive capacity of at least 100 million pairs per year?

The answer is clear. Differences between wage rates in the United States and shoe-exporting countries are responsible for the growth of imports.

Shoe manufacturing in other countries is similar in character to our own. It is relatively easy to enter, and there are hundreds of factories to supply the domestic market as well as foreign demand.

Because shoes are a necessity, shoe factories in these countries were among the first to be reconstructed following the war.

Many of these plants were rebuilt or modernized with U.S. aid.[1]

Shoe manufacturing is an assembling operation, and shoe machinery is of a relatively simple nature to assist hand operators in stitching, cutting, trimming, folding, smoothing, and so forth. Machinery and technology are universal, and today no one industrial country enjoys any substantial advantages over the other in machinery and methods.

At the same time, it should be made clear that in general the productivity of American shoe factories may, on the average, be as much as 25 percent greater than in factories abroad, although the productivity of a few of the larger factories in England, Italy, and Japan may approximate that of American factories producing a comparable type of footwear. Our productivity, however, cannot offset the substantial price advantage which exists today in favor of foreign shoe manufacturers.

Wages in shoe manufacturing abroad range from a half to even a fifth of wages in the United States as the following table will reveal:

(The table referred to follows:)

Foreign versus U.S. average hourly earnings and fringe benefits in the leather footwear industry

Country	Hourly earnings	Fringe benefits (percent)	Total labor costs
United Kingdom	$0.870	12	$0.974
France	.626	45–50	.939
Switzerland	.750	15	.863
West Germany	.638	30	.829
Belgium	.510	35	.689
Netherlands	.440	30	.572
Italy	.221	75–80	.451
Japan	.276	15	.317
United States	1.630	19.4	1.946

NOTES.—Fringe benefits percentages are estimated by the U.S. Department of Labor. Period covered for each country is as follows: France, October 1961; Switzerland, October 1960; West Germany, May 1961; Belgium, April 1961; Netherlands, May 6, 1959; Italy, June 1960; Japan, calendar 1960; and U.S. hourly earnings and fringe benefits, May 1961.

United Kingdom: "Clothing and Footwear" category, adult males, 21 and over. France: "Hides and Leather" category. Skilled males, in Paris zone, the highest paid region in the country. Switzerland: Male workers. Italy: Average hourly earnings and fringes in a related industry, "Leather and Leather Products," are as follows: $0.219, 75–80 percent, $0.574. Japan: "Leather and Leather Products."

Sources: U.S. Department of Labor; British Ministry of Labour Gazette; NSMA (U.S. fringe benefits).

[1] In most cases the export demand is more important for foreign countries than it is for U.S. producers.

Italy, for example, exported about 42 percent of leather footwear production of 59,710,000 (U.S. Department of Commerce) pairs produced in 1961, or around 25 million pairs.

Of this 25 million (Organization for Economic Cooperation and Development, France), approximately 15 million go to the Common Market countries and 10,940,542 (U.S. Department of Commerce) to the United States, or about 18 percent of her total output.

The United Kingdom, out of a total production of 161,120,000 (U.S. Department of Commerce) pairs in 1961 exported 7.3 (Organization for Economic Cooperation and Development, France) million pairs, with 1,607,691 (U.S. Department of Commerce) million pairs coming to the United States.

France exported about 11 million (U.S. Department of Commerce) pairs of shoes out of a production of 96,600,000 (U.S. Department of Commerce) million pairs in 1961. Few came to America—9 million pairs (U.S. Department of Commerce).

Differences in wage rates here and abroad result in such price differences between foreign and domestic footwear that foreign producers may land shoes in this country at prices 15 to 25 percent lower than for equivalent items produced in the United States.

In other words, this is the result of lower priced labor in foreign countries competing against higher priced labor in America. While some footwear designs from foreign countries have won for themselves an accepted place in the American shoe market because of design alone, in the great majority of cases foreign footwear has earned its place in the U.S. economy solely because of differences in price.

By far the greater part of the imports today are styled in America and made in Europe or Japan for the U.S. market.

It is easy to show in an example how important these differences in prices between foreign and domestic footwear become in the highly competitive footwear industry.

About 175 million pairs of women's shoes sell at $2.98, $3.98, $4.98, and $5.98 a pair, through the great mass of shoe distributors of America.

These retailers provide consumers with amazing values in shoes. They are, however, in intensive competition with each other for a greater share of the market.

They, as well as shoe manufacturers, face a rising trend of costs. The cost squeeze requires them to search continuously for ways and means to increase mark-on in order to widen profit margins.

In a $3.98 shoe, for example, as costs inch up, the retailer is forced to shorten his mark-on or move from the $3.98 bracket to the $4.98 bracket. As there is a price elasticity in the demand for footwear, the retailer realizes that a move to a higher bracket may curtail his market or place him at a disadvantage against strong competition, or both.

If, however, he can purchase these shoes abroad wholesale, at important savings, then he can maintain his $3.98 bracket and at the same time increase his mark-on to meet heavier expenses. There is every encouragement, therefore, to buying more from lower wages countries to hold the price line and increase mark-on.

In a few cases, manufacturers of shoes who have been suppliers to large distributive outlets or who own distributive outlets, have been forced to curtail certain domestic production and open up factories abroad, simply because they could not meet import competition and supply their customers, whether wholesale or retail, with shoes at the right price.

It is clear, too, from these comments why the shoe manufacturing industry is vitally concerned in maintaining even its present scale of low tariffs.

Any reductions, for example, in the present duty of 20 percent on women's cement shoes would inevitably accelerate the growth rate of imports of these types in the United States from still other countries. Some countries now very easily jump the hurdle of our tariffs.

However, as these tariffs become lower, other runners will also be able to jump over them.

Shoe tariffs in the United States are the lowest of any important trading country in the world, as the next table will show. In the United States, too, there are no excise taxes or other restrictions which must be taken into consideration in calculating the final level of costs in certain countries.

(The table referred to follows:)

Foreign duty-tax rates on U.S. footwear versus actual 1960 duty paid in footwear imported into United States

Country	Duty, percent rate [1]	Other taxes (percent) [2]	Net duty plus taxes (percent)	U.S. duty, percent paid [3]
Common Market:				
Belgium	16-21.6	12	30-36	6.7
France	16-22.3	25+2	48-63	11.4
West Germany	12.5-16	6	19-23	8.6
Italy	[4] 18	5.8	24.8	13.8
Netherlands	16-21.6	5	22-27	16.6
Luxembourg	16-21.6	4	21-26	NA
Japan	20-30	20	40-50	18.8
Hong Kong	(5)	(5)	------------	16.3
United Kingdom	(6)	5	11.5-36.5	7.2
Canada	[7] 27½	11	41.5	9.7
All countries	NA	NA	NA	12.6

[1] Based on c.i.f. or landed cost values, except for Canada.
[2] Applied to duty paid value. This results in net duty plus taxes being greater than mere addition of duty plus tax rates.
[3] Based on 1960 footwear imports, f.o.b. shipping point values. Duty actually paid.
[4] Maximum of 720 lire duty per pair.
[5] Free port.
[6] 3 shillings per pair or 10 to 30 percent, whichever is higher.
[7] Applied to U.S. market value or invoice, whichever is higher.

Source: NSMA, based on customs' schedules and reports from U.S. embassies, U.S. Department of Commerce.

This comparison of tariff schedules of the United States and foreign countries indicates further that there has been little reciprocity in previous trade negotiations. This may have been all very well during the reconstruction stage of European and Japanese industry. It throws the trading picture completely out of balance today when the same technology and equipment are used in foreign countries as in the United States and these countries have the additional advantage of cheap labor.

In judging the various levels of tariffs and the question of reciprocity, moreover, we must not forget that some of our Common Market friends have not been as generous as our negotiators. They have been discriminating against Japan and under GATT have refused most-favored-nation treatment to Japan because of low-wage rates in that country.

They do not hesitate to provide protection for their manufacturers against imports from low-wage countries. These Common Market countries recognize what it means to compete with a low-wage country in the world's market.

We believe at this stage of world industrial development that the United States must insist in its negotiations on real reciprocity.

Business Week has commented on this point as follows:

> It is essential, however, that we treat this matter from the start on a business basis. The postwar period of European weakness is over. We are now dealing with commercial equals from whom we have every right to expect a quid pro quo; if not some credit for one-sided concessions we have made in the past. Our new trade policy should be shaped—and used—accordingly * * *. Even if we assume that this authority to wipe out certain tariffs would be an advantage in getting Europe to bargain, some limits and safeguards need to be put on it.
>
> For example, the administration should not be free to reduce U.S. tariffs to zero on several broad product categories while EEC in return cuts its common tariff 20 percent overall.
>
> From the statistics, such a swap might appear to be to our benefit. But chances are that the Europeans would gain more. The absence of tariffs in the United States, even on a limited number of categories, would enable them to penetrate our markets more deeply than we could theirs, as long as they retained a tariff wall.

We recognize that Congress may pass a trade expansion program. We urge, therefore, the inclusion of certain safeguards for domestic industry in the final form of this trade legislation.

1. We strongly endorse the principle embodied in the proposal which Senator Muskie will introduce in the Senate and urge the trade bill be amended to provide for the establishment of negotiating procedures for orderly marketing which will offer a nation in which wages are significantly lower than in the United States a fair share in the growth or change in domestic consumption in such manner as will also prevent unfair competitive advantage over manufacturers and producers in the United States.

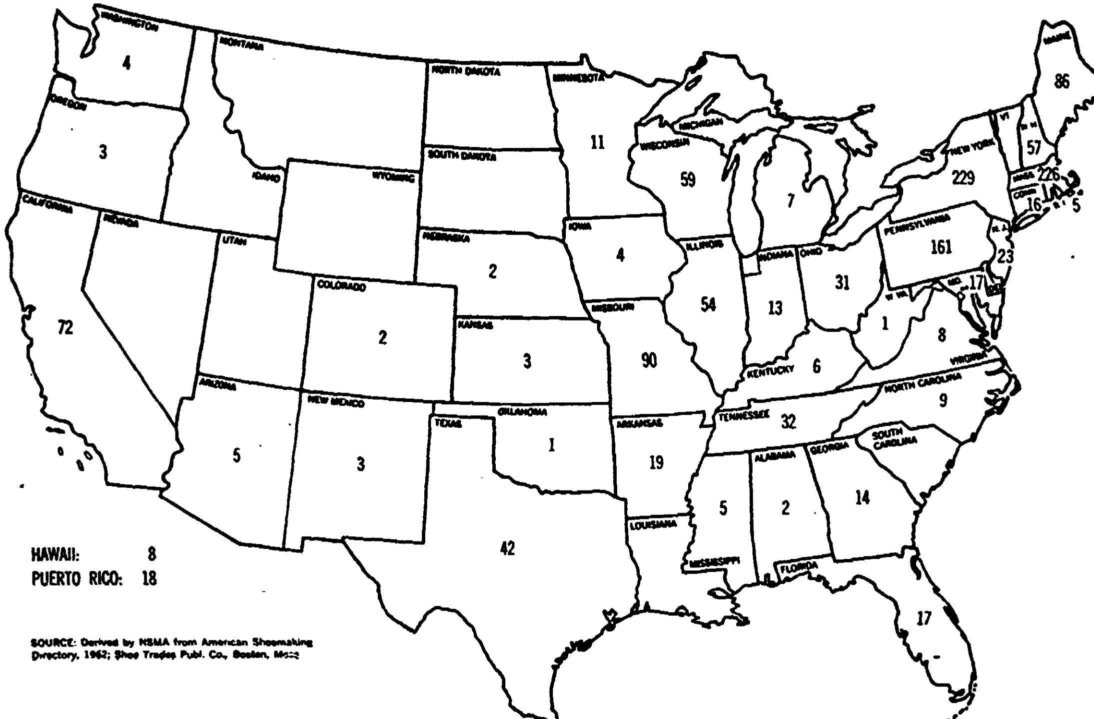
2. We also recommend that the Tariff Commission should, under section 211 of the proposed bill, after holding hearings, be directed to report to the President in advance of negotiation the level of duty or import restriction on any article or articles below which domestic producers of such article would suffer serious injury from importation. The President should inform Congress where reductions are made in tariff duties or restrictions below such levels.

In conclusion: The American shoe industry asks this simple consideration—a fair competitive chance of survival as an industry paying the world's highest shoeworkers wages.

(The material referred to follows:)

CHART I

MAP OF THE UNITED STATES SHOWING DISTRIBUTION OF 1363 SHOE MANUFACTURING PLANTS, BY STATES, 1962



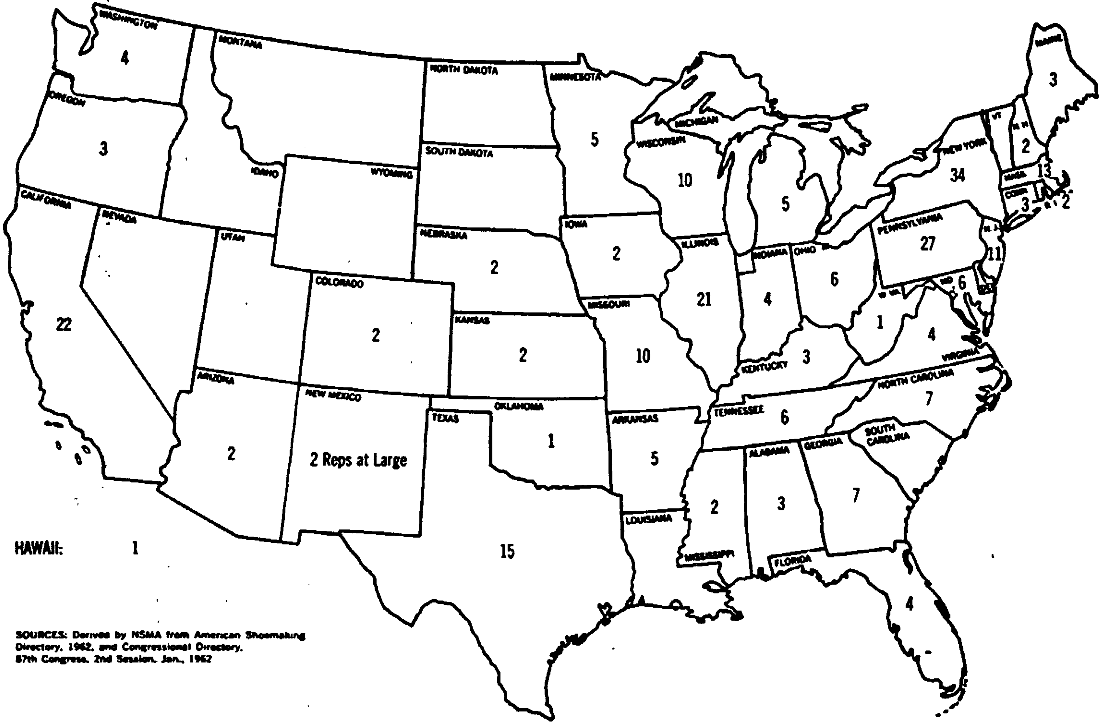
HAWAII: 8

PUERTO RICO: 18

SOURCE: Derived by NSMA from American Shoemaking Directory, 1962; Shoe Trades Publ. Co., Boston, Mass.

CHART II

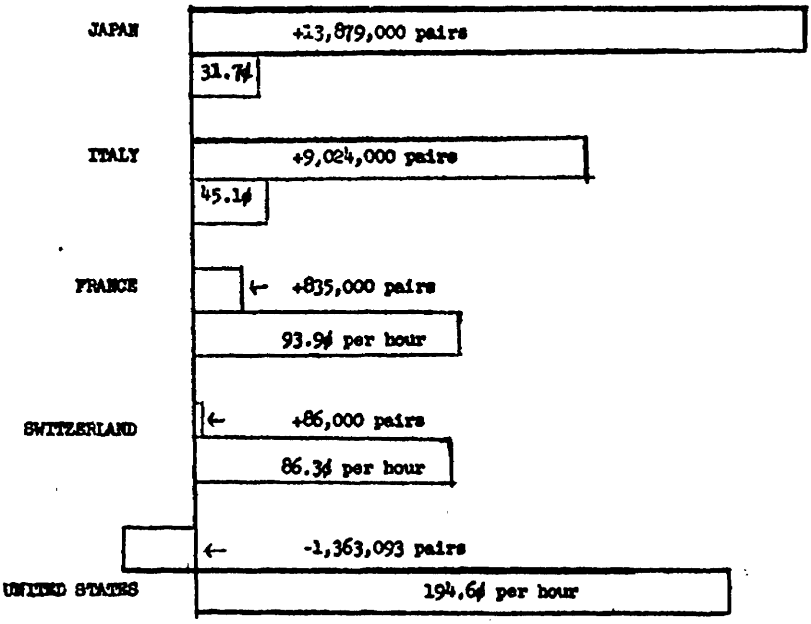
MAP OF THE UNITED STATES SHOWING 262 CONGRESSIONAL DISTRICTS REPRESENTING AREAS HAVING SHOE PLANTS, 1962



SOURCES: Derived by NSMA from American Shoemaking Directory, 1962, and Congressional Directory, 87th Congress, 2nd Session, Jan., 1962

CHART IV

INCREASE IN U. S. IMPORTS OF FOOTWEAR (OTHER THAN RUBBER FOOTWEAR AND SLIPPER SOCKS) FROM SELECTED COUNTRIES AND INCREASE IN U. S. LEATHER FOOTWEAR EXPORTS TO ALL COUNTRIES, RELATED TO AVERAGE HOURLY WAGES* OF SHOE WORKERS



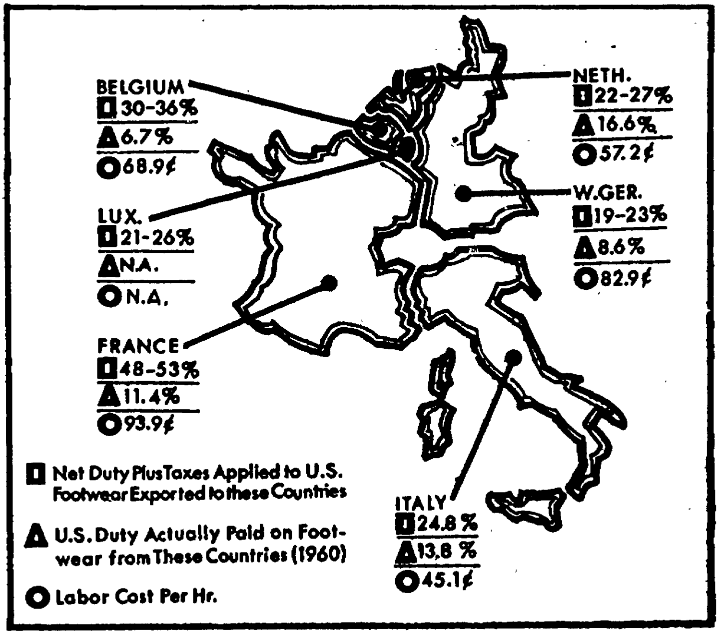
* Wage data are latest available in 1961 or 1960.

** During the period, 1957 to 1961, U. S. exports dropped by 1,363,093 pairs to around 3 million pairs.

Source: Department of Commerce, British Ministry of Labour Gazette, U. S. Department of Labor and NSMA.

CHART V

Common Market Net Duty Plus Taxes On U. S. Footwear Versus U. S. Duty Paid On Imported Footwear From Each Common Market Country, And Labor Cost Per Hour In Footwear Manufacture



Data Source: National Shoe Manufacturers Association, 1961

SHOE IMPORTS INCREASE 105 PERCENT IN FIRST HALF OF 1962—IMPORTS NOW EQUAL TO 10 PERCENT OF DOMESTIC OUTPUT

U.S. imports of all types of foreign leather footwear—excluding rubber footwear and slipper socks—set a new record volume of 33,406,046 pairs in the first half of 1962. This total, according to the New England Shoe & Leather Association, represented an increase of 105.3 percent over the comparable 1961 period. Dollar value rose 50.5 percent to $40,497,874.

It is interesting to note that the 6 months, January-June 1962, import volume of 33.4 million pairs is only 9 percent below the 36.8 million pairs imported in the entire 12 months of 1961.

SHOE IMPORTS INCREASING AT ALARMING RATE

"Leather-type shoe imports rate of increase of 105 percent in first half of 1962 over 1961 was exactly twice the rate we had estimated at the beginning of the year," stated Maxwell Field, executive vice president of the association. "Such volume of imports—now equal to over 10 percent of U.S. production—under existing duties, substantiates fears of shoe manufacturers for survival in the event the administration's Trade Expansion Act of 1962 is enacted without adequate safeguards," Mr. Field explained.

Import volume was 36.8 million pairs in 1961, equal to 6.1 percent of domestic output. Shoe imports rose 471 percent from 1955 to 1961.

Shoe and slipper imports, 1st 6 months, 1962

Kind—leather-type (non-rubber) footwear	Pairs	Dollar value	Percent change, period of January to June 1962 over 1961	
			Pairs	Dollar value
Men's, youths', and boys'	3,622,769	14,026,483	+40.6	+39.1
Women's and misses'	8,364,584	15,311,461	+57.9	+35.2
Slippers for housewear	2,839,261	1,371,324	+158.9	+103.6
Moccasins, Indian type	428,899	408,218	−42.7	−36.9
All other types	18,150,533	9,380,388	+177.0	+124.0
Total, leather footwear	33,406,046	40,497,874	+105.3	+50.5

NOTE.—Imports in June 1962 equaled 15.4 percent of domestic output in that month; January-June 1962 combined import volume equaled 10.3 percent of total domestic volume in the same 6-month period.

Source: Prepared by NESLA from reports of the U.S. Department of Commerce.

JAPAN, ITALY, HONG KONG, AND SPAIN SHARPLY EXPAND SHOE EXPORTS TO UNITED STATES

"Japan and Hong Hong have had the greatest increases of any nations in exports of nonrubber footwear during the first half of this year over 1961—170 and 793 percent, respectively," Mr. Field pointed out. "Shoes imported from these low-wage countries—with average hourly wages reported of 32 cents in Japan and even less for Hong Kong—represent mostly the lowest priced nonleather types imported into our country, as illustrated by average prices at wholesale declared values of $0.38 and $0.62, respectively, from Japan and Hong Kong."

"Italian exports to the United States of both women's and men's shoes increased 39 percent in this period and the value of its footwear amounted to close to $20 million. Spain showed a surprising increase of 147 percent to a total of 572,400 pairs, mostly men's shoes, valued at $1,642,146, with further sharp increases in exports to this country forecast for the future," Mr. Field concluded.

Shoe and slipper imports, by country of origin, for January–June 1962 versus January–June 1961 (excluding rubber footwear and slipper socks)

Country	January-June 1962		Percent change 1962 over 1961	
	Pairs	Dollar value	Pairs	Dollar value
Japan	17,866,298	6,825,688	+170.0	+170.8
Italy	8,806,164	19,707,303	+39.1	+28.1
Hong Kong	2,654,639	1,651,743	+792.7	+854.1
United Kingdom	841,696	3,918,655	+29.3	+16.8
Spain	572,400	1,642,146	+147.0	+162.6
France	522,882	1,050,474	+48.4	+33.2
All others	2,141,967	5,701,865	+19.6	+40.2
Total	33,406,046	40,497,874	+105.3	+50.5

Source: Prepared by NESLA from reports of the U.S. Department of Commerce, Leather and Shoe Division.

Senator CARLSON. Any questions?

Senator McCARTHY. Mr. Toor, this may be in your typed statement, but what countries are the principal exporters of shoes to the United States?

Mr. TOOR. Today, Japan is No. 1, Italy No. 2, and then Spain is involved here and becoming more important.

Senator McCARTHY. What rate of duty is applied? Does it vary from Japan to Italy to Spain?

Mr. TOOR. It varies on the type of construction of shoes. But the highest is 20 percent, which is not significant.

Senator MCCARTHY. What is that on the low quality shoe?

Mr. TOOR. Well, I don't know exactly how it goes. But the 20 percent, I think, is on one of the cheaper forms, it is cement construction.

Senator MCCARTHY. What is the difference in wage rates, hourly wage rates? Do you have those statistics?

Mr. TOOR. We have some tables in our brief. Actually they are from three to five times higher in this country than they are abroad. Of course, in Japan, it is definitely five times higher.

Senator MCCARTHY. In Italy, the recent trend has been to increase wages, has it not, whether it is true in the shoe industry, it is true in general?

Mr. TOOR. Yes, I think you will find in most countries there is a trend to increase wages but I don't think it is enough to even cut a figure as compared with our wages, I think there has been an increase. I think the same thing applies to West Germany.

Senator MCCARTHY. Does it apply in same measure in Japan?

Mr. TOOR. In Japan I think there has been some demand for wage increases. As a matter of fact, I was over there a few years ago, 2 years ago, as a matter of fact, visiting some of the factories and they spoke, complained of having to raise wages but the wages are insignificant to what our increases are over here.

Senator MCCARTHY. Do you know what percentage of the total Japanese production comes into the United States?

Mr. TOOR. No, I don't. Do you, Mr. Shannon?

I know we are their biggest customer. Mr. Shannon says it is about 30 percent of their production.

Senator MCCARTHY. Most of theirs is in competition with low-priced shoes, is it not?

Mr. TOOR. Yes, Japan exports low-priced shoes. We are having competition on better grade shoes from Italy, and England and Spain, now. I may say this, if you will pardon me, Senator, there is a definite movement on foot to go abroad to make shoes. Just this past week, it was announced by the largest manufacturer of women's specialty shoes in the United States that they have just recently acquired a company that has been in the import business for some time. This is a protective measure, and within the next 30 days, there will be several safaris of shoe people going abroad to look into this thing for their own protection and I am one of them.

Senator MCCARTHY. Would that be in the interest of being able to produce at lower prices and ship back into the United States?

Mr. TOOR. That is right.

Senator MCCARTHY. Or is there some concern about getting established within the Common Market wall before the gates are closed?

Mr. TOOR. That is exactly what the rush is for.

Senator MCCARTHY. Primarily to ship back to the United States?

Mr. TOOR. That is right.

Senator MCCARTHY. Not significantly for the other purpose?

Mr. TOOR. No; it is principally for competition with our own industry. Of course, this country has never been an exporter of shoes, and so the foreign market has never been of much account for us. So, therefore, our interest at the moment is trying to get protection over here against these imports. Some may be interested in establishing, becoming connected with factories there to ship to the undeveloped countries, but I don't think the U.S. mind is geared that way in shoe manufacturing.

Senator McCARTHY. I notice you endorse Senator Muskie's bill. Do you feel that the present peril point provisions are inadequate or have not been properly applied?

Mr. TOOR. We don't think the peril point—well, if the level is applied properly, I think the peril point would be of some help for us.

Senator McCARTHY. The concept is all right. It is a matter of application.

Mr. TOOR. That is right.

And the Muskie bill, the important thing for us is that it doesn't eliminate imports of shoes at all. It would just put it on an orderly basis, based on our own production.

Senator McCARTHY. What is proposed in the Muskie bill is not very different or, let me ask you, is it very different from some of the proposals which the Common Market nations supposedly are using in order to work out the gradual adjustments within the Common Market or among the Common Market countries.

The question of agriculture, for example?

Mr. TOOR. No; it is not much different.

Senator McCARTHY. Essentially the same—if we can call it principle—practical approach in which they attempt to ease the transition.

Mr. TOOR. That is right.

Senator McCARTHY. And this in effect is what you are recommending?

Mr. TOOR. That is what we are looking for; right.

Senator McCARTHY. Particularly to take into account the differences in wages.

Mr. TOOR. Definitely.

Senator McCARTHY. Which you say is the principal competitive advantage that the foreign producers now have?

Mr. TOOR. Strictly a matter of wages, sir.

Senator McCARTHY. Some advantage in terms of the cost of capital, their interest rates are still somewhat lower.

Mr. TOOR. That is right.

Senator McCARTHY. Speaking in terms of a share of the world market for shoes, where do the Japanese and the Italians rate in that total picture?

Mr. TOOR. Well——

Senator McCARTHY. What is their production in relation to the production of the shoe industry, let's say, in the United States? I am not concerned with their share of the American market, but if we can speak of a world market for shoes.

Mr. TOOR. I think together they probably are close to our production. Our production is a little over 600 million pairs a year.

Senator McCARTHY. This is all in the United States?

Mr. TOOR. That is right; where we make——

Senator McCARTHY. Whereas Japanese, it is proper to say, theirs is distributed throughout the world?

Mr. Toor. I don't think they come near our production figures in shoes other than leather; they might. I am talking about, you know sneakers, and so forth; it is very big.

Senator McCarthy. Yes.

Mr. Toor. I don't know what the figures are, I really don't. I imagine our association has them, but I am not familiar with them.

Senator McCarthy. And then the Italians and the Spaniards and so on have a relatively small share?

Mr. Toor. Spain is becoming relatively important. They are now offering to build factories for American manufacturers over there.

Senator McCarthy. In Spain?

Mr. Toor. Yes. And everybody is making a visit to Spain right now, looking into the situation.

Senator McCarthy. I have nothing further.

Senator Kerr (presiding). If we give them enough money from our Treasury to their treasury, then they will take a part of it and give it to you boys to build shoe factories?

Mr. Toor. That is right. We did a very good job of training them right after the war. I mean with all due respect, and probably it was the right thing to do, but they sent teams over here from all the countries and my factories were some of those that we brought them down to. We taught them our methods, and the methods are the same all over now. There is no competition in technological improvement; it is just a matter of wages.

Senator McCarthy. If I can ask one more question: What is the condition of the machinery in the American shoe industry? Is it as modern generally as in other parts?

Mr. Toor. Yes; it is as modern as any of them. Automation does not play too important a part in shoe manufacturing as long as we deal with the product that comes off the animal's back. It is not uniform, and it restricts our ability to use automation.

There are improvements. They have them over there, and we have them, too. But we are way ahead of them in quality construction, and so forth.

Senator Kerr. Thank you.

Mr. John Andrew Kennedy.

STATEMENT OF JOHN ANDREW KENNEDY, ATTORNEY, APPEARING FOR NOEL HEMMENDINGER, ON BEHALF OF THE IMPORTED FOOTWEAR GROUP, NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.; MISCELLANEOUS GOODS DIVISION, JAPANESE CHAMBER OF COMMERCE OF NEW YORK, INC.; AND JAPAN RUBBER FOOTWEAR MANUFACTURERS' ASSOCIATION

Mr. Kennedy. Mr. Chairman, my name is John Andrew Kennedy. I am appearing here today in place of Mr. Hemmendinger, who is participating in hearings at the Tariff Commission and was unable to present his statement. I am a member of the firm of Stitt & Hemmendinger of this city.

Senator Kerr. Just one moment.

We are either going to have to have more volume or a better amplifier.

Mr. KENNEDY. I will try to speak louder then.

I am appearing on behalf of the Imported Footwear Group of the National Council of American Importers, Inc., Miscellaneous Goods Division of the Japanese Chamber of Commerce of New York, Inc., and the Japanese Rubber Footwear Manufacturers Association.

We want to endorse H.R. 11970 and to propose two amendments which we are convinced merit your consideration and at this point I would like to submit our full statement for inclusion in the record and then to summarize the principal points we plan to make.

First of all, we endorse H.R. 11970 because as groups engaged in international trade we strongly favor all measures that may tend to lower barriers to the free flow of goods among nations.

Secondly, we propose two amendments, one with respect to section 336 of the present Tariff Act and one with respect to section 337.

Section 336 is the equalization of cost of production provision. It provides that after an analysis of comparative costs by the Tariff Commission, the Tariff Commission should recommend to the President either an increase in duty or decrease in duty or that the imported goods be appraised on the basis of the American ceiling price of the goods with which it is competitive.

The statute leaves no room for discretion and does not require or permit the Tariff Commission to examine anything but comparative costs.

Our principals are concerned with this section because rubber footwear which they import is now subject to the American ceiling price basis as the result of a proclamation issued in 1933.

Briefly, there are four reasons why we believe the American ceiling price duty basis is undesirable.

First, the trading nations of the free world adopted a set of trading principles in the General Agreement on Tariffs and Trade which in their judgment reflected sound principles. One of these, article VII, paragraph 2(a), was:

> The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.

The United States is not technically in violation of this provision because of a saving clause relating to existing legislation, but the United States did subscribe to this principle, and departures from it should not be continued year after year without very compelling reasons.

2. The American selling price basis for duty conceals a level of duties which, if levied upon the normal export value or the foreign value, would be way out of line with the present U.S. duty structure. In actual fact, much imported rubber footwear pays duties equivalent to 100 percent and more on the f.o.b. values.

3. Interference with trade is serious even if the monetary amount of duty is tolerable. When the order is placed, the importer cannot know with certainty what product will be selected by the appraiser as the like or similar American product when the merchandise is entered. It is possible, and indeed has happened, that a new American product is brought to the appraiser's attention between the time the order is placed and the time of entry, thus establishing a new basis for valua-

tion entirely outside the control of the importer. The purchase of goods abroad involves risks in any event which are not found in domestic business—problems of distance, of communications, of styling, and so forth. These hazards the importers have to deal with, but they should not be ask to deal with the unfair hazards which the American selling price basis for valuation creates.

It should also be brought to your attention that when ever you have such arbitrarily high duties as the American selling price duty basis creates for rubber footwear, you afford an extraordinary incentive to traders to design products that will not incur the American selling price valuation.

Accordingly, this Congress has twice in recent years enacted special legislation at the request of the American industry, closing so-called loopholes in the protection afforded the industry by these American selling price duties.

We have been told that no section of the tariff schedules has caused more headaches to the Customs Bureau and to the Tariff Commission staff when they were drafting their revised schedules than these clauses, because of the tremendous difference that it makes commercially whether a footwear product falls under one subparagraph or another when all were originally duitable at 35 percent under the Tariff Act of 1930.

The Tariff Commission had occasion to call attention to the anomaly resulting from the American selling price duties as late as June 29, 1962, in its second supplemental report on the tariff classification study.

In that report the Tariff Commission recommended a change in the headnote referring to the American selling price duties on rubber footwear to conform to the practice of the Customs Bureau which has held the American selling price bases for duty not applicable to products in chief value of synthetic rubber. The Tariff Commission made a change in its revised schedules to assure that footwear chiefly of synthetic rubber does not have to pay the American selling price duty, and in doing so the Tariff Commission said:

> The distinctions made under existing law with respect to the valuation of this footwear are technical in nature and result in an anomaly. Footwear of natural rubber or synthetic rubber or combinations thereof are not commercially distinguishable and should receive like treatment for value purposes.

We respectfully submit that the source of the anomaly to which the Tariff Commission referred to is the American selling price duty basis and that the anomaly should be eliminated by the elimination of these American selling price duty bases.

Accordingly, we propose two things. We propose that section 336 of the Tariff Act be repealed in its entirety.

We propose second, that the existing American selling price duty bases resulting from section 336 investigations be abolished and new rates be established by the President upon the advice of the Tariff Commission, based upon the weighted average of the actual duties paid in the last 3 years, with a ceiling of the rate that would be applied if relief was found to be necessary. In other words, if there had been an escape clause investigation.

The second section which we suggest that the committee consider amending is section 337 of the Tariff Act.

This section relates to unfair competition on the part of imported goods. The Tariff Commission has had much difficulty in the administration of this section which has been confined almost entirely to cases where the import has held to violate patent rights; this led the Commission to recommend twice to the Congress that it be relieved of jurisdiction under section 337 and that its functions be transferred to the Federal Trade Commission and the patent courts which are properly constituted to deal with private controversies.

The Tariff Commission is constituted to deal with public issues and is an investigatorial body rather than an adjudicatorial body.

Recently the Supreme Court held in two cases, one involving the Glidden Co. and the other called Lurk against the United States, that the Court of Customs and Patents Appeals is a constitutional court. Although not a direct holding of the case it is quite likely under this decision that the Supreme Court would hold that the Court of Customs and Patents Appeals could not exercise jurisdiction in section 337 cases.

Finally, if these amendments of the present act are found to present questions which cannot be readily dealt with in the present legislation, then we respectfully suggest that this committee request analysis and views on the future of sections 336 and 337. With such reports in hand it should certainly be possible to deal next year with the unsatisfactory situation now presented by legislation.

That concludes my testimony.

Senator KERR. Thank you very much, Mr. Kennedy.

(The prepared statement of Mr. Hemmendinger follows:)

STATEMENT BY NOEL HEMMENDINGER

On behalf of the Imported Footwear Group, National Council of American Importers, Inc., Miscellaneous Goods Division, Japanese Chamber of Commerce of New York, Inc., and Japan Rubber Footwear Manufacturers' Association in support of H.R. 11970 with an amendment

My name is Noel Hemmendinger. I am a member of the law firm of Stitt & Hemmendinger of this city. I am appearing on behalf of the Imported Footwear Group of the National Council of American Importers, Inc., the Miscellaneous Goods Division of the Japanese Chamber of Commerce of New York, Inc., and the Japan Rubber Footwear Manufacturers' Association to endorse H.R. 11970 and to propose an amendment which we are convinced merits your consideration.

We endorse H.R. 11970 because, as groups engaged in international trade, we strongly favor all measures that may tend to lower barriers to the free flow of goods among nations.

The amendment which we propose would repeal section 336 of the Tariff Act—the equalization of cost-of-production provision—which has been inapplicable to merchandise subject to trade agreement concessions since the inception of the trade agreements program in 1934. This provision is therefore almost a dead letter, but not quite; and it is an anachronism which should be removed from the law. The fact that this vestige of a policy long since discarded can still cause trouble is indicated by the fact that there is now pending before the President the report of the Tariff Commission on brooms made of broom corn, in which the Tariff Commission has solemnly recommended an increase in duty and that the duty be based upon the selling price of American brooms, although there is no evidence whether the American industry has been injured or whether it is threatened with serious injury. The statute leaves no room for discretion and does not require or permit the Tariff Commission to examine anything but comparative costs.

My principals have no interest in brooms, which come mostly from Mexico. Incidentally, however, it would certainly do our relations with Mexico no good if we were to increase this duty without even a finding that such an increase is necessary to prevent serious injury to an American industry. The reason my principals are very much concerned with section 336 is that this is the source of the so-called American selling price duties now in force on rubber footwear, in which they have a very substantial interest.

There was a cost-of-production investigation of rubber and rubber-soled footwear in 1932, and in 1933 one of the last official acts of President Hoover was to sign a proclamation, T.D. 46158, which subjected rubber and rubber-soled footwear to valuation on the basis of the price of the like or similar domestic article. This American-selling-price duty basis has been in effect ever since, and there appears to be no way but legislation to change it.

There should be no need to argue in 1962 that the theory of tariff-making embodied in section 336 of the Tariff Act is thoroughly outmoded. Indeed, it can be said flatly that it is a mistake and that if you ever fully and consistently applied it would have prevented all trade in commodities having any competitive effect with domestically produced commodities. Obviously, section 336 should be repealed, and we venture to suggest that the only reason this was not done in H.R. 9900, as drafted by the administration, is that they thought that there were so few products left to which it could apply that it did not matter. The broom case shows that this was incorrect.

If section 336 is repealed, the next question is what to do about the proclamations in force in consequence of prior section 336 investigations. So far as most of these proclamations are concerned, this presents no problem because the proclamation simply increased the rates of duty and such rates have subsequently been reduced in trade agreements. They have been absorbed into the tariff schedules and any problems can be dealt with in the normal procedure of trade agreement concessions.

The proclamations that subjected imports to the American-selling-price basis for valuation are a different matter. Although there is room for argument, the administration has not considered that the basis for valuation could be altered through trade agreements. Legislation appears to be the best way, and this act appears to be the right vehicle.

In brief, the American-selling-price duty basis is undesirable for the following reasons:

1. The trading nations of the free world adopted a set of trading principles in the General Agreement on Tariffs and Trade which in their judgment reflected sound principles. One of these, article VII, paragraph 2(a), was:

"The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values."

The United States is not technically in violation of this provision because of a saving clause relating to existing legislation, but the United States did subscribe to this principle, and departures from it should not be continued year after year without very compelling reasons.

2. The American-selling-price basis for duty conceals a level of duties which, if levied upon the normal export value or the foreign value, would be way out of line with the present U.S. duty structure. In actual fact, much imported rubber footwear pays duties equivalent to 100 percent and more on the f.o.b. values.

3. Interference with trade is serious even if the monetary amount of duty is tolerable. When the order is placed, the importer cannot know with certainty what product will be selected by the appraiser as the like or similar American product when the merchandise is entered. It is possible, and indeed has happened, that a new American product is brought to the appraiser's attention between the time the order is placed and the time of entry, thus establishing a new basis for valuation entirely outside the control of the importer. The purchase of goods abroad involves risks in any event which are not found in domestic business—problems of distance, of communications, of styling, etc. These hazards the importers have to deal with, but they should not be asked to deal with the unfair hazards which the American-selling-price basis for valuation creates.

It should also be brought to your attention that whenever you have such arbitrarily high duties as the American-selling-price duty basis creates for rubber footwear, you afford an extraordinary incentive to traders to design products that will not incur the American-selling-price valuation. Accordingly, this Congress has twice in recent years enacted special legislation at the request of the American industry, closing so-called "loopholes" in the protection afforded the industry by these American-selling-price duties. We have been told that no section of the tariff schedules has caused more headaches to the Customs Bureau and to the Tariff Commission staff when they were drafting their revised schedules than these clauses, because of the tremendous difference that it makes commercially whether a footwear product falls under one subparagraph or another that were all originally dutiable at 35 percent under the Tariff Act of 1930.

The Tariff Commission had occasion to call attention to the anomaly resulting from the American-selling-price duties as late as June 29, 1962, in its second supplemental report on the tariff classification study. In that report the Tariff Commission recommended a change in the headnote referring to the American-selling-price duties on rubber footwear to conform to the practice of the Customs Bureau which has held the American-selling-price bases for duty not applicable to products in chief value of synthetic rubber. The Tariff Commission made a change in its revised schedules to assure that footwear chiefly of synthetic rubber does not have to pay the American-selling-price duty, and in doing so the Tariff Commission said:

"The distinctions made under existing law with respect to the valuation of this footwear are technical nature and result in an anomaly. Footwear of natural rubber or synthetic rubber or combinations thereof are not commercially distinguishable and should receive like treatment for value purposes."

We respectfully submit that the source of the anomaly to which the Tariff Commission referred is the American-selling-price duty basis and that the anomaly should be eliminated by the elimination of these American-selling-price duty bases.

Since H.R. 11970 is a major new piece of legislation this appears to be the appropriate time and place to rectify this situation. We propose a very simple change in the act now before you. We propose first, that section 336 of the Tariff Act be repealed in its entirety. We propose, second, that the existing American-selling-price duty bases resulting from section 336 investigations be abolished and new rates be established by the President upon the advice of the Tariff Commission, based upon the weighted averages of the actual duties paid in the last 3 years, with a ceiling of the rate that would be applied if extraordinary relief was found to be necessary—in other words, if there has been a successful escape clause application. The ceiling is reasonable because it would be absurd that duties should continue in effect that are higher than if the industry had been given the greatest relief possible under the escape clause.

The only commodities that this will affect other than rubber and rubber-soled footwear are canned clams and conceivably certain wool knit gloves. The tariff paragraphs and rates are:

Paragraph	Description	Full rate	Reduced rate
			Percent
1530(e)	Footwear (including athletic or sporting boots and shoes), the uppers of which are wholly or in chief value of animal hair, cotton, fiber, ramie, rayon or other synthetic textile, silk, wool, or substitutes for any of the foregoing, whether or not the soles are of leather, wood, or other material: With soles wholly or in chief value of india rubber or substitutes for rubber	35 percent	20
1537(b)	Footwear wholly or in chief value of india rubber	25 percent	12½
721(b)	Clams in airtight containers (except razor clams and clam chowder).	35 percent	20
1114(a)	Gloves and mittens, finished or unfinished, wholly or in chief value of wool, valued per dozen pairs—not over $1.75: knit.	40 cents per pound plus 35 percent.	

The corresponding items of the new tariff schedules which are expected to go into effect on January 1, 1963, are paragraph 1530(e), item 700.60; paragraph 1537(b), item 700.50; paragraph 721(b), item 114.05; and paragraph 1114(a), item 704.55.

There is a certain volume of imports of canned clams, and there have been occasional customs problems with respect to them. There is good reason there, too, why this change should be effected.

The wool knit gloves value category that is subject to the American selling-price duty basis no longer exists as a commercial item.

These are the only three commodities to which this American selling-price duty basis has ever been applied by virtue of section 336 of the Tariff Act. It should be noted, however, that in the pending broom case the Tariff Commission has recommended that this extraordinary duty basis be applied.

If these amendments of the present act are found to present questions which cannot be readily dealt with in this legislation, then we respectfully suggest that this committee request analysis and views on the future of section 336 and the American selling-price duties that result from it from the Tariff Commission and the executive agencies. With such reports in hand, it should certainly be possible to deal with the unsatisfactory situation now presented by legislation next year.

I should also like to call to the attention of the committee another section of the Tariff Act which has not been affected by H.R. 11970, but should be repealed. I refer to section 337 of the Tariff Act of 1930, under which imports can be completely embargoed if there are "unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry."

We make this part of our statement on behalf of clients whose imports have encountered problems resulting from section 337 of the Tariff Act which, in our opinion, have represented an unnecessary harassment.

The Tariff Commission has had much difficulty in the administration of this section, which has been confined almost entirely to cases where the import is held to violate patent rights. This led the Commission to recommend twice to the Congress that it be relieved of jurisdiction under section 337 and that its functions be transferred to the Federal Trade Commission and the patent courts, which are properly constituted to deal with private controversies of this nature. The Tariff Commission is constituted to deal with public issues and is an investigatorial body rather than an adjudicatorial body. Recently the Supreme Court in the case of *Glidden Co.* v. *Zdanok* and a companion case, *Lurk* v. *U.S.*, held that the Court of Customs and Patent Appeals is a constitutional court. Although not a direct holding of the case, it is quite likely under this decision that the Supreme Court would hold that the Court of Customs and Patent Appeals could not exercise jurisdiction in section 337 cases.

The uncertainties in the administration of section 337 and the great hardships which can work in the trade, together with the recommendations of the Tariff Commission, are cogent reasons for the repeal of section 337, especially in view of the overall principles and objectives of the Trade Expansion Act of 1962, H.R. 11970.

Senator KERR. Myron Solter.

STATEMENT OF MYRON SOLTER, ATTORNEY, APPEARING ON BEHALF OF THE IMPORTED HARDWOOD PLYWOOD ASSOCIATION

Mr. SOLTER. Mr. Chairman and gentlemen of the committee, my name is Myron Solter. I am a member of the law firm of Sharp & Bogan, of Washington, D.C., and I appear before the committee on behalf of the Imported Hardwood Plywood Association, for which my firm is counsel. This association embraces within its membership the majority of the American importers of hardwood plywood.

The Imported Hardwood Plywood Association strongly supports H.R. 11970, with one suggested change, which I shall explain in the second part of my testimony.

My association believes that the benefits which would flow from this legislation to the country as a whole would be substantial, particularly in view of its emphasis upon the expansion of U.S. exports.

However, the concomitant expansion of imports would also contribute substantial benefits to American industry and labor, which fact is sometimes obscured by the resistance of segments of American industry to the encouragement of imports. The experience of imported hardwood plywood well illustrates this desired effect of imports, and I would like to recount that experience briefly.

First, however, I should like to call to the committee's attention the fact that hardwood plywood must be distinguished from softwood plywood. Softwood plywood, most of which is made of Douglas-fir, is a structural product for a variety of building uses in floors, decks, roofing, cabinet work, and other similar uses.

Its desirability lies in its structural strength and its utility. Hardwood plywood, in contrast, because of its inherent beauty is used principally for decorative purposes, for wall paneling, and for flush doors. No appreciable quantities of softwood plywood are imported into this country.

The greater part of hardwood plywood imports consist of Philippine mahogany, and most of this comes from Japan, although an increasing share is being supplied by the Philippines and Taiwan.

The initial imports of Philippine mahogany plywood, about 10 years ago, coincided with a trend in modern housing design toward flush doors, for which this plywood was ideally suited.

A whole new domestic industry was created when many small door manufacturers sprang up utilizing domestic softwood lumber frames covered with imported plywood doorskins.

A similar development occurred in decorative wall paneling. Before the advent of imported hardwood panels, domestic hardwood plywood of native species—such as walnut and cherry—was, because of its high cost, mostly limited in use to expensive housing, executive offices, and the like. Then, when a few years ago the imported wall panels in exotic species such as the Philippine mahogany entered at a price which permitted them to sell in the mass market, decorative plywood paneling moved from the board room into the workingman's home.

Accordingly, in the case of hardwood plywood, imports have without question stimulated the entire hardwood plywood industry by creating a much broader market and the corresponding new domestic industry. Many other imported products have the same healthy stimulating effect, and that is why, in the general public interest, we support this proposed legislation.

I would now like to call the committee's attention to a technical problem arising from section 301(b)(1) of the bill, which provision implements the escape clause contained in the trade agreements to which the United States is a signatory, and which would require the Tariff Commission to determine, upon petition or upon the request of the President, this committee, the Committee on Ways and Means of the House of Representatives, or on its own motion, whether imports have increased as a result of a trade agreements concession such as to cause or threaten serious injury to—

> the domestic industry producing an article which is like or directly competitive with the imported article.

The term "like or directly competitive" is the same language employed in the corresponding paragraphs of section 7 of the Trade Agreements Extension Act of 1951.

Its interpretation has vexed many Tariff Commission proceedings under section 7 and on occasion led to unrealistic results. I would suggest that, to render the administration of the escape clause more certain, a definitive legislative intent be attached to this phrase by an appropriate addition to the definitions appearing in section 405.

Twice the Tariff Commission has split into diametrically opposed positions on the interpretation of the term "like or directly competitive."

In the *Chalk Whiting* case, the majority interpreted this language to mean that the scope of the domestic industry under consideration was coextensive with those domestic products which were both "like" and "directly competitive" with the imported article complained of.

The minority would have interpreted the provision to require that the Commission limit its inquiry solely to that domestic industry producing the "like" product, and to exclude consideration of "directly competitive" products, on the theory that the use of the disjunctive "or" in the statute precluded inclusion of the industry producing "directly competitive" products when there is also an industry producing "like" products.

In the later *Zinc Sheet* case, and with a changed composition, the Commission again split on this intepretative question.

In this instance, the majority held that the words "like" and "directly competitive" are mutually exclusive. The minority dissented and would have broadened the inquiry to include the industry producing both "like" and "directly competitive" articles.

The view presently prevailing in the Commission appears to be that of the narrow interpretation, that is, that when there is in existence a domestic industry producing a "like" product, the investigation will not include the experience of other producers of "directly competitive" articles. I would like to suggest that this administrative interpretation, which would in effect be adopted by the passage of this bill without a contrary expression of congressional intent, is, to paraphrase the minority of the Commission in the *Zinc Sheet* case, not realistic and consistent with current industrial and marketing practices.

One of the foremost examples of such an artificial result is the *Wilton* and *Velvet Carpet* case, which recently resulted in a doubling of the rate of duty on these products.

Wilton and velvet carpets are woven on looms in the traditional manner. The domestic production of such carpet has ranged between 30 and 45 million square yards annually over the past 10 years.

During that period a revolution occurred in the manufacture of carpet with the introduction of the tufting process. Over the period, tufted carpet and rug production rose from a mere 21 million square yards in 1951 to an overwhelming 175 million square yards in 1961.

Apart from method of manufacture, there are virtually no differences between woven and tufted carpets. Both are made from the same materials, both provide the same ranges of colors and textures, both have equal consumer appeal, have the identical end use, are distributed through the same marketing channels, and are sold at a quality par at retail and to the same classes of consumers.

The only difference is that tufted carpet generally sells at a somewhat lower price as a result of the much greater efficiency of the tufted manufacturing process.

Yet in the *Wilton* and *Velvet* case, because of its interpretation the Commission felt itself compelled to hold that because of its different method of manufacture tufted carpet was not "like" woven carpet and to exclude it from the relevant domestic industry however "directly competitive" it might be.

I wish respectfully to recommend that such illogical and unrealistic results be corrected by the addition to section 405(4), before the sentence beginning "An imported article is * * *," a sentence to the following effect:

> A domestic article is "like" an imported article if the domestic article is substantially identical in components, or in appearance and end use, or in substitutability with the imported article.

In conclusion, I wish to thank the committee for according me the privilege of appearing before it in connection with this legislation, which is so important to the economic well-being of the country.

Senator KERR. Thank you, Mr. Solter; are there any questions?

Senator McCARTHY. I would like to ask one question.

Could you make an application of the *Wilton* and *Velvet* case to the plywood industry? If you had a similar problem in which the interpretation——

Mr. SOLTER. I don't believe there would be a direct application of this particular interpretation.

Senator McCARTHY. In effect, in this case you are saying the judgment should have been made on the basis of competition of the foreign product with the American product which could be produced most cheaply.

Mr. SOLTER. Rather, I think the comparison should have been between the foreign product and all products which are substantially identical and serve the same end.

Senator McCARTHY. And including those which could be produced most cheaply in the United States.

Mr. SOLTER. Yes, sir.

Senator KERR. But not excluding others. You would include all of them?

Mr. SOLTER. Yes, include all of them.

Senator McCARTHY. Your criticism is that they excluded tufted carpet?

Mr. SOLTER. Yes, sir, and it was quite an illogical result in my estimation.

Senator KERR. In other words, if there were a lion and mouse bothering you what they did was exclude the lion and give their attention to the mouse?

Mr. SOLTER. That is precisely what happened.

Senator McCARTHY. On the other hand, to average out between the lion and mouse might give you substantial equity.

Senator KERR. Yes; that is true. That is using the same illustration.

Senator McCARTHY. You might put two lions in the ring instead of one lion and one mouse, and it might not be necessarily a fair fight. You don't have direct application in the plywood industry.

Mr. SOLTER. There are some products which compete with hardwood plywood but it would be too remote.

Senator McCARTHY. I have no further questions.

Senator KERR. Thank you very much, Mr. Solter.

Mr. SOLTER. Thank you.

Senator KERR. The committee will recess until 10 o'clock Monday morning.

(By direction of the chairman, the following is made a part of the record:)

STATEMENT SUBMITTED BY ROLF J. THAL, PRESIDENT, LEAD PENCIL MANUFACTURERS ASSOCIATION, INC., NEW YORK, N.Y.

PURPOSE OF STATEMENT

1. It is the purpose of this statement to present the viewpoint of the lead pencil manufacturing industry relative to proposed bill H.R. 11970, the Trade Expansion Act of 1962.

In general, the lead pencil manufacturing industry favors the broad purposes contained in section 102 of the proposed legislation. It is its belief that the interests of the American economy and American industry can be advanced through this legislation provided that proper safeguards preventing unwarranted damage to industry are enacted.

2. We urge that the basic objectives outlined in the proposed legislation be accomplished without serious injury to American industry. Such injury can, we believe, be kept to a minimum through the adoption of the following proposed amendment to section 222 of the bill:

"The President shall also reserve from negotiations under this title for the reduction or elimination of any duties or import restrictions (a) any article of which the dollar sales or physical volume sold in export in the calendar year 1960 shall be found by the Tariff Commission to be less than one-third of the dollar sales or physical volume sold in export in the calendar year 1950, and (b) any article for which the Tariff Commission shall find that there existed on July 1, 1962, in the United States normal production capacity in excess of twice the physical volume of sales, including domestic and export sales, in the calendar year 1960."

Also, in addition to proposed reductions in tariff rates, as contained in the bill, consideration should be given to proper reciprocal removal of foreign quotas and exchange restrictions. During the last 15 years, the export market for the lead pencil industry has fallen by 89 percent, and a further decline is in prospect. A mere reduction in foreign tariff rates will not reverse this trend. Impediments such as the prohibition of imports, quotas, and exchange restrictions have done more to strangle exports than tariff rates. Unless these obstacles are removed as part of the lowering of tariffs, the decline in pencil exports will continue.

BACKGROUND OF INDUSTRY

Nature of product

The lead pencil manufacturing industry is more than 100 years old in the United States. During this period, the lead pencil has been the basic writing instrument of education, commerce, and industry at an economic, consistently low cost to users, in striking contrast o the general price inflation seen in other consumer products. According to the Government-published Statistical Abstract of the United States, the wholesale price index for all commodities, exclusive of farm products, rose by 37 percent since 1947. In the pencil industry over the same period, the increase was only 12 percent.

The lead pencil is a precision-made instrument, composed of up to 40 ingredients which are put through numerous manufacturing operations to complete the familiar writing tool. Among the beter known ingredients are California incense cedar, sheet brass, crude and synthetic rubber, graphite, clay, waxes, adhesives, pigments, lacquers, and packaging materials. The industry is a substantial contributor, relative to its size, to the import trade through its foreign purchases of clay, graphite, rubber, waxes, and other raw materials.

Makeup of industry

The lead pencil manufacturing industry is a small industry. The 20 manufacturers (see exhibit A, attached) who account for the entire production range in size from firms employing less than 50 persons to those having upward of 500 employees. In total, the industry employed almost 7,000 persons, as of January 1, 1962, supporting an annual payroll in excess of $25 million.

The 20 manufacturers of lead pencils in the United States have an investment in land, buildings, production equipment, and inventories in excess of $75 million. In 1961, the industry paid taxes (Federal, State, and local) of more than $2,500,000, aside from the taxes paid by its employees.

It should be noted that manufacturers of lead pencils and components thereof are important local employers in scattered areas of the United States. In Connecticut, New Jersey, Pennsylvania, New York, Georgia, Tennessee, West Virginia, Kentucky, Missouri, and central California there are local communities heavily dependent upon this industry. (See exhibit B, attached.)

ESSENTIALITY OF PRODUCT

In spite of the revolution in industrial methods, and regardless of the creation of newer types of writing instruments and writing machines, the lead pencil has shown no decline in its essential importance to our national life. Pencils are indispensable operating supplies for every branch of American life, and are essential to the maintenance of practically all functions and operations of cooprative life and business. They are required for the entire sutdent population. They are indispensable in the pursuit of all trade and commerce, for the use of financial and insurance organizations, for the operation of all transportation and communication services and systems and for public utilities, and by all operating departments of the Federal, State, and local governments.

Because production of all machines, machine products, and construction of every type starts on the drawing boards, the lead pencil is a basic tool of the designer and draftsman in preparing his original sketches, finished drawings, and blueprints. The products of the industry are used not only in offices and drafting rooms, but black lead pencils and colored pencils of many types are used in all factories for planning, supervising, and directing production, and for recording production data on which workers are rated and compensated.

The wood-cased pencil is a product which meets all of the standards of essentiality laid down by the War Manpower Commission in World War II, except that it is not directly utilized for combat purposes. In a large measure, it is almost like a machine tool: neither is used directly in combat, but both are essential to the manufacture of defense weapons. Huge quantities of lead pencils are currently employed for scientific drawings and in layouts for missiles and and space-age vehicles.

A review of lead pencil import figures during the past 50 years will show clearly that in 1914 and 1940 this country and its allies were abruptly cut off from all foreign supplies of lead pencils. Had not American manufacturers been able to fill the critical need for general and special pencils required by all civilian, military, and industrial elements, a truly serious situation would have resulted. Maintenance of the pencil industry and its skills on a standby basis to be activated only in time of war is impossible.

CURRENT INDUSTRY CONDITIONS

Competitive industry

The lead pencil manufacturing industry in the United States is a highly competitive, low-profit industry. It is today almost wholly dependent upon the domestic market, since it is effectively shut out of almost all of its former export markets. In addition, domestic manufacturers find it difficult to compete, pricewise, in the few export markets still open to them because of the substantial cost advantages enjoyed by foreign producers.

Rising costs

Industry costs for both material and wages have continued to rise through the years. A recent survey shows industry costs over the past 25 years to have increased on an average of almost 200 percent. Cost increases from 1933 to the present time have far exceeded the 1933 tariff rate on imported lead pencils. The industry has barely managed to survive by improvement of its processes and equipment to the maximum possible extent.

Exports and imports

The substantial decline of pencil exports in recent years has been a serious blow to the lead pencil industry. Exports have fallen 89 percent between 1947 and 1961. Some of the industry's most important export markets have been entirely lost to foreign manufacturers following their postwar rehabilitation. Domestic manufacturers are frequently unable to compete in export markets because of exchange restrictions and import prohibitions. Most Latin American and Far Eastern countries, once important export outlets for U.S.-made pencils, have practically closed their borders to U.S. pencil manufacturers.

Our industry is now more than ever vulnerable to foreign competition, in both export and domestic markets. Because of the industry's difficulties, caused by keen competition, low price levels, a production overcapacity, and the fact that exports have been drastically reduced, the industry continues at the peril point, or below, under present tariff rates. Even under present rates, foreign manufacturers continue to increase their share of the American market. They do not need lower tariff rates to be effectively competitive in a normal, peacetime economy.

The reasons for this are clear. Our domestic pencil products have no important difference in appearance or obvious performance characteristics to shield them from being displaced by closely comparable imports. Foreign manufacturers are equally mechanized and have equivalent productive skill. Their production per man-hour is equal to ours. However, according to official Government figures, the average hourly earnings with fringe benefits for individual workers in the United States are $2.84, while in Japan they are $0.33 and in Germany $0.82, and this substantial wage gap will probably increase as higher wage rates come into effect. The effect of this tremendous disparity in wage rates can be judged by the fact that payroll represents over 54 percent of the industry's dollar volume.

Since the close of World War II, the grossage of imported lead pencils has increased substantially with each passing year. In 1957 the increase over the preceding year was 6 percent; in 1959 it amounted to 10 percent; in 1961 it was 5 percent. Imports have increased over the preceding year during every calendar year since 1944, save one.

CONCLUSIONS

The lead pencil manufacturing industry of the United States currently enjoys no effective protection against cheap foreign imports. It seeks legislation under which it can continue to grow and serve the American public with fine writing instruments at economical prices. In the pursuit of this goal, the industry is confronted with these harsh facts:

1. The ad valorem duty in all important classifications of lead pencils has been reduced a full 50 percent as permitted under the earlier Reciprocal Trade Act and its extensions. (In addition, it should be recalled that the effectiveness of the remaining specific duty has been greatly weakened through years of monetary inflation.)

2. The industry's products are articles of prime essentiality and of strategic necessity. The industry itself is therefore essential to the national welfare in times of war and peace.

3. Since the industry continues in serious difficulty because of rising costs, loss of exports, excess capacity stemming therefrom, and intense domestic competition, a large influx of foreign pencils, which might follow a further reduction in duty, would be fatal to American manufacturers.

4. The American pencil industry cannot convert its main productive facilities into the manufacture of any other product: its machinery can be used only to make pencils.

For these reasons, the pencil industry respectfully recommends that (*a*) the amendments to section 222, as proposed earlier in this brief, be enacted into law; and (*b*) the appropriate Government agencies hear representatives of all industries affected after H.R. 11970 has been passed but before negotiations with foreign governments on the classification concerning these industries are initiated.

ROLF J. THAL, *President.*

EXHIBIT A

LEAD PENCIL MANUFACTURERS IN THE UNITED STATES

Richard Best Pencil Co.,
211 Mountain Avenue,
Springfield, N.J.
Blaisdell Pencil Co.,
Bethayres, Pa.
Commonwealth Cedar Co., Inc.,
Shelbyville, Tenn.
Connecticut Pencil Co.,
541 Maple Street,
Bridgeport, Conn.
Joseph Dixon Crucible Co.,
167 Wayne Street,
Jersey City, N.J.
Eagle Pencil Co.,
Eagle Road,
Danbury, Conn.
Empire Pencil Co.,
Shelbyville, Tenn.
Eberhard Faber, Inc.,
Crestwood,
Wilkes Barre, Pa.
General Pencil Co.,
67 Fleet Street,
Jersey City, N.J.
L. & C. Hardtmuth Co.,
Bloomsbury, N.J.
Linton Pencil Co.,
Lewisburg, Tenn.
Mallard Pencil Co.,
Georgetown, Ky.
Moon Pencil Co.,
Lewisburg, Tenn.
Musgrave Pencil Co.,
Shelbyville, Tenn.
National Pencil Co.,
Shelbyville, Tenn.
The Red Cedar Pencil Co., Inc.,
215 Second Avenue,
Lewisburg, Tenn.
Reliance Pencil Corp.,
22 South Sixth Avenue,
Mount Vernon, N.Y.
The Ruwe Pencil Co.,
321 West Putnam Avenue,
Greenwich, Conn.
Venus Pen & Pencil Corp.,
50 West 44 Street,
New York, N.Y.
Wallace Pencil Co.,
2001 South Hanley Road,
St. Louis, Mo.

EXHIBIT B

Lead pencil manufacturing industry in the United States—Plant locations and employment

	Plants	Employees
New England area: Danbury, Bridgeport, and Greenwich, Conn., and Central Falls, R.I.	4	1,617
New York area: Hoboken, Jersey City, Springfield, and Newark, N.J., and Mount Vernon and Ticonderoga, NY	7	1,167
Eastern Pennsylvania area: Wilkes-Barre and Bethayres, Pa., and Bloomsbury, N.J.	3	804
Mid-Tennessee area: Lewisburg and Shelbyville, Tenn.	9	1,310
Mid-Central area: Sandusky, Ohio, Georgetown, Ky., and St. Louis, Mo.	5	613
South Atlantic area: Atlanta, Ga., and Nitro, W. Va.	2	211
West coast area: Anderson, San Leandro, Sacramento, Stockton, Quincy, and Pine Grove, Calif., and Central Point and Roseburg, Oreg.	10	1,007
Total	40	6,729

STATEMENT SUBMITTED BY R. G. FOLLIS IN BEHALF OF STANDARD OIL CO. OF CALIFORNIA, JULY 13, 1962

We understand that groups representing the views of various oil-producing interests advocate that increasingly severe restrictions on U.S. petroleum imports be frozen into statutory law by amending the proposed Trade Expansion Act of 1962. Specifically, it has been proposed that imports from all sources into all areas of the United States be limited to some fixed percentage of domestic production.

We are surprised that any responsible group within the oil industry would consider oil import controls a suitable matter for legislative action of this kind. It must be recognized that the constantly changing oil requirements of the United States will, in the future, create a corresponding need for changes in oil import regulations. This will be true not only of regulations governing the total volume of U.S. imports, but also with respect to the volume and nature of imports into particular areas of the country. The solutions to problems which may seem well defined today will require constant reevaluation in the light of new experience. It is unrealistic to ask that Congress lay down precise and inflexible rules by which such a dynamic situation may be controlled. Congress has wisely delegated to the executive branch of the Government the responsibility for providing an import-control program adequate to protect our national security. Congress should continue to do so.

The need for constant reevaluation is apparent from the history of the present program. It was established by Presidential proclamation effective March 11, 1959, after careful study by a special Cabinet committee to insure that the regulations were those best suited to the Nation's needs. Yet, despite the care which was exercised originally, it has been necessary to amend the proclamation four times in little more than 3 years and even now further changes are being considered. There is no reason to suppose that the future will differ from the past. It must be possible to adapt the program quickly and easily to changing conditions.

Those who advocate legislative action with respect to oil import controls say that this is necessary because the existing program has not led to a reduction in the U.S. surplus of crude oil producing capacity. They say that imports have continued to increase in relation to domestic crude oil production and that Congress must act to protect the national security since present regulations have failed to do so. These arguments ignore convincing evidence showing that the present control program has, in fact, controlled imports to a reasonable level and that further restrictions cannot be defended as necessary to national security.

Present controls reserve to continental sources 91 percent of the domestic market for crude oil and refined products (excluding residual fuel oil) east of the Rockies and in the West they permit imports only in the volume necessary to offset domestic shortages. This is a level of protection greater than that afforded any other major nonagricultural industry, and it is more than adequate to guard domestic producers against the threat of unrestrained foreign competition.

The fact that domestic producibility exceeds domestic demand by a considerable margin is in itself perhaps the best evidence that national security does not require more stringent restrictions on imports. Surplus capacity, originally developed as the result of intensive drilling activities in the early and middle 1950's, is an economic problem for the domestic industry, but it is a distinct advantage rather than a problem with respect to national security. It is on just such reserve that we must rely for expanded production in the event of an emergency.

Crude producibility has increased under existing controls with the result that reserve capacity has reached a level equivalent to 57 percent of total crude production in 1960, almost 2½ times the level of imports in 1961. The fact that reserve producibility has not been encroached upon but actually has increased under existing regulations shows plainly that these regulations do not work to the detriment of national security.

Furthermore, despite statements to the contrary, imports have declined as a factor in the domestic market while mandatory controls have been in effect. This is demonstrated statistically in the table attached. It shows that oversea imports (excluding residual fuel oil) into districts I–IV declined from 11.1 percent of domestic demand in 1958 to 8.9 percent in 1961. Volume declined from 899,000 to 738,000 barrels per day. The total volume of imports other than residual fuel oil into districts I–IV—i.e., including uncontrolled imports from Canada and Mexico—declined from 958,000 barrels per day in 1958 to 881,000 barrels per day in 1961.

It is true that imports into district V and residual fuel oil imports into districts I–IV have increased, and that for this reason total imports into the United States have also increased. But these increases have not displaced domestic production and so have not worked to the detriment of national security. They have been necessary solely to offset domestic shortages.

In this connection, it must be pointed out that the specific legislation referred to earlier would ignore completely the special problems facing district V. The district is a crude deficit area with a long history of declining production. In such a situation the only means of insuring an adequate crude supply is to permit imports in whatever amount is required to offset the deficit. By concerning itself only with the United States as a whole the proposal would threaten district V with inadequacy of supply to meet consumers' requirements. It would be a completely unworkable program.

Further evidence as to the effectiveness of present overall controls can be seen in the fact that there have been no serious crude price cuts in districts I–IV under the present program. Elsewhere in the world, this has been a period of large crude surpluses and consequently of intense competition and declining crude prices. The domestic industry has been spared the full effects of such competition because controls have insured a stable market for domestic production. In so doing, they have preserved economic incentives for exploration and development.

Further restrictions on oil imports then cannot logically be defended as necessary for the protection of national security. Such additional restrictions would be merely an unnecessary obstacle to international trade—an obstacle to be eliminated in the same way that the Trade Expansion Act of 1962 seeks to eliminate other undesirable obstacles to commerce. It is not necessary to repeat here the compelling arguments which have been presented in support of the administration's efforts to reduce U.S. trade barriers. It should suffice to point out that these are equally forceful when applied in opposition to oil import regulations which restrict imports beyond the requirements of national security.

There are a number of features of the present control program, largely those dealing with the allocation of quotas among eligible importers and the unnecessary restrictions applied to imports of petroleum products domestically in short supply, to which we are opposed. We have protested these undesirable features in the past and we will continue to protest them in the future to the proper agencies. We do not think it proper, however, that we or any other group urge legislative action when in the main the program is accomplishing its purpose.

SHELBY, MONT., *July 2, 1962.*

Hon. MIKE MANSFIELD,
Hon. LEE METCALF,
Senate Building, Washington, D.C.

DEAR MIKE AND LEE: It is my understanding from the newspaper articles and other information that I have been able to obtain that the trade bill passed the House last week, retaining the national security provision but it does not include any amendments such as the Steed-Moore bill which would strengthen the national security provision to deal directly with the oil import problem.

It is my understanding that the administration has assured key Congressmen in the House that administration action would be taken to meet the oil import problem. It is my understanding that the gist of these assurances was as follows:

1. The President's Study Committee created last December to review the oil import matter will report by September 1.
2. A system of limitation of oil imports will be retained.
3. Imports will be related to domestic production.
4. Efforts will be undertaken to solve the problem of increasing imports from Canada.

It is hoped that the Senate in considering the trade bill will take some concrete steps to write into the bill the necessary protection. I am enclosing photostatic copy of an article from the Wall Street Journal of one day last week as to the import levels for the last half of 1962. I wish to point out to you that in district V, the seven States west of the Rocky Mountains, there was an increase of imports of some 42,000 barrels daily. This may not seem to be much of an increase nor should it affect us east of the Rocky Mountains, but what is happening is that the new refineries of Texaco and Shell near Anacortes, Wash. are operating over 90 percent on imported crude, much of it nonquota Canadian crude. These two big, modern refineries are now constructing a product pipeline down to Portland, Oreg., where refined products may be shipped by pipeline to Portland and then by barge up the Columbia River to within some 50 miles or less of Spokane, Wash., and the big market existing within that area and within reaching distance, also, of Idaho. We, of northern Montana, used to market a great deal of our refined products in the Spokane area. Now with competition of foreign crude from the west coast and cheap transportation by pipeline and river barge, we are excluded almost entirely from this traditional market that we have had for many years in the past. Likewise, much of the Wyoming crude used to go west towards the coast, and now by the increased imports on the west coast, Wyoming crude must find its markets either to the east or north. As a point of interest, some time ago I wrote to Congressman Tom Steed and sent

Crude oil and product imports (excluding residual fuel oil) into the United States

	Excluding overland						Overland						Total					
	District I-IV		District V		Total		District I-IV		District V		Total		District I-IV		District V		Total	
	Million barrels per day	Percent [1]	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent	Million barrels per day	Percent
1954	635	9.1	55	4.6	690	8.6	5	0.1	2	0.2	7	0.1	640	9.2	57	4.9	697	8.7
1955	712	9.4	68	5.2	780	8.9	15	.2	31	2.5	46	.5	727	9.6	99	7.7	826	9.4
1956	745	9.4	122	9.6	867	9.5	50	.6	67	5.2	117	1.3	795	10.0	189	14.8	984	10.8
1957	764	9.5	173	13.9	937	10.2	57	.7	94	7.5	151	1.6	821	10.2	267	21.4	1,088	11.8
1958	899	11.1	186	14.6	1,085	11.8	59	.7	24	1.9	83	.9	958	11.8	210	16.5	1,168	12.7
1959, 1st quarter	970	10.4	203	15.0	1173	11.0	60	.6	27	2.0	87	0.8	1030	11.0	230	17.0	1260	12.0
1959, last 3 quarters	768	9.6	221	16.0	989	11.7	56	.7	41	3.0	97	1.1	824	10.3	262	19.0	1086	11.8
1960	788	9.3	249	17.7	1037	10.7	66	.8	50	3.6	116	1.2	854	10.1	299	21.3	1153	11.9
1961	758	8.9	237	16.8	995	10.2	123	1.4	92	6.5	215	2.2	881	10.3	329	23.3	1210	12.4

[1] Percent of total petroleum demand on the area indicated, excluding bonded bunkers and military reexports.

Source: 1954 through 1st quarter 1959 import data from Bureau of Mines, Branch of Petroleum Economics, Special releases of supply and demand situation on an OIA basis. Last 3 quarters 1959 and later data are from Oil Import Administrator's releases.

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him copies of three articles in the Wall Street Journal appearing within a week. One of the articles had to do with the increase of imports on the west coast and within 3 or 4 days there was an article from Texas that the allowable had been cut in that State and also an article stating that the Oklahoma Conservation Commission had also cut the allowable in the State of Oklahoma so that it would appear from the timing of these articles that within a few days after imports were increased to the west coast that the production in both Texas and Oklahoma had to be reduced from wells in those two States.

The independent oil operators of northern Montana have only one place to look and that's to yourselves to give us aid and protection from the nonquota imports from Canada and the excessive allowable imports on the west coast which oil is competing for our traditional markets and squeezing us even further.

With kind personal regards, I am,

Sincerely yours,

CEDOR B. ARONOW.

[From the Wall Street Journal]

OIL IMPORT LEVELS SET FOR LAST HALF OF 1962, UP FROM YEAR EARLIER—STATES EAST OF ROCKY MOUNTAINS ALLOWED LESS THAN IN CURRENT PERIOD, WESTERN STATES MORE

(By a Wall Street Journal staff reporter)

WASHINGTON.—Oil import levels for the last half of 1962 and technical adjustments in the formula for allocations among importing concerns were approved by the Interior Department essentially as proposed June 11.

In districts I–IV, the States east of the Rocky Mountains, maximum import levels of crude oil will be about 701,000 barrels a day, down from 706,589 barrels daily in the January-June period, but above the 670,933 barrels authorized for import in July-December 1961.

In district V, the seven States west of the Rocky Mountains, the import level was set at about 272,000 barrels daily, up from 230,162 barrels in the current period, and 230,298 barrels a year earlier.

FINE HARDWOODS ASSOCIATION,
Chicago, Ill., August 1, 1962.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I am president of the Pierson-Hollowell Co., Indianapolis, Ind. Our company is a manufacturer of hardwood veneer and lumber. We operate a mill at Lawrenceburg, Ind. I am also president of the Fine Hardwoods Association, a trade association composed of 35 manufacturers of hardwood veneer, and I am addressing you on behalf of the association. It will be very much appreciated if this statement can be incorporated in the record of hearings your committee is currently conducting on the Trade Expansion Act of 1962 (H.R. 11970), to which we are opposed.

The hardwood veneer manufacturers are small business concerns employing 50 or more persons, with their plants located in small towns accessible to hardwood timber which is grown largely by farmers and small woodlot owners. Our members produce approximately 90 percent of the hardwood face veneers manufactured in the United States. The production of hardwood face veneer has dropped from 1.2 billion square feet in 1950 to 887 million square feet in 1961, a decline of 33 percent.

The market for hardwood veneers are the hardwood plywood producers and furniture manufacturers who have their own plywood operation. Our industry is seriously injured by the tremendous increase in hardwood plywood imports which have risen from 7 percent of the market in 1951 to 55 percent in 1960 and 1961. Failure of the hardwood plywood industry to expand with increased consumption has curtailed our market and has forced us to operate at considerably less than our capacity.

In addition, we are also faced with serious competition from imported hardwood veneers. Our industry has been particularly disturbed by the effect on our markets due to the purchase of American walnut veneer logs at extremely high prices for export to Germany, Italy, and Japan. Veneers are produced at low wages in those countries and either returned to the United States as veneers or are made into plywood which competes unfairly with us or our customers, the domestic plywood producers. Our markets are also curtailed by the furniture imports which have been increasing rapidly in the past few years. Both of our primary markets, the hardwood plywood producers and the furniture manufacturers, are under assault from imports.

We have studied H.R. 11970 with great care. We are seriously concerned with the fact that the administration has deemed it necessary to make the obtaining of relief from import injury a virtual impossibility. It is contended that no tariffs are required because American industry costs are competitive with the costs of imports. American walnut logs can be purchased by German and Japanese veneer manufacturers, shipped to Germany and Japan, cut into veneers, packaged and shipped back to the United States to sell at prices less than we require. This should be conclusive proof that we cannot hope to compete without balancing tariff protection. The undeniable low wage cost differential and the tax advantages in foreign countries requires a duty or a quota to prevent the destruction by unfair price competition of a vulnerable industry such as ours.

If you would permit us, we would like to dwell on another point which we think is a fundamental one insofar as the American people are concerned. The bill, as you know, delegates to the President, exclusively, supreme power over all industry which may be affected by foreign trade. We believe this could be stated even more broadly, as every industry probably is affected by unfair competition of low priced imported materials, whether the effect is direct or indirect.

We think this attempt to assume such extensive powers is not compatible with our Constitution's provisions on foreign trade. If Congress gives such broad powers to the President, and thus abdicates all authority over foreign trade, a step will be taken toward a centralized government, which we feel is repugnant to all. We are confident that the members of your committee have already discovered what the requested delegation may mean. We raise this in our statement as we believe such delegation may be the primary purpose of the bill.

Our members, as operators of small business concerns in the United States, have no finances or facilities to build plants abroad, to profit by the low labor cost in the foreign countries and the exports from American owned plants to the United States. We are concerned primarily with keeping our people in our plants employed and paid at a rate which we know is necessary to maintain our standards of living. This cannot be done if plants are forced or induced to produce hardwood veneers and plywood abroad.

We urge that the Senate restore to H.R. 11970 the definition of industry as contained in the present Reciprocal Trade Agreement Act, so that truly injured component classifications in a major industry may secure relief without proving injury to the entire major industry classification.

We would like to have your committee appoint a staff to inquire of the Department of Commerce for the assembly of a list of products where the imports exceed 10 percent of the domestic market sales. From this list your committee can determine the products of industries which should not be subject to additional duty concessions. From these figures a base quota can be created for such products or a reserve list can be compiled which would prohibit further concessions. In addition, the bill should insure that U.S. tariffs be no lower than those of other countries for given commodities in world trade.

Congress should eliminate from the bill all the adjustment assistance proposals. These provisions will create greater problems for the workers, industry, and the taxpayer. Adjustment assistance could well lead to socialization of all our small industries. The expense of unemployment compensation, the loans, etc., will create a larger deficit in our Federal budget, require increases in taxes, and further imperil the value of our dollar. Certainly any adjustment assistance provisions retained in the bill should be no greater than assistance presently available for firms and workers, so that there will be no discrimination in favor of companies or individuals harmed by imports alone.

We also ask that your committee consider writing an adequate peril point provision and an adequate escape clause provision to give these provisions a genuine meaning. A criteria for injury under both should be realistic and forthright without loopholes such as exist in this bill which will permit the avoidance of a factual finding. The President's authority to reject factual findings of the Tariff Commission should require the approval of Congress.

We thank you for the opportunity of submitting this statement. The bill you report may mean our continued existence as an industry. We hope that you will not abandon your constitutional authority and we hope you will not put small businesses such as those of our member companies up for sacrifice.

Cordially yours,

R. E. HOLLOWELL, Jr., *President.*

OFFICE OF THE GOVERNOR,
Springfield, Ill., August 2, 1962.

Re statement of Otto Kerner, Governor of Illinois, on H.R. 11970.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.:

Mr. Chairman and members of the committee, as Governor of the State of Illinois, I recommend that you consider strengthening the oil imports program or the national security section of the Trade Expansion Act of 1962.

It is difficult to completely evaluate the impact of the imports control program on the economic welfare of the production segment of the domestic oil industry. Even though, the present health is consistently deteriorating.

In Illinois, 38,306 wells are producing a daily average of 5.6 barrels per day per well: 99.7 percent are economically marginal wells.

During the year 1950, 5 percent of the crude oil was obtained or produced by secondary recovery, whereas in 1960, 10 years later, it rose to 62 percent and is estimated currently to be about 75 percent. Even though the daily average production has remained rather stable, we find ourselves in a position of liquidating our known reserves, rather than exploring, finding, and producing new reserves.

At the present time, there are no reported geophysical or core drilling crews working in our State. Drilling rig activity, rotary and cable tool is down. Many are being stacked in yards or sold at public auction.

The price paid for crude oil in 1956 was $3.15 a barrel. Today it is $3 a barrel. Within the past 4 years, we have witnessed a great deal of price instability. At one point it was $2.77 a barrel or within 8 cents of the 1948 price.

Employment in the industry has followed the downward trend, about 10 percent, along with the retiring of drilling rigs and price cuts.

In 1955, there were 3,885 well completions. In 1960, 2,373 were completed. In 1955, 2,164 oil producers were completed. In 1960, 776 oil wells were completed.

Estimated proven reserves in 1957 were 700 million barrels. In 1960, a decline to 594 million barrels.

These existing and continuing unhealthy industry trends in oil exploration and production in Illinois, a ranking producing State, is cause for concern. While there is an increasing dependency on the petroleum industry for energy and power, it is in the public interest that the present trends be reversed.

Levels of imported oil which seem to always increase, year after year, has caused uncertainty among the men who are interested in finding and producing oil in Illinois. While this is not the only problem facing the petroleum industry today, to stabilize and establish a relationship between oil imports and domestic oil by Congress would be a step in the right direction.

Sincerely,

OTTO KERNER, *Governor.*

STATEMENT OF GEORGE W. ANDERSON, JR., EXECUTIVE VICE PRESIDENT, NORTH TEXAS OIL & GAS ASSOCIATION, WICHITA FALLS, TEX.

Mr. Chairman and members of the Senate Finance Committee, my name is George W. Anderson, Jr. I am executive vice president of the North Texas Oil & Gas Association, Wichita Falls, Tex., representing independent oil producers in 15 counties of north Texas.

Attached for your convenience is a copy of the official statement of our association which was presented to the House Ways and Means Committee on March 22, 1962, during hearings on the trade act. This statement points out by factual presentation the depressed conditions in the domestic oil industry in north Texas.

The oil associations representing independent domestic oil producers were unanimous in recommending to the House that an amendment should be written into the trade act imposing an overall limitation on the importation of crude oil and all petroleum products, excluding residual fuel oil to be used for fuel, from all sources into all areas of the United States, such imports not to exceed the relationship of 14 percent to domestic crude oil production.

The 14-percent ratio is the relationship which existed in 1956, prior to the continuing decline in the health and vigor of the domestic oil industry. We consider our proposal to be an equitable and fair solution which is urgently needed, and again urge the inclusion of such an amendment in the trade act.

The administration gave assurances to certain Congressmen immediately before the vote on the trade act in the House that the following matters will be accomplished by the administration:

1. The President's Study Committee created in December of 1961 to review the oil import matter will be prepared to report by September 1, 1962.

2. The quota system for controlling oil imports will be retained under national security authority given the President in the trade act.

3. Import volumes will be related to domestic crude oil production in place of estimated demand as presently done.

4. Negotiations were to be undertaken by July 15 with Canada in an effort to solve the problem of increasing imports from Canada.

These assurances were given to House Members from oil-producing States who were concerned with the distressed condition of the domestic oil industry. The assurances were accompanied by recognition that the level of domestic crude oil production is too low, and that total controlled and exempt imports should be held to a stable relationship to domestic production.

These informal assurances indicate that the administration recognizes the serious problem imposed upon the domestic oil industry by excessive imports, and that plans are being made to correct the situation. We suggest that the Senate Finance Committee can be of great assistance by inquiring diligently into the assurances given, and ask the committee to consider the following:

1. We urge the committee to seek official assurances from the administration that the import study be completed and submitted for comment at an early date.

2. We urge the committee to seek official assurance from the administration that the quota system for controlling oil imports will be retained under the national security authority given the President in the trade act.

3. We urge the committee to ascertain and make known the permissible volume of oil imports under consideration by the administration and which will be announced upon completion of the import study. We commend the assurance that import volumes will be related to domestic crude oil production, but we submit that it is of vital concern to know what percentage ratio of imports to domestic production will be used. We urge the committee to consider the 14-percent ratio referred to previously, since it is the ratio which existed in 1956 prior to the continuing decline in the health of the domestic industry.

4. We commend the assurance that negotiations are being made with Canada to limit exempt imports, but we urge this committee to inquire of the administration as to the level of imports which will be permitted. Imports from Canada averaged 180,000 barrels daily in 1961, and are expected to average 225,000 barrels daily during 1962. These imports are exempted from import controls by administrative decree. We urge this committee to seek official assurance that the negotiations will be aimed at an agreement limiting Canadian imports at a level not to exceed 150,000 barrels daily. Such an agreement was reached with Mexico limiting their imports to 30,000 barrels daily, and this agreement is being carried out effectively.

The assurances given by the administration are steps in the right direction which should already have been accomplished under the authority contained in the national security provision in the trade act. Unless the steps are taken and the details worked out as outlined here, the effects of excessive imports upon the domestic oil industry will not be corrected.

We respectfully submit that the surest way to accomplish these objectives is through the proposed legislation already referred to, which would spell out in the trade act an allowable limitation of oil imports at a ratio of 14 percent of domestic production. We urge this committee to give this matter your most thoughtful and careful consideration, and in the interest of the national security and the national economy, we solicit your support of an amendment spelled out in the trade act which will accomplish the necessary objectives.

STATEMENT OF NETUM A. STEED, PRESIDENT, NORTH TEXAS OIL & GAS ASSOCIATION, WICHITA FALLS, TEX., ON H.R. 9900

Mr. Chairman and members of the committee, my name is Netum A. Steed. I am president of the North Texas Oil & Gas Association, 1106 City National Building, Wichita Falls, Tex., representing independent oil and gas producers and operators in the 15 counties of north Texas comprising district 9 of the Texas Railroad Commission.

Oil is the backbone of our economy in north Texas. Since 1904, almost 2 billion barrels of oil have been produced; production in 1961 was 69.5 million barrels. The area has been developed for oil primarily by independents, the small businessmen in the oil industry, who drill 90 percent of the wells and produce 65 percent of the oil.

North Texas oil production comes from 33,500 wells producing 195,000 barrels daily, an average of 6 barrels daily per well. However, 28,434 or 85 percent of these wells are classified as stripper wells pumping an average of only 4.15 barrels per day.

It is granted that this does not present a fabulous picture in oil production; nevertheless, oil is our No. 1 crop in a trade area of some 100-mile radius around Wichita Falls. About one-third of our population of 500,000 are directly or indirectly dependent upon oil exploration, production, and allied services for a living, and the majority of the remainder are highly dependent upon oil dollars for successful business.

All business interests in north Texas are dismayed over the depressed conditions which have existed in the domestic oil industry since 1956. Since that year, although U.S. market demand for petroleum has increased by 11.6 percent, total domestic production has been held steady at only 7 million barrels daily, while oil imports have increased by 31 percent.

Since 1956, the domestic oil industry has been beset with increased costs of labor, material, and supplies. Crude oil prices have declined by some 15 cents per barrel, and production has been curtailed. These factors have caused drastic reductions in drilling and exploration, declines in sales of supplies and services, increased unemployment, loss of revenue in all segments, lack of incentive for oil investments, and economic problems in State and local governmental units dependent upon the domestic oil industry for tax support.

During this same period since 1956, while the domestic oil industry has struggled for existence, this same industry has been forced to move over and make room for imports which have captured 21 percent of the U.S. market. No other U.S. industry has had to give up this large a share of its home market.

The following chart is presented to show depressed conditions in north Texas:

North Texas—Decline in oil activity related to imports

[Dollars in millions]

	Annual oil production (barrels)	Gross oil income	New wells drilled	Wildcat wells	Drilling expenditures	Daily imports, crude oil and products (barrels)
1956	75,981,919	$213	5,144	1,231	$154	1,442,000
1957	75,433,784	235	4,639	1,110	139	1,600,000
1958	71,989,038	217	3,787	679	114	1,700,000
1959	72,683,004	217	3,309	585	99	1,780,000
1960	70,025,328	206	2,788	411	84	1,860,000
1961	69,578,839	195	2,552	308	77	1,890,000
1956–61	(1)	(2)	(3)	(4)	(3)	(5)

1 Down 8 percent.
2 Down 17 percent, 1957–61.
3 Down 50 percent.
4 Down 75 percent.
5 Up 31 percent.

NOTE.—Production has been maintained by secondary recovery methods, primarily waterflooding, at the expense of exploration for new reserves.

Government and industry have studied the oil import problem extensively since 1956, with the same conclusion reached by a special Cabinet committee which stated the need plainly in July of 1957 as follows: "If we are to have enough oil to meet our national security needs, there must be a limitation on imports that will insure a proper balance between imports and domestic production."

Although the need has been recognized, oil imports have never been related or geared directly to domestic production. The domestic oil industry supported the defense amendment to the Trade Agreements Act of 1958, and we support the mandatory import program adopted under the authority of the defense amendment as basically sound and essential to the existence of the domestic industry.

However, we earnestly submit that under the mandatory program, imports have been allowed much too generous a share of the U.S. market, which factor is a major reason for a sick domestic industry. We endorse the defense amendment as proposed in the Trade Expansion Act of 1962, which gives the President the authority to continue the present mandatory control program, but we submit that it is essential to the recovery of the domestic oil industry to add an amendment which would be substantially as follows:

"That in case of oil imports, there be imposed an overall limitation on the importation of crude oil and all petroleum products, excluding residual fuel oil to be used for fuel, from all sources into all areas of the United States, such imports not to exceed the relationship of 14 percent to domestic crude oil production."

We are convinced that in this manner imports will be immediately reduced by some 250,000 barrels daily, that this step will enable the domestic oil industry partially to recover from present depressed conditions, and that the industry will be more able to explore for, find, and produce the oil which is vitally needed for our national security and national economy.

The 14-percent ratio is the relationship which existed in 1956, prior to the continuing decline in the health and vigor of the domestic industry.

We see no good reason for any hesitancy in treating the oil problem as a separate and special problem with special treatment under the Trade Act, oil being a vital defense material.

Further, we neither buy oil from, nor do we sell oil to, any of the European countries in any significant quantities, and we respectfully submit that the oil issue does not enter into the debate over liberalized trade with the European Common Market.

STATEMENT OF OTIS H. ELLIS, GENERAL COUNSEL, NATIONAL OIL JOBBERS COUNCIL, INC., ON THE TRADE EXPANSION ACT OF 1962 (H.R. 11970)

My name is Otis H. Ellis. I am engaged in the general practice of law in Washington, D.C., maintaining offices at 1001 Connecticut Avenue, and am appearing here today on behalf of the National Oil Jobbers Council in my capacity as general counsel for that organization.

NATIONAL OIL JOBBERS COUNCIL MEMBERSHIP

The National Oil Jobbers Council is a trade group composed of 33 State and regional associations of independent jobbers and distributors of petroleum products. These associations, covering 40 States, represent the greater majority of the thousands of bona fide independent petroleum jobbers in the United States. Following is a list of the member associations:

Alabama Petroleum Jobbers Association, Inc.
Arkansas Oil Marketers Association.
California Petroleum Marketers Council (jobber division).
Colorado Petroleum Marketers Association.
Connecticut Petroleum Association.
Empire State Petroleum Association (New York).
Florida Petroleum Marketers Association, Inc.
Georgia Oil Jobbers Association.
Illinois Petroleum Marketers Association.
Independent Oil Men's Association of New England (Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont).
Independent Oil Marketers Association of Indiana, Inc.
Intermountain Oil Marketers Association (Idaho, Nevada, and Utah).
Iowa Independent Oil Jobbers Association.

Kentucky Petroleum Marketers Association (jobber division).
Louisiana Oil Marketers Association (jobber division).
Michigan Petroleum Association.
Mississippi Oil Jobbers Association.
Missouri Oil Jobbers Association.
Nebraska Petroleum Marketers, Inc.
New Mexico Petroleum Marketers Association (jobber division).
North Carolina Oil Jobbers Association.
Northwest Petroleum Association (Minnesota and North Dakota).
Oklahoma Oil Jobbers Association.
Oregon Oil Jobbers Association.
Pennsylvania Petroleum Association.
South Carolina Oil Jobbers Association.
South Dakota Independent Oil Men's Association.
Tennessee Oil Men's Association.
Texas Oil Jobbers Association.
Virginia Petroleum Jobbers Association.
Washington Oil Marketers Association.
Wisconsin Petroleum Association.
Wyoming Oil Jobbers Association.

THE JOBBER'S POSITION IN THE PETROLEUM INDUSTRY

Independent jobbers distribute approximately 85 percent of the household burning oil consumed in the United States, 30 percent of the gasoline sold and delivered to service stations, well over 50 percent of all petroleum products delivered to farm tanks, and approximately 60 percent of the residual oil imported into this country. In order to participate to this extent in the sale and distribution of petroleum products it is necessary that jobbers own millions of barrels of storage capacity and thousands of trucks. Fortunately for the security of the Nation these storage and distribution facilities are widely dispersed and form our final tributaries of distribution. It is equally fortunate from an economic standpoint that this widespread group of truly independent businessmen still exists and actively competes for the consumers' business. This degree of participation further shows that the jobber is a real party at interest in the outcome of any legislation which would affect the price or supply of petroleum products.

THE JOBBERS' POSITION ON TARIFF POLICIES

The National Oil Jobbers Council has never attempted to take a general position with reference to the broad aspects of customs, tariffs, and international trade. We do not at this time take any general position with reference to the general merits of the bill before this committee for consideration. However, we do recognize that with the advent of the Common Market, coupled with other factors involved in the complex area of international trade, the United States must make such changes in its trade and tariff policies as are necessary to permit American industries to participate in international markets or see these industries suffer, to the general economic detriment of the Nation as a whole.

Jobbers have, however, traditionally opposed any legislation or proposed amendments to existing legislation which would specifically restrict imports of either crude oil or products or which could directly or indirectly be used for that purpose. The only exception is the existing escape clause provision which we have always felt was adequate to afford all the protection necessary to insure a healthy domestic industry while at the same time affording the President ample means of maintaining and improving reciprocity of trade with other nations.

In 1955, we opposed the so-called national security clause amendment to the Trade Agreements Act. Again, in 1958, we pointed out to this committee that this amendment, by using the words "national security," was merely the adoption of sex appeal language designed to obtain support for an amendment which could be used to camouflage the real intentions of domestic coal and oil producers, which intentions were directed to the end of erecting artificial barriers for their competition, thus enabling these groups to sell more of their products or production at higher prices to the American consumer. Our fears in this regard have proven to be correct, since the only action taken by the current or previous Chief Executive under the authority granted in the national security amendment has been to restrict imports of crude oil and its products. The findings which preceded these mandatory restrictions imposed in 1959 contained absolutely no findings of fact on which one could premise justification for restricting residual oil imports and the findings with respect to crude oil and other products were obviously premised on the conclusion that the action taken was designed to stabilize domestic crude oil prices and had little or no bearing on national security.

Restrictions on residual imports were followed by a set of unreasonable and inequitable regulations which imposed dire and extreme hardship on practically every independent terminal operator and distributor of residual oil on the eastern seaboard. While this action has not served the cause of national security in any measure, it very definitely has served the purpose of sweetening the purses of a few major oil companies while, at the same time, imposing higher prices on consumers of this commodity.

It is, therefore, our recommendation that the national security amendment, as contained in this bill, either be eliminated or modified in such a way as to insure that the discretionary authority granted thereunder be used only to preserve our national security and that findings in regard to national security are not in reality an excuse for yielding to pressure groups or as a refuge for political expediency in response to those who for years have sought to impose restrictions on competing commodities or products. We recognize that national security is of paramount importance but to use this sacred term as a hoopskirt under which powerful political forces can hide the greed of some domestic crude oil producers and the coal interests constitutes an act of sacrilege.

THE PROPONENTS OF OIL IMPORT RESTRICTIONS

The proponents of oil import restrictions are the same as they have been for the past 33 years since this issue first began—the coal producer and coal labor groups and the independent domestic oil producers. These two groups are not content with the mandatory controls now in force on oil imports. They again come to this Congress wanting these restrictions further tightened and sealed in concrete by legislative edict. They, as has been their custom, rely on tears and distorted statistics, as well as economic legerdemain, as the sandy support for their greedy arguments. Nothing new will be presented to this committee—only some warmed-over statistics selected on a basis which is not representative but designed solely for proving their point. They ignore the current state of health of the domestic petroleum industry and in the case of the coal industry lay all the blame for its ills at the door of residual oil, failing miserably to point out the true factors which have caused the ailment, such as competition of natural gas, more efficient methods of mining coal eliminating a great deal of manpower needs, and many other factors which should necessarily be shown in any situation where true cause and effect are of paramount importance before important decisions can be made on the issue.

How these people can expect the Congress to pass a trade bill that would give to the President the flexibility and discretionary authority necessary to improve our position in international markets while at the same time including in that bill a concrete and relatively inflexible plan of dealing with petroleum imports is a little beyond my conception. For those who are familiar with the actions of these two groups, however, anything, of course, can be expected because both groups have become so blinded by their own greed that they are totally unaware of the existnce of any other industry, much less the general economic welfare of the Nation.

Since their arguments are so much the same today as they were 4 years ago I would like to include in the record a portion of the statement which I presented to the Committee on Ways and Means at that time on H.R. 10368. The responses which I gave then are even more valid today than at that time. Following is an extract from that statement:

"I have listened to and read their arguments so much and so often that they have long since taken on the aspect of a broken record. I, in turn, find myself in much the same position in responding to their arguments. It becomes embarrassing to me to have to repeat to this committee the false prophecies which spokesmen for these groups have made to this Congress for this, the 29th year, and to again remind the Congress that their prophecies have proven to be 100 percent erroneous.

"As early as July of 1929 Mr. George W. Lewis, legislative agent of the United Mine Workers of America, in a brief filed with the Senate Finance

Committee, recommended a prohibitive excise tax on fuel oil imports. Mr. Lewis at that time stated, in substance, that to permit the continued free entry of millions of barrels of foreign oil would simply mean the wrecking of the great coal industry. Of course, Mr. Lewis failed to tell the committee that the cause of the increase in residual oil imports was principally attributable to the great coal strike in 1927. It was during that year that industrial users of coal were caused great and undue hardship because they did not have an adequate supply due to the strike; as a result they began to look for a new form of fuel that could be supplied with some degree of certainty and they found it in residual oil, both domestic and imported. It may be recalled that this strike lasted for several months and as a result the coal industry had 23 million man-hours idle for the year 1927. The coal producers also failed to tell you that at spasmodic intervals thereafter there has been strike after strike. As a result industrial users of coal, as well as the operators of large heating facilities, found that coal was not a dependable fuel. Over the years facilities for the use of so-called residual oil were developed and expanded. In brief, the coal industry itself set in motion a chain of events which brought about a necessary competitor. Now they would have you take that competitor from the marketplace, regardless of the impact it would have on the thousands of companies and persons whose heating units can only be run on residual oil. It should be pointed out that every pint of domestically produced residual oil is being utilized and imported residual oil merely supplements that supply to meet the consumers' demand.

"It will be recalled that on January 31, 1955, a representative of the bituminous coal industry testified before this same committee as follows:

"'* * * The increasing flood of oil displaces coal and destroys its market, causes mines to close, impairs the capital investment of the coal industry; retards domestic exploration and development of new oil fields; decreases potential traffic for American railroads; reduces opportunity for livelihood for thousands of coal mine and railroad workers: threatens the existence of thousands of small businessmen; and imperils the Nation's security by building up unwise dependence on foreign oil sources.'

"At that time this same representative advocated:

"'* * * restriction on the total quantity of crude petroleum and products, including residual oil, which may be imported for consumption within the United States to not more than 10 percent of the annual domestic requirements.'

"Despite the fact that no significant restraints have been imposed on residual oil imports, the coal industry in the year following that presentation saw enormous increase in productivity. Instead of the mine fields being littered with the bodies of starving miners the situation became quite the reverse and the mines were again full of miners with full bellies who were digging coal with all their might to meet unprecedented demands. It is true there has in recent months been a drop from this peak of productivity in the same manner as our total business economy has dropped. The point I am making is that the record for more than 29 years does not reflect that restrictions on residual oil imports are necessary for the country to maintain a healthy domestic coal industry.

"The record of the prophecies of the independent producers is equally as bad although it is admitted that at the present time our domestic crude oil producing segment is suffering temporary pains which will undoubtedly be alleviated by the natural course of events in the same manner as the temporary pains complained of by the coal industry in 1953 and 1954 were remedied.

"I recall quite vividly my first initiation into the oil imports issue. I was at that time staff director of the House Small Business Committee and subsequently was general counsel for its subcommittee which investigated the 'Effect of Oil Imports on Independent Domestic Producers.' This was in 1948–49, with the subcommittee functioning under the able chairmanship of one of your committee's esteemed members, the Honorable Eugene Keogh. This subcommittee held the most exhaustive and extensive series of hearings ever held by the Congress on this issue. Instead of the people coming to the subcommittee, the subcommittee went to the people and held hearings in every principal oil producing area with the exception of California. This subcommittee had no special axes to grind and our only concern was to develop the facts pro and con. During these hearings, in 1949, we heard the same arguments that were offered before you gentlemen last Tuesday. Representatives of the stripper well producers repeated their traditional prophecies that unless imports were restricted they would be forced out of business and billions of barrels of oil would be wasted since such quantities still existed to be milked from the earth in relatively small dribbles. We also heard about drilling rigs being stacked and rusting; we heard of the unemployment which was rampant in the oil fields; we heard of tax losses in the various oil producing States because of reduced production allowables; we heard of the depleted number of geophysical and seismograph crews; we heard about the inability to obtain capital to continue with an aggressive program of exploration and development of oil and gas properties; we heard about the giant international oil companies who were flooding this Nation with oil—all of which would result in economic chaos in the producing segment of the industry and, of more significance, the drastic predictions of the impact of these conditions on our national security. The lamentations and wails of the independent producers that were committed to the record were enough to melt the hardest heart and to force the most liberal freetrader to copious tears.

"Subsequently in 1953 this same group of domestic producers appeared before your committee and they again in substance repeated this same testimony. Again in 1955 when the Trade Agreements Extension Act was before you for consideration the same group was back, again pleading for import restrictions in order to save the Nation from economic chaos and military insecurity. And so it was last Tuesday as I sat in the audience and listened to the same group propose two amendments to the bill before you for consideration. Let us look for a moment at the cold, hard record between the time I became involved in this issue and the present. I cite no other authority than the general counsel for the Independent Petroleum Association of America who has stated on page 1070 of the Compendium of Papers on U.S. Foreign Trade Policy, recently collected and published by the staff of your Subcommittee on Foreign Trade Policy. His statement is as follows:

" 'For example, during the period from 1948 to 1957, the domestic oil producing industry found and developed more than 35 billion barrels of oil in the United States, or 50 percent more than the amount produced during that period. The capacity to produce oil in the United States was expanded from less than 6 million barrels daily in 1948 to an estimated 10,150,000 barrels daily in 1957, an increase of about 70 percent. This expansion of capacity exceeded the increase of 60 percent in consumption of oil in the United States.'

"In the face of dire predictions to the contrary, the producing segment of our domestic industry has this fantastic growth record for the period referred to. What other industry in the United States can point to a similar record of achievement and growth, much less one that persisted that it was in the throes of a struggle for survival. Not only did those years produce fantastic profits for the producing segment but, in addition, it provided the funds which enabled the industry to achieve new records in drilling activities every year with the exception of 1957. In addition, it also provided the funds that enabled many of the small- and middle-sized companies to venture into exploration and development of crude oil and gas properties in Canada, South America, and the Middle East.

"As I reflect on the verbiage which has been expended on this issue over the years there comes to mind a portion of a statment made to this committee in May of 1953 by a small jobber from Pine Bluff, Ark. This jobber, who began his existence in the oil industry with borrowed money and a leased service station, had this to say:

" 'Let's take a look at what these boys are after. The coal crowd wants to cut off residual imports because they figure that it will force some residual oil consumers to burn coal. In my opinion, the reason these people quit using coal and started using residual oil was because John L. Lewis called so many strikes and holidays they didn't know when or whether they were going to get any fuel. Now, he comes along and wants these same consumers forced to use his product after he's run them off. Apparently, the consumer, as usual, is caught in the middle.

" 'Now we come to the crowd that I really cry over—the independent producers. It loks to me like they are eating pretty high on the hog already. The price of crude oil today is more than double what it was during the war years, whereas most of the jobbers are making the same amount of cents, and fractions thereof, per gallon gross, that they were making in 1940 while our net has decreased tremendously. Now what do these boys want? They want imports on residual oil curbed so that a shortage will be created and the price pushed up some more. When the price of residual oil goes up, they will then push up the price of crude oil. When the price of crude oil goes up, every consumer of petroleum products in this country will have to foot the bill in some form or another.

"'* * * Of course, they want to get crude oil imports cut off so that they can produce some more at a new higher price which will be brought about by cutting the residual oil imports.

"'Now mind you, these independents never do these things for themselves—it is done in the name of national defense. I have been reading their stuff for years, and if I believed everything I read I could figure that they are not in business to make money but are solely interested in the security of the United States. I think they are as patriotic as the average American businessman, but I seriously doubt there has ever been a purely patriotic oil well drilled in the history of the world. They are in business to make money just like I am, and if having a good supply of oil is to the benefit of the United States as a whole, it is a byproduct of their real objective. I don't object to them making money but I do get sick and tired of seeing people cover up their greedy desires with the American flag. I have to work hard to sell petroleum products. The independent producer is guaranteed a fair share of the crude oil market by proration laws. The only way I can get a fair share is by hard work. On top of this proration protection they get what is known as a depletion allowance which, in my judgment, is about equivalent to a license to steal. As a matter of fact, I believe I would rather have the depletion allowance.

"'Now I'm not trying to be hard on these fellows, but I think it is high time that the businessmen of this country—and that includes the coal people and the independent producers—quit looking to the Federal Government for aid at somebody else's expense every time business takes a dip.'

"THE CURRENT SITUATION

"The fact that the principal proponents of restrictions on oil imports have a bad record as prophets is not in and of itself sufficient reason to ignore their current petition for restrictions. We cannot treat these petitioners as if they were the little boy who persistently cried 'wolf'—to the contrary we must do what this committee is doing and examine the situation, giving due regard to all factors and aspects before making permanent decisions to cure temporary ailments. It is quite true that domestic production of crude oil in this country has been cut back—a situation faced also by our good Western Hemisphere neighbors, Canada and Venezuela. The fact that Texas is now producing on a 9-day allowable basis sounds much worse than the situation actually is. This '9-day allowance' situation apparently is designed to leave the impression that Texas is producing at less than one-third of its productive capacity for a 30-day month. Such is far from the truth. The truth is that it would be impossible for the State of Texas to produce three times as much oil as it will produce this month, for any reasonable period of time, without doing serious damage to the underground reservoirs and thus minimizing the ultimate yields from these reservoirs.

"Now what are the reasons for the current situation? There would probably be as many answers to that question as there are people attempting to give an answer. In my judgment the principal reasons are as follows:

"1. The productive capacity of the domestic crude industry has been increased at such a rapid rate (as was pointed out by Mr. Russell Brown), as related to demand, that we simply have an excess of capacity, with all participants desiring to produce at maximum;

"2. This situation of domestic oversupply has been in existence for some time and despite this fact we have continued to produce oil and products to a point where one of two things must happen—either crude oil production is cut back or the price of crude oil will drastically break;

"3. Natural gas (produced by the same segment) has made severe inroads into fuel oil and coal markets;

"4. The petroleum industry like every other industry in the United States is in the midst of a recession or business drop and as a result there is a decline in demand; and

"5. Imports of crude oil has become slightly excessive prior to the instigation of the voluntary quota plan, as related to the other factors mentioned above.

"In brief, while crude oil imports have undoubtedly made some contribution to the current situation, they very definitely are not the prime provoking cause and have not, in our judgment, been excessive to such an extent as to warrant the necessity for mandatory restrictions. The question at issue is: Should we take the stringent measures recommended by the coal and independent oil producer groups to relieve the existing temporary situation? It is the jobbers' view that we should not. It is our belief that the domestic petroleum industry will work itself out of this situation in the same manner that it has done so for the past 30 years and that any action to restrict oil imports would be in disregard of the historical flexibility of the domestic industry and would be born more of panic than necessity to preserve our national security.

"Certainly no discussion of the present situation could ignore the actions of the President's Cabinet Committee and the Office of Defense Mobilization since 1955. It was early in 1955 when the President's Cabinet Committee made the finding that imports of crude and residual oil were excessive and should be limited to the ratios prevailing in 1954. This finding was coupled with a request that the importers adhere to this ratio. The importers did not adhere to the ratio and subsequently studies were made with the result that the committee found that while crude oil imports continued to be excessive, the same did not apply to residual imports. This latter position has not been changed to this date. Later the Cabinet Committee recommended a new formula for the east coast and subsequently another formula for the west coast, both of which called for significant reductions in crude oil imports. The importing companies were called in and quota allocations were made for each. Thus far this so-called voluntary plan of import restrictions has on an overall basis worked well, even though three of the importers have exceeded their allocation.

"The jobbers have consistently been of the opinion that the action of the Cabinet Committee was born more of political expediency than necessity. If, however, the importing companies saw fit to concur in this 'pistol point' plan of restrictions that, of course, was their business. Whether the action of the Cabinet Committee and ODM was justified or not the fact remains that imports were restricted and still are restricted—all without the necessity of legislative mandate. Unfortunately, however, this does not appear to be enough for the independent producers. They now seek legislative mandates which in my judgment, if effected, will set in motion a chain of events that will ultimately lead to complete Federal control of the domestic petroleum industry in all its aspects.

"THE PROPOSED AMENDMENTS

"Let us examine briefly the amendments proposed by the independent producers and the coal producers, bearing in mind their allegations that these amendments are necessary to achieve two basic purposes—(1) the economic stability of the domestic industry, and (2) our national security. In their first amendment they propose that whenever the President has determined that imports of a commodity shall not exceed specified levels, then any importing company whose imports exceed such levels should be subject to a duty amounting to 30 percent of the value of the cargo and, in addition, shall be subject to damages and confiscation of cargo. At no place in this amendment is any regard given for foreign source of origin of the imported oil on a basis that would be advantageous to our Nation from the standpoint of economics and availability of supply in the event of national emergency. The amendment suggests no provisions that would give preferential consideration for imports from such countries as Canada and Venezuela—two of our best cash customers—the countries whose oil we would need the most in time of national emergency. How could such an amendment be placed in a trade law, designed to promote trade reciprocity, without being inconsistent even with the basic purpose of the law itself? This amendment is inconsistent even with the policies of the independent oil producers who have time and time again indicated that preferential consideration should be given to crude oil imported from our friendly allies in the Western Hemisphere.

"Their second proposed amendment would limit imports of crude oil and petroleum products, respectively, to the ratios obtaining in 1954. This is premised on the conclusive presumption that imports in excess of these ratios automatically endanger national security. Even the President's Cabinet Committee, on whose determinations the proponents rely so heavily, has already determined that this relationship is no longer applicable to both crude oil and residual oil. Neither does this amendment permit preferential consideration for oil imports from those sources best suited for national defense, nor does it give any consideration to economic impacts. In brief, neither of these amendments provides any means for escalation or changes that would be necessary to achieve the desired ends—economic stability and national security.

"CONCLUSION

"It is the jobbers' firm belief that the current situation of oversupply in the domestic marketplace will ultimately right itself without the necessity of either executive or legislative mandate. These same jobbers are more familiar with depressed markets and stiff competition than the independent producer has ever known or will ever know. For more than 2 years jobbers have been faced and plagued with gasoline price wars, loss of business to their major company competitors, a rapidly diminishing percentage of petroleum product markets, and all of the other problems that beset a marketer when supply exceeds demand. The jobber has no proration laws to assist him in getting his share of such markets as are available. He has no depletion allowance or intangible drilling cost allowance to partially compensate for his losses due to selection of bad service station sites. Despite these differences in the position of the jobber and the independent producer, the jobbing segment, which I represent, has the distinction of being the only group within the petroleum industry that has never come to this Congress asking for laws which stifle their competition or give them preferential consideration over anyone else within the industry. Surely, if these relatively small guys can stand up in the toughest competitive arena known to American industry, the independent producer with all the tax benefits and preferential laws that work in his favor could be willing to take a few jolts without running to the Congress every time he stubs his toe. It is that same producer who on the one hand wants freedom from Federal control of his gas production but who on the other hand solicits Federal control of his crude oil competitor. How inconsistent can one get? The only thing more inconsistent that I can conceive of would be for this Congress to pass a so-called Trade Agreements Act which contains emasculating provisions that would defeat the very purpose of the act. If we are to have a program of trade reciprocity, then let's have it, and carry it out on a businesslike basis, giving preferential consideration to those who give us preferential consideration. For us to pass a Trade Agreements Extension Act containing provisions which are inconsistent with the very purposes of the act would, in my judgment, leave our great Nation subject to the very valid charge that 'the voice is that of Jacob, but the hands are those of Esau.'"

CONCLUSION

I believe that if I were a Congressman or Senator confronted with the greedy pleas of these two groups that I would somehow feel that my intelligence was being insulted. In relatively recent years the coal industry was granted a very significant depletion allowance as a means of coping with its loss of position in domestic markets. This they do not mention but start anew as if no relief had ever been granted. The independent crude producers already have (1) the great benefits of the depletion and intangible drilling cost allowances, (2) the benefits of State conservation laws which tend to bolster domestic crude oil prices, and (3) restriction on crude oil imports. What more do they want? These are benefits unavailable to any other industry or segment of industry of this Nation.

We respectfully suggest that this committee give consideration to reviewing our current laws with reference to depletion and intangible drilling cost allowances granted to the oil industry with a view toward either eliminating or modifying these allowances so long as mandatory restrictions on imports of crude oil and its products are in effect.

STATEMENT OF POSITION ON H.R. 11970 BY R. C. McCONNELL, PRESIDENT, OHIO OIL & GAS ASSOCIATION, NEWARK, OHIO

The Ohio Oil & Gas Association is composed of 881 members, most of whom are small independent producers of oil and gas. We concur with the Independent Petroleum Association of America and the Liaison Committee of Cooperating Oil & Gas Associations in a sincere request to the Senate Finance Committee to amend H.R. 11970 by strengthening the security clause of the act. We believe that in the interest of national defense and a healthy domestic oil industry this bill should contain definite limitations on the imports of crude oil and its derivatives from all sources into this country, which would establish and maintain an equitable ratio to domestic crude oil production.

While H.R. 11970 was being considered in executive session of the House Committee on Ways and Means, a majority of the committee favored writing specific limitations on oil imports into the bill. Last minute assurances by the executive branch of Government that this matter would be taken care of administratively probably were responsible for the bill being voted favorably out of committee without amendment. The same Executive pressure brought the measure out of the Rules Committee with amendments limited and onto the floor of the House.

It is our contention that the administrative branch of Government is thoroughly familiar with this situation and has had ample time to take appropriate action. Recommendations by the Secretary of the Interior and by many industry spokesmen have been ignored. Considering past performance, it is our firm belief that the present study by the Office of Emergency Planning will make no appreciable difference in the administration's treatment of excessive oil imports.

Our association believes that our only chance of securing an equitable share of the crude oil market depends upon definite limits being placed in H.R. 11970 by the Senate Finance Committee. We have every reason to believe that members of this committee will give careful consideration to maintaining a healthy, domestic-producing industry in the interest of national security and without fear of reprisal from the executive branch. If we fail to obtain relief in the Senate Finance Committee, the domestic-producing industry may look forward only to continued worsening conditions as has been the case under the present and the last two previous administrations.

At the end of this statement two tables are attached. Table A shows drilling rigs operating in Ohio on January 1 and July 1 for the years 1957 through July 1962. This figure indicates that on July 1, 1962, there were only 24 percent, or less than one-fourth, of the number of shallow rigs operating; 61 percent of the deep rigs were being operated at what should be the peak time of the year for drilling.

Table B shows oil production in barrels and in value of production. It indicates almost a static position with 1961 production being practically the same as 1957 and less than production in 1958 and 1959. Practically the same situation holds true with the value of oil production. Price reductions, which became effective during the year 1961 and on January 1, 1962, will further reduce oil income during the current year.

Excessive oil imports definitely caused the 17 cents per barrel reduction in the price of Pennsylvania grade crude produced in Ohio on January 1 of this year. Gasoline from refineries processing imported crude on the east coast flooded Pennsylvania grade marketing areas. Canadian imports, which have been allowed to climb to unreasonable levels and are exempt from quotas, are now reaching Ohio refineries. Generally speaking, prices for the five grades of Ohio crude are under the price at which they were pegged during the Korean war, over 10 years ago. During that time, contractors and producers have faced constantly increasing costs of doing business because of increases in steel, labor, equipment, and taxes. It is small wonder that the producing industry in Ohio is in a chaotic condition.

In recent years, many small Ohio operators have sold out or been starved out. Others have properties for sale. Contractors have stacked rigs. Pipelines have been abandoned, and we face the loss of others. For the most part, Ohio producers have remained in business by abandoning marginal wells, recovering most of the equipment and using it in their new wells, supplementing it with new steel only when absolutely necessary. This has an adverse effect on the steel industry. It also brings about a loss of recoverable reserves of oil.

Others are affected by the current oil slump. Ohio State University has abandoned its petroleum course. The only other petroleum college in the State has only half as many students graduating this year as they had in 1959. The State and various county, township and school districts are deprived of revenue from the oil industry ad valorem tax, allocated to local governments.

It appears to our members that recent action of the Government in allowing international oil companies to flood this country with imported oil, to the point where domestic oil producers are being driven out of business, is a deplorable state of affairs, which should not be tolerated. Ohio producers share the concern of coal operators in the State at unreasonable imports of residual. The defense action of H.R. 11970 should contain definite language imposing reasonable limits on oil imports.

We shall be glad to furnish any additional information requested.

TABLE A

Well drilling	1957		1958		1959		1960		1961		1962	
	Jan. 1	July 1	Jan. 1	July 1	Jan. 1	July 1	Jan. 1	July 1	Jan. 1	July 1	Jan. 1	July 1
Shallow	47	75	62	58	40	42	33	15	20	16	22	18
Deep	144	147	169	158	123	174	158	109	83	104	64	106
Total	1,170		1,176		1,131		1,042		1,111			

TABLE B

	1957	1958	1959	1960	1961
Oil production (total barrels)	5,555,832	6,524,516	5,978,280	5,405,304	5,638,838
Oil production (value)	$17,541,247	$18,781,605	$17,071,527	$16,267,656	$17,737,954

STATEMENT OF EMILIO G. COLLADO, VICE PRESIDENT AND DIRECTOR, STANDARD OIL CO. (NEW JERSEY) IN SUPPORT OF THE TRADE EXPANSION ACT OF 1962, H.R. 11970

Standard Oil Co. (New Jersey) endorses the basic principles underlying the proposed Trade Expansion Act of 1962. This company has consistently supported trade liberalization and the unrestricted movement of capital in the free world. We view the pending trade bill as an essential extension of this policy in response to altered economic conditions at home and abroad.

Today we must respond effectively to new challenges and opportunities. Further trade liberalization among the free world nations is vital if we are to avoid economic and political division of the free world and meet successfully the challenge of the Soviet economic offensive. The rapid growth of the European Common Market and the industrialization of other nations, notably Japan, present us with a new balance of competitive forces. In the past few years this economic growth has provided a rapidly increasing outlet for our goods. But as the Common Market countries move rapidly toward the elimination of tariffs in their trade with each other and establishment of a common external tariff against the outside, our exports to this area will be placed at a growing disadvantage unless the United States is able to obtain substantial reductions in the Common Market external tariff. With the prospect that the United Kingdom and other countries may join the Common Market, thus enlarging its share to about 30 percent of our total current export market, we cannot delay.

In order to bargain effectively in the development of the free world trading system, the President must have the authority to negotiate substantial reciprocal tariff reductions in broad categories of goods in place of the present item-by-item procedure; to extend these reductions stepwise over a period of time that will permit necessary adjustment to the changes made; and to utilize new procedures for the accumulation of data and the formulation of trade policies in the best interests of the commerce of the United States. The pending bill brings the mechanical implementation of trade liberalization up to today's needs and to today's realities. The new negotiating tools are needed now. This means that legislation should be enacted before the adjournment of this Congress.

The Trade Expansion Act contains language similar to that in existing legislation to permit the President to take action to control imports when such control is required by our national security interests. Oil is the only commodity on which action has been taken under this provision, and mandatory quotas on oil imports, including fuel oil, have been in existence since 1959. Standard Oil Co. (New Jersey) supports the need for continuing a national security provision, but, at the same time, believes that in today's circumstances quotas on fuel oil cannot be justified on national security grounds and therefore such quotas should be eliminated.

One proposal to amend the trade bill has received considerable discussion. It would change the national security provisions to specify precisely the level of permissible imports of petroleum. Jersey Standard strongly urges you to reject any such amendment. To introduce such rigidities is unnecessary and contrary to the objectives of the trade-expansion program. In general any rigidity is undesirable since national security contingencies may require flexibility for quick decisions, as well as constant reappraisal to improve the administration of the program.

Jersey Standard welcomes competition. It is vital for American industry to face up to the unprecedented challenges—and opportunities—of expanded and liberalized worldwide trade. This will require keeping costs under effective control, eliminating frills, and making productive investments at home in modernization and research.

Standard Oil Co. (New Jersey) accordingly endorses the grant of negotiating authority and flexibility provided by this proposed legislation as one of the important instruments needed to effectuate a forceful and cohesive foreign economic policy, geared to fast-changing world developments and worthy of the economic leadership of the United States.

STATEMENT OF DONALD H. GOTT, SECRETARY-MANAGER OF AMERICAN WALNUT MANUFACTURERS' ASSOCIATION, CHICAGO, ILL.

Mr. Chairman, members of the committee, my name is Donald H. Gott. I am secretary-manager of the American Walnut Manufacturers' Association, Chicago, Ill. The association is a trade association originally founded in 1914. Its membership consists of 15 companies which are engaged in the processing of black walnut logs into veneer and lumber for use in making interior paneling, doors, furniture, cabinet work, and other wood products. The companies which are members of this association produce more than two-thirds of the walnut veneer made in the United States.

The black walnut industry is a unique industry. It faces a crisis at the present time from the fact that exports of the industry's raw material, black walnut veneer logs, have grown to such alarming proportions that the growth-drain balance has been upset. This unique American natural resource is now being dissipated at such a rate that it will all disappear within a few years. This dissipation arises largely from exports. Under the Export Control Act of 1949, the Secretary of Commerce has the power to place an embargo or restriction on exports in order to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand. Last November, the association, on behalf of the industry, petitioned the Secretary of Commerce for the imposition of export limitations on veneer quality walnut logs. Hearings were held in November 1961 and again on two occasions in July 1962. The association submitted additional data, pursuant to request of the Department of Commerce. No decision has yet been rendered.

The proposed H.R. 11970 would permit, and in fact would almost require, reduction or elimination of import duties on walnut veneers and plywood. The elimination of such duties would increase the demand for export of walnut veneer quality logs and deepen the crisis in which the industry finds itself.

A copy of the statement of American Walnut Manufacturers' Association on behalf of the domestic walnut veneer industry, which was submitted to the Secretary of Commerce under date of November 14, 1961, was filed with the Subcommittee on the Impact of Imports and Exports on American Employment of the Committee on Education and Labor, House of Representatives, 87th Congress, at the hearing held November 30, 1961, and has been reproduced in full in the transcript of the hearings, part 8, on pages 296 to 310.

The plight of the industry was also the subject of discussion on the floor of the House of Representatives on June 19, 1962. (See Congressional Record, vol. 108, No. 95, pp. 9446-9448.) An extension of remarks of Congressman Dent dated June 29, 1962, appears in the Congressional Record (vol. 108, No. 122 (July 18, 1962), p. A5532).

Black walnut is a unique wood. It grows mostly in the eastern half of the United States. Since 1954 there has been twentyfold increase of exports of walnut veneer quality logs, and the average price of such logs for export has doubled. The bulk of these exports goes to West Germany, Italy, and Japan. It is then made into veneer and further manufactured into plywood and furniture. These veneers, plywood, and furniture are then in many instances shipped back to the United States where they compete with black walnut veneers and walnut plywood which have been manufactured in the United States with American labor. Removal or reduction of the tariffs applicable to veneers, plywood, and furniture will give the importers of such products a further competitive cost advantage, which will in turn increase the demand for export of black walnut logs. If not checked, the export of such logs will result in a complete disappearance of the supply of American black walnut within a very short time.

The problem which we face here is one of exploitation of a unique American natural resource by cheap foreign labor. Foreign veneer and plywood manufacturers are able to buy raw prime walnut veneer logs at almost twice the average domestic price ($950 per thousand feet as compared to $515 in 1962). These logs are then shipped abroad, sliced into veneer, made into plywood, and brought back here where these products undersell the veneers and plywood of American manufacture. A comparison of average, straight-time hourly wages actually paid by domestic veneer producers in 1961 with those paid in West Germany, Italy, and Japan shows that the American average wage is $1.57 per hour; that of West Germany, 52 cents (33.1 percent of American wage); Italy, 26 cents (15.8 percent); and Japan, 20 cents (12.7 percent). The removal or reduction of tariffs on walnut veneers and plywood or furniture made from such veneers and solids would merely accentuate the trend. It would do away entirely with the American veneer manufacturer and permit exploitation of this unique American natural resource solely by foreign labor and capital.

This unique American black walnut wood is known by the botanical name of Juglans nigra. It grows mostly in the central portion of the Eastern United States. While some quantities of walnut are found in as many as 15 States, ranging from Pennsylvania, Virginia, and North Carolina on the east to Arkansas, Oklahoma, and Nebraska on the west, those areas are in reality fringe areas. Practically all walnut veneer quality logs (in this country, and that means in the world, since there are no black walnut logs anywhere else) grow in the States of Ohio, Kentucky, Indiana, Illinois, Iowa, and Missouri.

A typical veneer manufacturer is a small businessman who is located in one of the Middle Western States (15 are in Indiana) with an average plant investment of about $1 million and employing about 100 people. Several of these veneer manufacturers are already located in "areas of substantial unemployment" as defined by the U.S. Department of Labor.

Members of the industry have reported that the tremendous increase in export demand has not only threatened the supply of walnut veneer quality logs at the present time and in the future, but that it has already had it impact on their mills and has required curtailment of production and layoff of employees because of inability to obtain sufficient quantities of high-quality walnut logs at reasonable prices in order to maintain full production.

Exports of American black walnut veneer quality logs have increased from 505,000 board feet in 1954 to 10,185,000 board feet in 1960. That is 20 times. The 1961 and 1962 figures show that this trend is continuing. This increase in the purchase of black walnut logs for export has driven up the price which domestic veneer producers must pay for their logs and has caused a serious decline in the quality of logs available for domestic use. It has also encouraged the harvesting of immature black walnut trees for quick profit and has upset the growth-drain balance necessary to assure an adequate future supply of high-quality black walnut for veneer production. The average price of walnut veneer logs for export in 1954 was $408 per thousand and for 1961 the average price per thousand was $824. Five months of 1962 show this average to be $950.

Black walnut is also unique in its growth characteristics. It does not grow like other trees in large stand or forests. It grows sparsely in small woodlots among other species and as scattered field and pasture trees. For proper development it must be grown with other hardwoods. For many years the American Walnut Manufacturers Association has cooperated with the Federal and State forestry departments in encouraging the planting of walnut nuts and seedlings. It takes over 40 years for such trees to grow to timber size and almost twice that long to grow to a prime quality veneer tree. Black walnut is not only a valuable wood but, as you can readily see, the cost of acquiring the logs is high because log buyers must be sent out to buy a few trees at a time from farmers.

As we have demonstrated in our statement filed with the Secretary of Commerce, if the domestic use of walnut continues at its present rate and the export of walnut logs does not even increase over that of 1960, all of the supply of American black walnut of veneer quality will be gone within 14 years. Our information is that foreign users of walnut veneer logs, particularly those in

West Germany and Italy, have planned to increase their consumption of American black walnut substantially. If they are permitted to purchase all of the veneer logs they want, our supply of black walnut logs will be all gone within a much shorter period. What is happening is that the veneer producers in Italy and Germany, and to some extent in Japan, with their far lower labor costs, are taking our industry's raw materials, the American walnut veneer quality log, over to their countries and converting it there into veneer for use in furniture and plywood.

In summation, the proposed H.R. 11970 would further increase the pressure for export of walnut veneer quality logs with a resultant adverse economic effect on walnut veneer manufacturers and their employees. The industry will be required to attempt to meet the competition of foreign veneers made from American black walnut by cheap foreign labor; the plywood manufacturer customers will be required to meet the foreign plywood competition where the labor advantage is compounded, i.e., where walnut veneer made with cheap foreign labor from American logs is in turn made into plywood by the same cheap labor, which gives it a double advantage in competition with U.S. manufacturers of walnut plywood; American furniture manufacturers who are principal customers of the industry can buy American black walnut veneer cheaper from abroad because of the foreign labor advantage and to the extent that they use walnut plywood in their operations can get this plywood even cheaper than they can buy American-made plywood or make it themselves. When the American walnut log is imported in the form of furniture made abroad, the low wage differential advantage of the foreign manufacturer is tripled in its effect.

The American walnut veneer industry finds it difficult to compete with foreign cut veneers at the present time and, if the safeguards for American industry which are provided by our present tariff laws are eliminated, as they would be under bill (H.R. 11970), they will find it impossible to compete.

If the members of our industry were big industrial giants and had the capital and resources of such giants they could build plants abroad and arrange for the processing of American black walnut by cheap foreign labor. This might solve the problem of some of the industry members, but it would not provide jobs for their present workers. The American laborer is the one who would lose. But the members of this industry are not colossal corporations with unlimited resources; they are interested in staying in business in their small Middle Western towns and providing their laborers with a fair wage and a decent living processing this unique American natural resource with American labor and at a usage rate which will conserve this unique resource for the generations to come. We do not believe that the American walnut veneer industry should be the sacrificial lamb on the altar in the cause of building up industry in foreign countries.

Thank you, gentlemen.

Statement by Matthew E. Welsh, Governor of Indiana, on H.R. 11970

Mr. Chairman and members of the committee, as Governor of the State of Indiana, I share with the crude oil producers of this State a concern about the growing impact of petroleum imports on the domestic industry in Indiana.

Indiana is primarily a State of stripper-well production. The daily average production per well is about six barrels. The total amount of oil produced annually is approximately 12 million barrels. Approximately one-third of the daily production is from secondary recovery or water flooding.

This State, as all 33 member States of the Interstate Oil Compact Commission, is charged with the duty "to prevent physical waste of oil and gas." The State's police powers have been extended by the legislature to promote the maximum ultimate recovery from petroleum reserves. One aspect of physical waste is the premature abandonment of producing oil wells. This can be brought about in marginal economic wells by the pressure on the price by excessive imports of cheap foreign produced crude oil.

Conservation, however, does not mean nonuse. It means intelligent and careful development and use of our domestic resources for the maximum benefit of the people of our State and Nation. Indiana's deepest well at present is 3,100 feet. We look forward to the day when we will have 6,000-, 8,000-, and even 10,000-foot wells. We invite and encourage exploration and development. We must provide a stability between domestic production and imports, and an incentive for an industry to explore and develop our natural resources. This is our challenge.

Indiana has a 489,000 barrel daily refining capacity or about 178.5 million barrels annually. We refine about 16 times more oil than we produce. The sources of this crude oil have been Indiana, neighboring States and other nearby States. We hope that this pattern is continued and that our market and their's is not denied by imported crude oil and refined products.

During and after World War II, crude oil pipelines flowing to and products lines flowing from refineries have been constructed underground connecting these producing areas and refineries to provide maximum security and protection from any enemy by sea or by air. Our national defense and the defense of the Western Hemisphere and in a measure the free world depends upon our daily producing ability. In an emergency, foreign produced oil has and very likely will again be denied to us. Therefore we should not become dependent and reliant upon foreign produced oil. Our defense effort and our expanding peacetime economy depends upon oil for fuel.

Additional safeguards should be provided by strengthening the National Security section of the Trade Expansion Act of 1962, so that the President may restrict imports of any commodity for National Security purposes.

Today, we can look hopefully toward world peace, because we are and have been prepared to defend our freedom. The well prepared are seldom attacked.

STATEMENT OF BERT COMBS, GOVERNOR OF KENTUCKY, ON H.R. 11970

Mr. Chairman and members of the committee, as Governor of the State of Kentucky, I believe there are at least two items which should be noted by your committee. I feel they are indicative of an unhealthy situation in our domestic oil industry.

In December 1960, the U.S. Bureau of Mines released figures which showed that crude oil average price was $3.03 per barrel. The cost of replacing that barrel of oil was $3.38. These figures speak for themselves. Some industry surveys indicate an even greater difference. Oil currently is selling for $3 per barrel and replacement, that is finding and producing are running as high as $3.75 to $3.85 per barrel.

Enrollment records at the department of geology at the University of Kentucky indicate that in 1950 there were 55 students in their junior and senior years, majoring in geology. In 1960, there were 26 students in the same category. Cutbacks in the petroleum industry caused by a weak crude oil price are directly responsible.

I believe that the import oil program should be strengthened, so that restrictions can be evoked by the President to bring about a vigorous economic climate that will be an incentive for the vital domestic fuels industries of oil and coal to explore, find, and produce new reserves; also the incentive to educate and train personnel replacements.

I believe this is essential in the free world struggle against communism.

BERT COMBS,
Governor of Kentucky.

EAST TEXAS OIL ASSOCIATION, INC.,
Tyler, Tex., July 30, 1962.

SENATE FINANCE COMMITTEE,
2227 New Senate Office Building,
Washington, D.C.
(Attention Mr. Harry F. Byrd, chairman).

GENTLEMEN: Inasmuch as the schedule of witnesses on trade bill (H.R. 11970) was filled prior to receipt of this association's request to appear, we wish to make the following statement:

"The East Texas Oil Association strongly urges that the trade act be amended to accomplish the objectives of the Steed-Moore bill. This association will further go on record as endorsing the oral testimony presented by the Independent Petroleum Association of America."

Yours very truly,

E. J. MCCURDY, Jr.,
President.

STATEMENT OF AMERICAN HARDBOARD ASSOCIATION

My name is Howell H. Howard. I am president of the American Hardboard Association, of Chicago, Ill., and executive vice president of Edward Hines Lumber Co., which is a member of the association. The association is an organization of the domestic hardboard producers.

Association members have long been concerned with the impact of imports on their domestic production and employment. Many have, or seek to gain, export business. Some have been compelled to resort to imports in meeting import competition. In short, the association membership is aware of various aspects of world trade.

First, a word about hardboard:

Hardboard is a wide, thin, hard, wood panel material, having great utility. It is rearranged wood, being made from treewood of both hardwood and softwood species.

From a simple origin in 1926 as an American invention and a way to use sawmill residues, hardboard has become a most versatile material that is found in nearly every home, office, and factory in some form, being used extensively in the furniture and millwork industries, in construction and remodeling, and in the merchandising and display, transportation, education, recreation, electronics, and manufacturing industries.

Hardboard manufacture affords an excellent opportunity to utilize more fully the quantities of wood residues generated annually in this country in lumbering operations and farmers' woodlots.

H.R. 11970 represents a radical departure in U.S. foreign policy, not only in the tariff reductions it would permit but also in the adjustment assistance it proposes for the resultant injury to industry and unemployment, and also in the concentration of power in the Executive.

Its very purposes, while multiple, are different from those of the present trade agreements program. Heretofore, reductions in our tariffs under the trade agreements program have been urged to further "trade, not aid" and to permit foreign nations to obtain badly needed dollars by selling us their goods. This legislation, however, would seek to reduce our tariffs to enable us to sell more goods abroad and correct our unfavorable balance of payments. In fact, the bill is promoted as a means of winning foreign markets for U.S. products, particularly in the European Common Market. This basic change in purpose confesses that this country has not obtained reciprocity for the extensive trade agreement concessions it has heretofore made, and that in an effort now to get what we have already paid for, we must further reduce, and even wipe out, many of our remaining reduced tariffs.

The extensive adjustment assistance provisions the bill contains suggest its underlying assumption that an unknown number of domestic industries and their employees are expendable, and will be expended, in the process of expanding our foreign markets. This assumption, of course, is an abandonment of the "no injury to domestic industry" philosophy that has heretofore always been a cornerstone of the Cordell Hull trade agreements program.

In fact, those extensive adjustment assistance provisions can only mean that the individuals, companies, and industries they are designed to help adjust will be seriously harmed by imports. Yet, the unprecedented powers that H.R. 11970 would delegate to the President, and the unknown future circumstances occurring in Europe that may prompt their exercise, render it impossible for a given individual, company, or industry to determine whether, when or to what extent his or its interests will be adversely affected.

The bill involves basic changes of foreign trade policy in numerous respects:

First, although heretofore trade agreements have been made on the understanding that if concessions injured a domestic industry, those concessions could be withdrawn in whole or in part, there is now to be only theoretical escape from harmful concessions, by a process in which the Tariff Commission will consider economic factors which it considers relevant, which is simply advisory to the President. In that sense, future trade agreements would be more binding on this country than on other countries that are parties to the same agreement, that commonly adopt self-help "escape" through import and exchange controls, taxes and other forms of indirect barriers to imports.

In lieu of effective relief by escape from an injurious concession, this legislation would provide for the Federal Government to underwrite that injury on a company-by-company basis by providing technical, financial, and tax assistance to eligible workers and companies. The proposed relief measures would divert plant investment and seasoned employees from the industries in which both have experience into new and untried activities. This sharp change in policy involves a tremendous gamble.

It means that if by chance the improved export trade does not materialize, and well it might not in view of our high labor costs and the self-interest of Common Market countries, our domestic industries will be seriously injured and some will become adjustment assistance wards of the Federal Treasury without our receiving any of the anticipated offsetting benefits, and without having any tariffs left with which to bargain in the future.

Second, this legislation would provide for increasing Government intervention in corporate enterprise by making companies suffering from imports virtual wards of the Government, their very existence in some instances becoming dependent on Government subsidy. However, such novel and untried relief provisions are of dubious value since no amount of technical assistance or tax relief or financial assistance would enable a hardboard plant, with its specialized equipment and unique location near wood raw materials, to produce anything but hardboard, or would permit the wood residues of sawmills and of farmers' woodlots to make their present economic contribution to the employment of tens of thousands located in the wooded areas of this country. In fact, underlying the proposed adjustment relief is the controversial principle of the Government being responsible for private industry injured by any act undertaken for public purposes, which will have far-reaching implications of replacing private initiative by Government control and management.

Third, the bill would give the President a blank check to administer, through undefined executive agencies, a new, vague, and unlimited Federal "relief" and "training" program.

Fourth, the provisions of the bill relating to agricultural commodities, are disturbingly broad. Section 212 would permit the elimination of tariff rates on such items if the President "determines that such agreement (with EEC) will tend to assure the maintenance or expansion of U.S. exports of the like article."

In short, Congress is asked, first, to turn over to the President for 5 years unprecedented tariff regulating powers, and, secondly, to appropriate funds to pay the untold damage claims of domestic industry that his tariff regulating action will undoubtedly cause. That is to say, H.R. 11970 proposes a wholly unwarranted delegation of power, that could only lead to autocracy in these broad areas. Congress cannot thus subcontract to the President responsibility for tariff making decisions. That responsibility, long ago contracted in the Constitution, belongs to the Congress. Such a wholesale turning over of trade and tariff policymaking powers to the Executive is completely alien to our form of Government.

The most striking domestic impact of H.R. 11970 is its assumption of the inevitability of serious injury to domestic industries from anticipated increased imports, and its "relief" proposals to alleviate that damage. It would greatly weaken the existing "peril point" and "escape clause" provisions that were devised to protect domestic industries and jobholders against serious injury in the making, and also during the operation, of trade agreements.

Statement of Insulation Board Institute in Opposition to H.R. 11970

This statement in opposition to H.R. 11970 is filed on behalf of the Insulation Board Institute, a nonprofit trade association representing domestic manufacturers that produce 97 percent of the insulation board produced in the United States.

Insulation board is used principally in building as an insulation medium against temperature change. Structural insulation boards, as they are sometimes called, are made primarily from wood and from bagasse fiber, by mechanical processes of felting, drying, and cutting and trimming. The outstanding feature of these products is the combination of structural strength with insulating qualities, the insulation values being obtained by millions of tiny air cells entrapped between the fibers during the felting operation. The various products are made into original sheets ranging in thickness from ⅜ inch to 1 inch, which are often laminated into thicknesses up to 3 inches, which are then cut into convenient building sizes, to be used in construction as structural sheathing, roof insulation, building board and shingle backer, or in the manufacture of acoustical tile, interior tile and plank, and insulation siding.

The 15-member manufacturers have an investment of several hundred million dollars in 20 highly mechanized plants, with all facilities, equipment, timber lands, barges, tugs, automotive equipment, etc., used in the manufacture and distribution of insulating board, committed to employing American labor both directly, and in raw material procurement and distribution and sale. The productive capacity of the domestic insulation board industry for many years has substantially exceeded the domestic market demand for insulation board of all sizes, there being substantial capacity to produce extensively for export.

Imported insulation board is classified under Tariff Item 1402 of the Tariff Act of 1930, as "pulpboard, wallboard * * * not plate finished," on which the present reduced duty rate is 5 percent ad valorem, having been reduced from an original rate of 10 percent ad valorem by a 1949 trade agreement concession.

The domestic insulation board producers, though aware of the basic objectives of the trade agreements program, are greatly disturbed by the administration's present proposal to grant the Executive a much broadened tariff cutting authority for a 5-year period.

In the 28-year history of the program, they have seen its basic purpose change from "a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression" in the middle and late 1930's, to become "the keystone of our bipartisan economic policy" by 1949, to later become "a key U.S. weapon in the fight against Soviet economic infiltration of foreign areas" in 1958, to now "strengthen economic and political relations with the European Economic Community and foreign countries through the development of an open and nondiscriminatory trading system in the free world" in the present bill.

Thus, a depression measure has now become a political cure-all that serves not only as a common meeting ground of both parties on foreign policy, but also as a national defense measure and key to our foreign economic policy, and now even an economic and political prop to EEC and foreign countries.

Stated otherwise, such misty pontifications, as applied to the domestic insulation board industry, mean simply that the administration now wants, a blank-check authority to remove entirely—at one stroke of the President's pen—the only remaining duty on insulation board products. That is precisely what H.R. 11970 provides in section 202 that would enable the President to "proclaim duty-free treatment for any article which is subject to a rate of duty existing on July 1, 1962, of not more than 5 percent ad valorem * * *" which, by section 253, would not be subject to any staging requirements.

While perhaps innocuous at first blush, this proposed section 202 authority is not only a departure from past practice, but a tremendously broad power, and one that is dangerous to domestic industries, that would eliminate all competitive equalizing features of present reduced rates.

Such an overwhelming tariff-cutting power is particularly obnoxious in view of the complete absence of benchmarks to guide the President in exercising such powers. He is not directed by section 202 to distinguish:

Between products and industries essential to our national security and those that are not, or

Between products and industries whose rates have been heretofore reduced, either relatively to other rates or absolutely, or

Between products and industries now adversely affected, whether serious or otherwise, by, or that are particularly sensitive to, imports and those that are not, or

Between the relative wage rates or costs of production of products and industries here and abroad, or

Between products of and industries that process indigenous commodities or their by-products, that utilize wood residues and those that do not, all of which directly affect not only insulation board but many other products and commodities produced in the United States.

Moreover, the bill, and particularly section 202, makes no allowance for the effect on competition in this country between domestic- and foreign-produced articles, of the one-sided application only to domestic producers of our old-age benefit, minimum wage, farm-price support, and other laws, which, however beneficial, tend to handicap the ability of domestic producers to compete with foreign producers who are not so regulated.

Such benchmarks and guideline policies, committed constitutionally to the Congress, are entirely absent from the proposed authority. Rather, the President would be given untrammeled discretion by a 5-year blanket authority to destroy or materially damage domestic industries such as the insulation board industry—to sacrifice individual domestic industries, one by one, in furtherance of that portion of our economy that is interested in foreign trade.

If the wiping out of our tariff rates are vital in our foreign relations, if it's "either more trade or more trouble," it is the essence of American fair play that the impact of the necessary tariff cuts should be made to fall evenly on our whole economy, and that individual industries, and the communities dependent upon them, not be left with the empty relief remedies proposed.

The domestic insulation producers, therefore, oppose the excessive tariff cutting powers that would be given the President as unprecedented, arbitrary, unbridled authority that should not be delegated by the Congress.

Other features of H.R. 11970 are equally adverse in effect upon domestic industries that provide the economic nourishment of employment of thousands of our citizens and of taxes for the Federal Government.

One of the basic fallacies, of increasing severity, in the trade agreements program is the "reciprocity" in concessions supposedly obtained for the 80 percent plus reductions in our tariff rates. That reciprocity is entirely unknown and cannot be demonstrated to those who must determine whether the program is to be continued; i.e. the Congress of the United States, except by the unsupported assertions of the State Department negotiators.

If it is a basic purpose of H.R. 11970 to "stimulate the economic growth of the United States" and to "maintain and enlarge foreign markets for the products of the U.S. industry," as H.R. 11970 so states, let's see how insulation board export markets have fared to date and would fare under it.

The ironic lack of reciprocity in foreign import rates imposed abroad on American insulation board has reduced the volume of exports of domestic-made insulation board from 3.7 percent of domestic production in 1952 to 2 percent in 1960—to a mere trickle. Although our present reduced rate is 5 percent ad valorem, our neighbor to the north, Canada, imposes a duty of 20 percent ad valorem on U.S.-made insulation board, the British preferential rate being 15 percent ad valorem. But despite this excessive and discriminatory Canadian tariff rate, on imported U.S.-made insulation board, import rates imposed by other foreign countries have been so great, or their control of exchange and import licenses so restrictive, as to divert more than half of all U.S. exports of insulation board to Canada. This combination of circumstances permits as exports to Canada generally only the high priced products, not generally available from Canadian mills. Canadian self-interest obviously controls.

Since transportation costs to Canada, from most domestic mills, are more favorable than to most other foreign countries, and since Canada presents an ideal market for U.S.-made board that is far larger than the needs of all other accessible countries combined, it would appear prima facie that Canada presents an excellent market in which to utilize excess U.S. insulation board productive capacity.

But this is not so, for additional reasons, than the nonreciprocal Canadian duty that is now four times the U.S. duty. Quite apart from that relatively high duty rate, the Canadian automatic antidumping tariff regulations operate to restrict severely Canadian imports of U.S. insulation board products. These Canadian antidumping provisions, that meet American imports at the dock and that impose a special dumping duty equal to the supposed dumping in addition to the regular import duty, are particularly restrictive of Canadian imports of insulation board from the United States because of the difference in the usual domestic pricing practices in each of the two countries.

U.S. fair market values generally reflect uniform delivered prices, high freight destinations being offset by low freight destinations as a part of the delivered price. This U.S. delivered price establishes a value for regular Canadian import duty (20 percent ad valorem) that includes, as a part of the price average U.S. freight charges. It also establishes the home market price for dumping duty purposes.

The Canadian insulation board industry normally has long sold on the basis of f.o.b. mill, plus freight to destination equalized with any lower freight to the same destination from other Canadian mills. More recently, this has been changed to zone delivered pricing. Since most Canadian insulation board is produced in the Provinces of Quebec and Manitoba, these selling practices result in relatively low delivered prices of Canadian insulation board in the populous East and Midwest Canadian Provinces, and in progressively higher delivered prices at more distant Canadian destinations.

While the U.S. insulation board exporter to Canada might be able to meet this Canadian price competition, by averaging his higher return from shipments to some Canadian points with the low return from shipments to other Canadian destinations, he is generally precluded from doing so by the Canadian antidumping regulations, since to meet Canadian competition he must shave his U.S. delivered price and thereby must undercut the home market value. Thus, though some U.S. producers are located on or near the Canadian border, the Canadian market is forbidden to them, not only because of a high protective duty, but because of the Canadian antidumping regulations. This is the realistic foreign trade problem faced.

Certainly reasons quite apart from tariff rates now serve to preclude effectively more than a trickle of imports of U.S.-made insulation board to the logical export market of Canada for its excess capacity. H.R. 11970 does not come to grips in any way with such a problem, which obviously cannot be solved by generalities. It is quite apparent, therefore, that the U.S. insulation board industry is not an intended beneficiary, but a sacrificial lamb, under that bill.

If "stimulation of the economic growth of the United States" and enlargement of "foreign markets for the products of the U.S. industry" are among the principal purposes of H.R. 11970, it is surprising that substantially half of the text of the bill is devoted in "adjustment assistance" to U.S. firms, workers and industries. This anomaly is made more evident by the more restricted "escape" and "peril point" relief the bill contains compared to present law. The utter insignificance of this watered down version of relief for domestic industries is self-evident from the fact at the recently completed Geneva negotiations the administration admittedly exceeded the "peril points" duly established by the U.S. Tariff Commission on 57 commodity groups. Otherwise stated, H.R. 11970 offers as the only relief for domestic industries many pages of complicated verbiage, and new and untried remedies in lieu of the proven inadequate "escape clause" and "peril point" remedies of the past.

Important to our national interest as foreign trade may be, H.R. 11970 in providing for the death of some domestic industry is paying too dearly for that foreign trade.

There is no statement in the bill reaffirming the basic purposes of the trade agreements program of avoiding injury to American workers and producers (only illusory offers of assistance), of furthering our national security, or insuring effective reciprocity for our trade concessions.

There is no provision for any change in either the negotiators who work out our concessions without industry or labor counsel, or for revised concepts in avoiding injury. In short, there is no protection against an industry in Mississippi, or Michigan, or Oregon becoming simply an instrument of our foreign policy that is global in scope.

There are no means of precluding low-cost countries from seizing and dominating our markets.

Although under the most-favored-nation principle all tariff reductions are to be generalized, that same principle of avoiding discriminatory action is not to be applied on a product-by-product basis as would be the case under free trade.

Without such safeguards the proposed authority should be denied.

(Resolution submitted by Interstate Oil Compact Commission placed in the record of the hearings at their request by Senator Robert S. Kerr.)

RESOLUTION

The Interstate Oil Compact Commission finds, as it has in the past, that the imports of crude and oil products are supplanting and not supplementing domestic crude production. The increase in demand in the United States has been taken by imports rather than allowing domestic crude production its proper share. Unless the domestic producer can benefit from the increased demand for oil and products, he will not be able to continue the exploration program to have the reserves available in case of national emergency. Due to imports now supplanting domestic crude production, it has been extremely difficult for the State regulatory agencies to carry on their excellent conservation programs: Now, therefore, be it

Resolved, That the Interstate Oil Compact Commission, in meeting duly assembled in Omaha, Nebr., this 20th day of June 1962, asserts, as it has in the past, that proper control should be established for imported oil and products, and that, under these controls, present imports should be reduced and restricted to a definite ratio to domestic crude production so they would be stabilized and thereby supplement and not supplant domestic crude production as they are now doing. Only through action such as this can the States carry on conservation programs and new reserves be discovered: Be it further

Resolved, That the executive secretary of the Interstate Oil Compact Commission is hereby instructed to furnish a duly certified copy of this resolution to each of the Governors of the member States.

I, Lawrence R. Alley, executive secretary of the Interstate Oil Compact Commission, do hereby certify that the above and foregoing is a true and correct copy of an original resolution unanimously adopted by the Interstate Oil Compact Commission in meeting duly assembled at Omaha, Nebr., on the 20th day of June 1962.

[SEAL]

LAWRENCE R. ALLEY,
Executive Secretary.

STATEMENT BY JAMES H. GILL, COMMISSIONER OF DEPARTMENT OF CONSERVATION, FOR JIMMIE H. DAVIS, GOVERNOR OF THE STATE OF LOUISIANA, PRESENTING LOUISIANA'S POSITION WITH RESPECT TO FOREIGN CRUDE AND PRODUCT IMPORTS

My name is James H. Gill, commissioner of the Louisiana Department of Conservation.

By legislation the Louisiana Department of Conservation has been assigned the responsibility to see that a sound program of conservation is followed. As commissioner, it is my responsibility to support the three basic principles of the program; namely, prevention of waste, maintaining economic and efficient producing practices and protecting of owners' rights.

In addition it is my duty to see that Louisiana gets a fair share of the U.S. crude market due to the important influence the petroleum industry has on the economic welfare of the State.

This importance is best illustrated by the attached chart No. I, which lists the total revenue derived by the State of Louisiana from the petroleum industry amounting to $209,400,000 in 1961. This represents 49.2 percent of the total State revenue.

As you know, the importation of crude oil into this country has had a marked increase over the past years. Chart II lists the increase in national crude oil demand, as well as the increase in crude oil imports. It was decided to use 1953 as the middle date and to show information for 1945, which is 8 years prior to 1953, as well as information for 1961, which is 8 years after 1953, showing the rate of increase both in crude oil demand and in crude oil imports. Thus, between 1945 and 1953 there was a 44.8 percent increase in national demand for crude oil or an increase of about 5.6 percent per year. The 8-year period following 1953 shows an increase of 15.7 percent in national crude oil demand, or approximately a 2-percent increase per year. Comparing this with the growth of crude oil imports, you will see that between 1945 and 1953 there was an increase of 217 percent in crude oil imports, or an increase of 27 percent per year while the increase for the next 8-year period was 61.3 percent or an increase of 7.7 percent per year. It is interesting to note here that while the national crude oil demand between 1953 and 1961 only increased by 2 percent per year, the crude oil importation into this country continued to rise and actually increased by 7.7 percent per year. It is my opinion that this has contributed considerably to a weaker demand for domestic crude during the last 8 years.

Periodically I, as commissioner of conservation, require all crude oil purchasers in Louisiana to submit an up-to-date and realistic nomination of their Louisiana crude requirements. These amounts have been considered in determining the proper allowables for the ensuing month or months. In addition to these nominations the department of conservation uses other means of determining Louisiana's proper share of the national market demand. One segment of this information is above-ground stocks, both national and Louisiana crude. As long as crude oil stocks are not building up, it is reasonable to assume that oil is finding its way into market and actually being refined into products. Since March of 1953, at which time Louisiana was producing at 100 percent depth bracket, the commissioners over a period of time have recognized a necessity to change allowables in accordance with market demand on 25 occasions. At the end of 1961 allowables were 30 percent of the allowable prevailing in March 1953. As an illustration, a well prior to March 1953, which was receiving 100 barrels of allowable was receiving 30 barrels per day at the end of 1961. Each time it has been necessary to reduce allowables in recognition of market demand, this reduction has been shared by all wells in the State of Louisiana which were capable of producing the allowables which were in effect for the previous month. There has been no favored group of wells or exceptions to any group of operators. The reduction has been felt by a cross section of the industry in the State.

I would now like to present data to you which presents Louisiana's position and the impact of the ever-increasing importation of foreign crude and products.

At this point I wish to stress that while my responsibilities pertain only to petroleum operations in the State of Louisiana my comments and suggestions are being made with the security of the United States uppermost in my mind.

Future remarks will be confined to cover the development in more recent years. Chart III includes two sets of curves—the top set of curves shows the marked rate of increase of imports. It will be noted that during the 1956–61 period crude imports increased approximately 111,000 barrels per day while product imports increased 342,000 barrels per day. It is significant to see what has occurred to U.S. exports. From the lower set of curves you will note that they declined sharply and coupled with the increase in imports had a marked effect upon reducing the national crude market.

I would next like to refer to chart IV, which shows the change in domestic crude production from 1950 to 1961 as well as imports of crude and products. For ready reference a fourth curve is included showing crude imports as percent of domestic crude production. Starting from a low of 8 percent in 1951 crude imports have risen to 14.5 percent. Most significant on chart IV and a feature that I want to call specifically to your attention is the fact that domestic crude production has on the whole enjoyed an increase until 1956. In 1956 domestic crude production reached a plateau and since that time has declined, except in 1961 when crude production exceeded slightly the 1956 level. Imports of both foreign products and crude on the other hand have on the whole enjoyed an overall increase.

I have in mind to make a specific suggestion as to future policy with respect to foreign imports of both crude and products. However, before covering that subject I would like to include additional statistical information which has bearing on the present health of our petroleum industry in the State of Louisiana.

Chart V lists the total employment in the petroleum industry in the State of Louisiana for the years 1956 through 1961. I have no particular comment to make on these figures except to call attention to the reduced employment in 1961 versus previous years. It is certain that this reduction is in part occasioned by improved manpower utilization. However, had the industry been permitted to produce consistent with proven reserves, higher employment could have been expected.

Chart VI is highly significant. It will be noted that enrollment in Louisiana universities in the course of geology and petroleum engineering have had marked reductions between 1956 up to the present. In my opinion this reduced interest in this field of study can be attributed to curtailment of production as dictated by reduced market demand for petroleum from available State reserves.

To answer the question—"What is Louisiana's petroleum industry's present and prospective ability to make its proportionate contribution to the civilian and military needs of the United States in the event of the reduction or elimination of foreign oil supply by reason of war or otherwise?" we actually canvassed all operators in the State and as a result of this study can supply you with the following statistics. At present Louisiana is producing approximately 1,096,000 barrels per day of crude. By eliminating the present depth bracket allowable of 31 percent and returning to the 100 percent depth bracket which existed in March 1953, it is estimated by industry that they could increase Louisiana's daily production to 2,200,000 barrels per day. Recognizing limitations of pipelines and other means of transportation, it was reported that of the above maximum well production, 1,680,000 could be transported to Louisiana refineries or to terminals for subsequent transportation by ocean tankers, barges, or other means. Louisiana's maximum balanced refining capacity is at present 789,000 barrels per day. In addition to the above capacity 30,500 barrels per day could be processed when jet fuel and fuel oil are maximized on this portion. Furthermore, by limited bottleneck removal which could be accomplished in a 6-month period or less an added 276,000 could be moved to refineries and terminals in excess of the figure of 1,680,000.

The figure of 2,200,000 barrels per day of maximum production was supplied by industry in reply to a questionnaire sent to all producers. In our considered judgment, we feel that 2 million barrels per day would be a more representative figure as the amount of crude that could be produced for a protracted period. By the same token a figure of 1,680,000 barrels per day which can be transported may be high due to duplicate use of available transporters' facilities. A figure of 1,400,000 would be more realistic.

With limited additions to the pipeline system that can be accomplished within a 6-month period an added 276,000 barrels per day could be moved making Louisiana's total crude handling capacity 1,676,000 barrels per day.

As you see, there is at present sufficient potential reserve-producing capacity available so that Louisiana could supply more than its share of U.S. crude requirements in the event of complete interruption of imports of foreign products and crude.

At a conservative estimate, the Louisiana oil and gas industry has poured an average of more than a half-billion dollars per year into exploration and production operations during recent years. With rigid allocations, reinvestment is far greater than profits made in Louisiana. Obviously this cannot continue indefinitely so it is imperative that a larger share of the crude market demand is made available to Louisiana. At the end of 1961 Louisiana was producing only 14.6 percent of the total U.S. crude while accounting for 15.5 percent of the total U.S. proven reserves. Unless greater opportunity to produce is forthcoming, one must expect a drastic reduction in exploration which can only mean a reduction in finding new reserves of crude oil. Foreign sources of crude supply, particularly outside this hemisphere, may be of little use in time of military and other emergencies. For the overall strength and security of the United States in this cold war period, it is essential that our petroleum industry is kept healthy to assure continued activity in its field of activity.

Returning to chart IV, it would be my suggestion that importation of foreign crude and products be pegged at the percentage that was entering the United States in 1956. This is to say that the percent of crude and products should be held at 20.1 percent of domestic crude production; this quota being on a percentage basis and should be maintained as such. Any future increase in market demand would permit importers to share in the increase at this specified ratio and likewise any decrease in market demand would also be shared by the importers in like proportion.

Gentlemen, I realize that you are faced with many national and international problems that must be resolved. Most of these decisions are of a far-reaching nature and for that reason require a great deal of serious and mature consideration. However, pegging imports at the 1956 level should be fair to all concerned. It will give both large and small domestic producers an opportunity to share in domestic growth. At the same time foreign producing countries whom the United States recognizes as friends will get an equitable part of crude market and be able to share on a fair basis in our future growth. It should also be mentioned that controlling imports will have a favorable influence on the U.S. balance-of-payments deficit.

Chart VII indicates the increase in crude production between 1956 and 1961 in the major foreign producing countries, many of which are sources for the crude and products that are imported to the United States. These figures are highly significant and it will be noted that these sources all show substantial increases ranging from an 18-percent increase in Venezuela to almost a 500-percent increase in the neutral zone for the years under study. During the same period U.S. production of crude increased only 0.3 percent. Pegging imports at the 1956 level would present absolutely no hardship for the major foreign producing countries that are importing crude and products.

In conclusion, it should be pointed out that many of the large integrated petroleum companies which are vitally interested in foreign production due to sizable investments have initiated foreign refining operations. These operations will be supplied primarily by the importing countries listed in chart VII so it is entirely sound in my opinion that their imports be pegged at the 1956 level assuring them a just return on invested capital both in the United States and abroad.

CHART I.—*Total revenue derived from petroleum industry*

[Millions of dollars]

Year	Amount	Percent of total State revenue	Year	Amount	Percent of total State revenue
1956	$146.6	44.6	1959	$192.9	47.5
1957	154.9	44.5	1960	198.8	48.1
1958	171.2	45.5	1961	209.4	49.2

CHART II.—*Daily average*

	National crude oil demand			Crude oil imports		
	Barrels per day	Percent increase	Percent increase per year	Barrels per day	Percent increase	Percent increase per year
1945	4,904,000			204,000		
1953	7,099,000	44.8	5.6	648,000	217.0	27.0
1961	8,215,000	15.7	2.0	1,045,000	61.3	7.7

Authority or source: U.S. Bureau of Mines.

CHART III

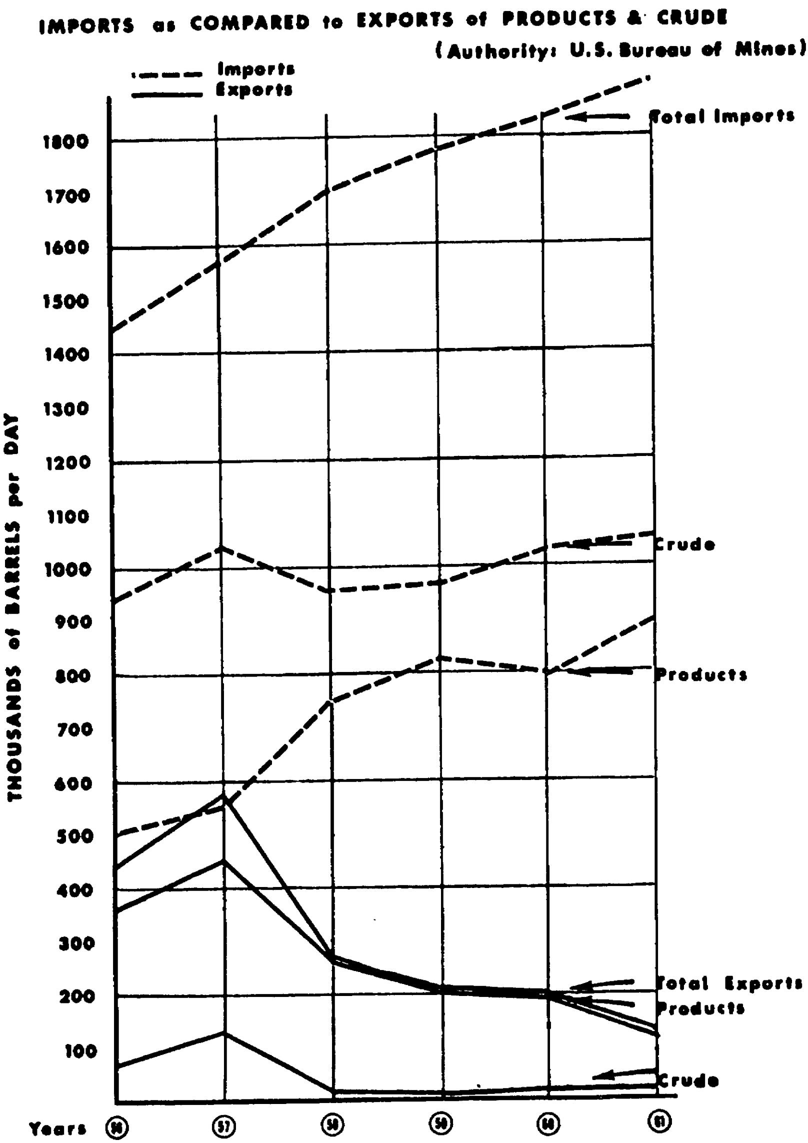

IMPORTS as COMPARED to EXPORTS of PRODUCTS & CRUDE
(Authority: U.S. Bureau of Mines)
Imports
Exports
THOUSANDS of BARRELS per DAY
1800
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
Years
Total Imports
Crude
Products
Total Exports
Products
Crude

CHART IV

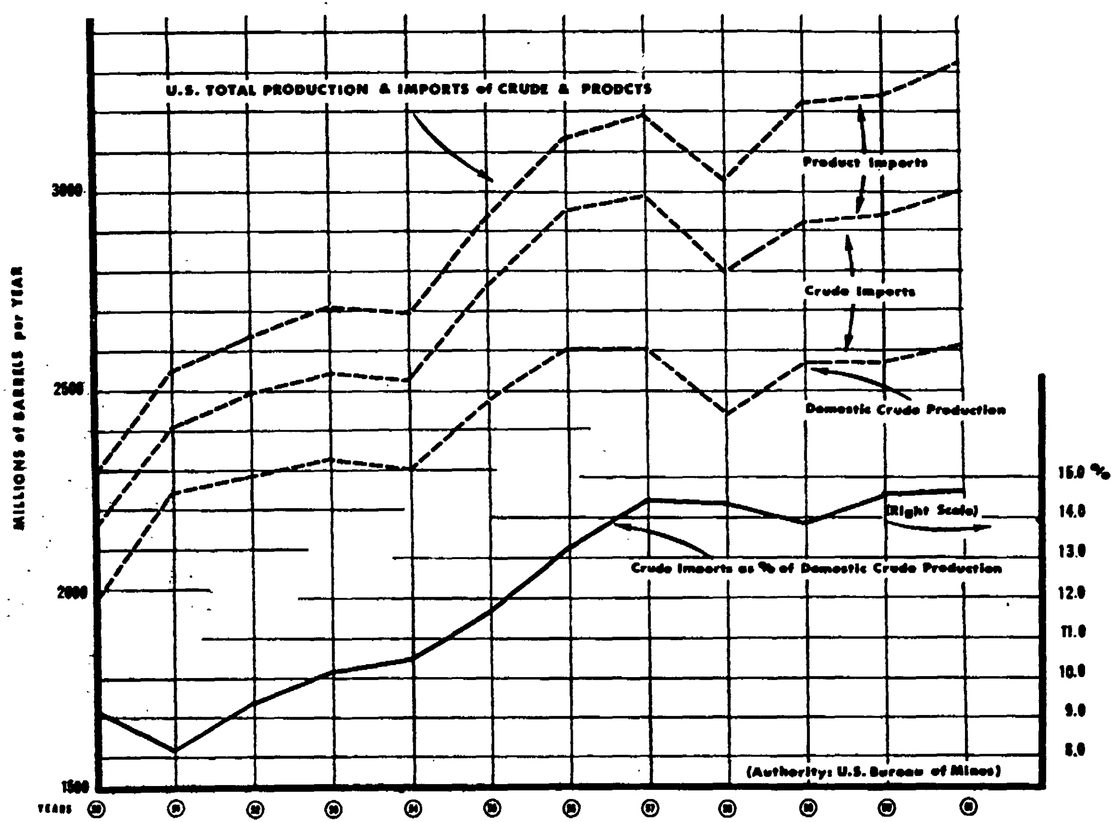

3600
3000
2500
2000
1500
MILLIONS of BARRELS per YEAR
U.S. TOTAL PRODUCTION & IMPORTS of CRUDE & PRODCTS
Product Imports
Crude Imports
Domestic Crude Production
15.0 %
14.0
13.0
12.0
11.0
10.0
9.0
8.0
(Right Scale)
Crude Imports as % of Domestic Crude Production
(Authority: U.S. Bureau of Mines)
YEARS

CHART V.—*Total employment in petroleum industry, State of Louisiana*

Year	Number	Year	Number
1956	87,200	1959	88,840
1957	90,750	1960	85,860
1958	90,450	1961	85,330

CHART VI.—*Trend in enrollment of students in Louisiana universities*

	Louisiana State University		University of Southwestern Louisiana	Louisiana State University in New Orleans	Tulane University		Centenary College undergraduates
	Undergraduates	Graduate			Undergraduates	Graduate	
Geology:							
1956–57	247	78			64	0	30
1957–58	221	73			56	2	31
1958–59	191	85		29	47	12	19
1959–60	65	74		13	28	17	12
1960–61	44	65		5	11	22	6
1961–62	26	52					
Petroleum engineering:							
1956–57	268		240				
1957–58	282		259				
1958–59	195		119				
1959–60	140		76				
1960–61	102		46				
1961–62	75						

CHART VII.—*Crude production in countries importing crude to the United States, 1956 versus 1961*

[Millions of barrels per year]

Country	Production in 1956	Production in 1961	Percent increase
Canada	169	231	37.0
Colombia	45	53	18.0
Venezuela	899	1,064	18.0
Iran	198	430	117.0
Iraq	233	368	58.0
Kuwait	400	600	50.0
Neutral Zone	12	71	491.0
Saudi Arabia	361	508	41.0
Indonesia	94	160	70.0
United States	2,617	2,624	.3

STATEMENT OF GOVERNOR PRICE DANIEL OF TEXAS

Mr. Chairman and members of the committee, due to the press of official duties in Texas, I am unable to appear personally before your committee concerning H.R. 11970, the Trade Expansion Act of 1962. However, I welcome the opportunity to file this statement.

I recognize the many benefits of expanded commerce with the rest of the free world, but none of these outweigh the necessity of adequately protecting our defense industries and national security.

Failure of the bill to adequately protect our oil-producing capacity and permit discovery of new reserves could result in national disaster. This has been the conclusion of every fact-finding group which has studied the question of excessive foreign oil imports. A reasonable amount of imports supplementing domestic production can be beneficial, but when imports are so excessive that they supplant domestic production and discourage the search for new domestic reserves, they create a real and present danger to our national security.

How can we in good conscience fail to take necessary additional steps to preserve our petroleum industry which is so vital to national security, while at the same time spending in the range of $50 billion annually on other aspects of our defense program? This is a domestic industry that is seeking neither subsidy nor Government loan—merely an improved economic climate in which to operate and remain capable of meeting any peacetime or emergency requirement which the Nation's well-being may demand.

In March of 1955, it was my privilege to appear personally before the Senate Finance Committee as a Senator from Texas in support of the Neely amendment to limit crude oil imports to 10 percent of domestic petroleum demand.

There were some, I am sure, who felt those of us seeking the limitation on oil imports may have been overemphasizing the symptoms of ill health and signals of impending danger where the domestic oil producing industry was concerned.

Now, as Governor of Texas, I submit the following evidence to prove how accurate we were when we foresaw 7½ years ago that rising imports of foreign oil were driving the domestic oil and gas-producing industry into a disastrous and dangerous decline.

Because of excessive foreign oil imports, a situation that was uncomfortable in 1955 has become intolerable today. Texas had 194 producing days in 1955. In 1961, we were able to operate the equivalent of only 101 days and 1962 is almost sure to drop below 100 days for the first time in history.

Where oil and gas production furnished jobs to 118,300 Texas wage earners in 1955, this figure declined more than 5,000 to a total of 113,200 in 1961.

Where almost 20,000 wells were drilled in Texas in 1955, fewer than 15,000 were drilled last year. Unless conditions change rapidly, 1962 will see a further decline. At the end of July last year there were 697 rotary rigs active. On July 30 this year, there were only 527, a decline of 170 or almost 25 percent.

The trends since 1955 and 1956 do not represent straight-line drops. In many cases the operating and employment highs actually were reached in 1956 and 1957, a year or two after this committee in 1955 foresaw the impending danger and enacted the national security amendment. Since the downturn started, however, the decline has been steady.

Almost every day that passes brings new evidence pointing to the wisdom of incorporating the national security amendment in the trade bill. I believe that conditions now call for a further strengthening of that provision.

When you consider that Texas is but 1 of 33 States with petroleum production, it is obvious that this crisis is by no means restricted to one locality or even to a handful of States.

In this period when the health of the domestic oil and gas producing industry has gone from serious to critical, and while it has been a struggle to hold actual crude oil production near a constant level, demand has continued to climb and petroleum imports have increased sharply. Most of the increased markets have been filled by increased imports at the expense and discouragement of domestic producers. Total oil imports averaged about 1,250,000 barrels daily in 1955. Within 3 years in 1958, this total had increased by 450,000 barrels daily.

Now, even under the mandatory oil import program (since 1959), imports have continued to increase. Total imports during the first half of 1962 were almost 400,000 barrels daily higher than in 1958.

Foreign oil producers do not need a greater share of the U.S. market to assure them of rapidly expanding oil production. In the last 5 years, almost 90 percent of their increasing output has gone to fill foreign petroleum requirements. Thus, even if their exports to the United States had not increased at all, this free world foreign production still would have increased almost 3½ million barrels daily, or about 45 percent over 1956 levels.

A great deal of credit must be given to this committee. Had it not been for the motivation by this committee that led to the adoption by Congress of the national security amendment in 1955, plus its subsequent strengthening in 1958, we could well be dependent on foreign oil at this instant.

It is clear, however, that further safeguards need to be written into the law if we are to retain for long any semblance of petroleum self-sufficiency.

For instance, exempt overland imports directly displace U.S. crude oil production at the marketplace. Such exempt imports from Canada and Mexico through the first 5 months this year were exceeding a quarter of a million barrels daily.

These imports constitute only one of many categories—or loopholes—under the mandatory program that should be included within the overall total of permissible imports, rather than allowed on top of controlled imports and to the detriment of domestic production.

Additionally, there is a definite need for a substantial reduction in present oil imports and an absolutely critical need to stabilize the ratio of total imports to domestic production so that the domestic producing industry can share in fuure growth of market demand. Only in an atmosphere improved by such steps will the domestic oil industry regain anything like the vigor necessary to provide adequate petroleum supplies in the future.

It is my earnest hope that the Senate Finance Committee will recognize the need for, and encourage steps to accomplish, a reduction in oil imports and stabilization in the ratio of total oil imports to domestic production.

The national security and the economic well-being of many States, thousands of communities, tens of thousands of businessmen, and hundreds of thousands of employed Americans require positive action by the Congress. If the Congress fails to act, it is certain that domestic oil producing capacity and reserves will fall far below the levels necessary to provide the national security to which our people and our country are entitled.

(Whereupon, at 12:25 p.m., the committee stood in recess, to reconvene at 10 a.m., Monday, August 6, 1962.)

TRADE EXPANSION ACT OF 1962

MONDAY, AUGUST 6, 1962

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 Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Douglas, Smathers, Talmadge, Williams, and Carlson.

Also present: Elizabeth B. Springer, chief clerk, and Serge N. Benson, professional staff member.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Hans Rie, Hat Institute.

Take a seat, sir, and proceed.

STATEMENT OF HANS RIE, PRESIDENT, THE HAT INSTITUTE

Mr. RIE. My name is Hans Rie, president of the Merrimac Hat Co., Inc., Amesbury, Mass., and president of the Hat Institute, on whose behalf I appear regarding the Trade Expansion Act of 1962, H.R. 11970. I am authorized to speak for the various hat subgroups represented by our membership; for example, men's fur felt hats and bodies, women's fur felt hat bodies, men's dress straw hats, men's wool felt hats and bodies, women's wool felt hat bodies, and hatters' furs.

Separate written statements will be presented to your committee by the Wool Hat Manufacturers' Association and the Hatters' Fur Cutters Association, with whom we cooperate closely.

Our industry is seriously concerned over the probable effects of passage of H.R. 11970 in its present form, as we believe it can result in drastically increased competition from foreign-made hats. In the President's message to Congress proposing this legislation, it was stated that a more liberal trade policy will benefit expanding industries or growth industries.

The market for our product, rather than expanding, is steadily shrinking, and our capacity to absorb increased imports is zero. Our inability to expand our exports is due to reasons other than inefficiency.

We subscribe to the general desirability of the purpose of this legislation, but we do not believe it is the intent of Congress to sacrifice domestic industries in order to achieve this purpose. I am listing below yearly shipments of men's fur felt hats as compiled by the Hat Institute for 1952–61.

	Dozen		Dozen
1952	1,002,166	1957	752,760
1953	1,174,612	1958	793,571
1954	862,796	1959	896,800
1955	1,022,764	1960	801,475
1956	913,386	1961	671,493

The above figures are dozens, for years ending October 31.

The steady and drastic decline of demand is obvious. The latest available census of manufactures figures confirm these, showing shipments of 858,000 dozen in 1954, and 701,000 dozen in 1958.

The census of manufactures also reveals a decline in workers employed, from 8,200 in 1954, to 6,300 in 1958, a 23-percent decrease. The number of establishments dropped from 45 in 1954 to 36 in 1958, a 20-percent decline, and a number of well-established producers have been eliminated since.

Our principal concern over the threat of increased imports is the vulnerability of our industry to low foreign wage rate competition. Here are figures supplied by four important industry factors, showing the percentage of direct and indirect labor costs, including fringe benefits, to total manufacturing costs.

Manufacturer	1960	1961	1st 6 months, 1962
	Percent		
A	42.5	42.1	44.6
B	23.0	23.0	23.5
C		38.3	
D	32.2	32.1	33.0

I should like to explain these figures a little bit. The total manufacturing cost includes everything going into the goods, and labor costs include anything which is productive or indirect labor, including social charges. These figures of 44 percent show that nearly 50 percent of the total expenditure goes for labor costs.

We estimate that these four producers represent about 50 percent of the industry's total shipments of men's and women's fur felt hats and bodies.

The success of the European Common Market in equalizing internal tariffs and the failure of such action to cause serious distress to European manufacturers has been cited as a reason why similar tariff policies by this country can be absorbed by domestic industries.

This does not take into account the serious disparity between European and American prevailing wage rates, which represent such a large proportion of total costs in our industry.

European wage rates are rising, and we suggest that our tariffs can be adjusted as European and American wage rates more nearly approach each other in the future.

Current European wage rates vary from 20 percent to 33 percent of our wages.

We would like to make another observation—true, the European Common Market has proved successful for the participating nations. But it should be noted that other European countries have also experienced economic progress, which makes one think the general prosperity can be largely traced to the basic scarcity of goods, services, and so forth, that existed as a result of the war period.

The domestic hat industry has available no manufacturing processes or other inherent advantages, such as low cost of materials, that are not available to our foreign competition. A worldwide market in hatmaking machinery exists, with European machines sold readily in this country, and vice versa. Even without the stimulus of new tariff concessions, importation of hats is increasing.

For example, in the first 5 months of 1962, imports of men's fur felt hats amounted to $199,000, compared to $155,000 for the same period in 1961.

Hats in this category, valued over $30 per dozen, are now subject to a further 20-percent tariff reduction under the new GATT agreement. The first 10-percent stage has just gone into effect July 1.

I stated earlier that the hat industry supports the principle of expanded foreign trade, which is the stated objective of this bill. The hat industry already substantially contributes to foreign trade, as virtually all of our raw materials are now imported, including rabbit skins and cut rabbit fur, wool noils for wool felt hats, straw hat bodies and braids, and sheep skins for leathers.

These raw materials are sold in a world market, and foreign manufacturers purchase them at the same price available to us.

I should like to cite a particular example showing the vulnerability of our industry to import competition. In 1950 the President approved an escape-clause finding by the Tariff Commission on women's fur felt hat bodies and, for a few years after this relief, imports were relatively low. However, imports of this article amounted, in 1958, to 140,383 dozens, or 43.1 percent of the total U.S. consumption.

Therefore, the imports amounted to 75 percent of domestic production.

In 1959 the imports amounted to 160,982 dozens, or 50.8 percent of domestic consumption. This was the first year where imports were larger than domestic production.

In 1960 the imports amounted to 47.2 percent of domestic consumption, and in 1961 the final figures have not been compiled, but the share of imports of the domestic market was probably at least as high as 1960.

We believe that H.R. 11970 contains some safeguards not written into H.R. 9900, the original administration proposal. These are steps in the right direction, but the bill can be improved by adoption of the following specific suggestions:

1. Eliminate industry trade adjustment trade provisions. The hat industry wishes to remain a healthy contributor to the American economy and a provider of work for American labor through reasonable tariff protection that takes into consideration the wage rate disparity, rather than relying on Government aid, which contains many dangers for our free enterprise system, and which is unlikely to be of benefit until an industry has been injured so greatly it could not take advantage of the proffered aid.

2. The escape-clause provisions of the bill should be strengthened, particularly by specifically defining an industry injured by imports.

3. Assert congressional constitutional authority over the tariff-making process by positively removing articles proposed for negotia-

tion where the Tariff Commission finds a threat of serious injury to the domestic industry.

4. Insert true peril-point provisions to establish benchmarks of probable injury for the administration to measure concessions proposed to other countries and to require the President to announce when he has exceeded these peril points.

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

Any questions?

(The following was later received for the record:)

STATEMENT BY WOOL HAT MANUFACTURERS ASSOCIATION, RE TRADE EXPANSION ACT OF 1962 (H.R. 11970)

This statement is submitted by the Wool Hat Manufacturers Association, an unincorporated trade association comprising four member companies who produce all domestic men's and women's wool felt hat bodies and part of finished men's wool felt hats. The offices of the association are located at 1900 Arch Street, Philadelphia, Pa. Members' names and locations are Adamstown Hat Co., Adamstown, Pa.; George W. Bollman & Co., Inc., Adamstown, Pa.; F. & M. Hat Co., Inc., Denver, Pa.; and Neumann-Endler, Inc., Danbury, Conn.

Wool felt hat bodies are dutiable under paragraph 115(b) of the Tariff Act of 1930 (schedule A, No. 3638900, for bodies valued over 50 cents per pound) at the rate of 25 cents per pound plus 55 percent ad valorem. Finished hats are dutiable at 8 cents each plus 30 cents per pound plus 40 percent valued less than $12 per dozen and 8 cents each plus 30 cents per pound plus 30 percent valued over $12 per dozen.

The portion of these rates expressed in cents per pound is intended to compensate for the duty on raw wool and noils. Thus this portion of the present tariffs does not protect the domestic industry but merely provides cost equality for the basic raw material compared to foreign wool hat manufacturers.

Our industry is seriously concerned over the probable effect of H.R. 11970 if it results in lower tariffs than currently in effect. Our industry faces a declining market, particularly in women's hat bodies, since a peak of 2,964,000 dozens were produced (for women's hats alone) in 1941. Table I shows domestic production from 1947 to 1961, inclusive.

TABLE I.—*Domestic production*

[In dozens]

Year	Women's bodies	Men's bodies	Total	Year	Women's bodies	Men's bodies	Total
1947	2,371,901	526,871	2,898,772	1955	593,222	425,067	1,018,289
1948	1,677,273	529,417	2,206,690	1956	666,944	351,423	1,018,367
1949	1,787,070	558,518	2,345,588	1957	639,511	442,794	1,082,305
1950	1,372,370	635,127	2,007,497	1958	587,697	394,731	982,428
1951	990,895	443,115	1,434,010	1959	560,040	540,404	1,100,444
1952	627,321	453,774	1,081,095	1960	521,769	470,379	992,148
1953	652,022	453,960	1,105,982	1961	400,703	428,227	828,930
1954	551,054	423,553	974,607				

For the first 6 months of 1962, total production has declined 8.6 percent compared to 1961.

This drastic decline has been accompanied by the elimination of 10 plants since 1948 as follows:

TABLE II.—*Domestic producers eliminated since 1948*

Merrimac Hat Corp.—four plants in Amesbury, Mass., Greenville, Ala., Beacon, N.Y., and West Upton, Mass.

Beebe Corp., Beacon, N.Y.

Mohn Bros. Co., Reading, Pa.

Haverhill-Bradford Corp., Haverhill, Mass.

Wappingers Falls Hat Co., Wappingers Falls, N.Y.

Sewell Co., Red Oaks, Ga.

Milford Hat Body Corp., Milford, Mass.

This decline has been caused by a trend toward hatlessness among women and competition of other hatmaking materials such as velvet and fur felt bodies, substantial quantities of which are imported.

Domestic producers have been unable to meet this competition with price reductions, as evidenced by table III, of manufacturing costs, based on a dozen 2-ounce bodies, the unit of largest production. Today's net selling price for this type of body is $5.65, from which must be deducted selling and promotion costs.

TABLE III.—*Cost of producing one dozen 2-ounce hat bodies*

	1944	1948	1953	1961
Wool and other materials, less sale of waste	$1.76	$2.03	$2.88	$2.05
Direct labor	.72	.90	1.00	1.75
Overhead and administration	.59	.75	1.39	1.42
Less sale of seconds	(.07)	(.06)	(.08)	(.07)
Total	3.00	3.62	5.19	5.19

Note particularly the high proportion of direct labor cost which must compete with drastically lower foreign wage costs, if tariffs are reduced through authority of H.R. 11970. Although total costs of producing this type of hat body in 1961 is the same as 1953, this is entirely due to the currently depressed price of wool noils, now selling for 0.0719 cent per ounce compared to 0.1042 cent in 1953. Steep and inexorable labor increases make our cost structure extremely vulnerable if and when the market price of wool noils returns to levels prevailing 10 years ago.

Note also that efficient management has maintained overhead and administrative expense at approximately the same per dozen as in 1953. On the other hand, labor expense is now 34 percent of total cost compared to 19 percent in 1953. Table IV provides average hourly wage rates for selected years.

TABLE IV.—*Average hourly wage rates*

1948	$0.938
1953	1.258
1961	1.786

At the present time, and since World War II, imports of wool felt hats and bodies have not been substantial. Table V indicates these imports for recent years.

TABLE V.—*Imports of wool felt hats and bodies, foreign value in dollars*

	1959	1960	1961
Wool bodies, not blocked or trimmed, (duty 25 cents per pound plus 55 percent)	$6,116	$9,436	$8,188
Wool hats, valued under $12 dozen (duty 8 cents each plus 30 cents per pound plus 40 percent)	10,848	8,376	3,293
Wool hats, valued over $12 dozen (duty 8 cents each plus 30 cents per pound plus 30 percent)	39,391	17,967	9,333

There are, however, substantial reasons to believe that imports could readily become a serious threat to the domestic industry.

1. In the years prior to World War II, when imports were virtually cut off, imports enjoyed substantial portions of the domestic market ranging from 80 percent in 1929 to 40 percent in 1936.

2. The declining domestic millinery market has not been attractive to importers (see table I).

3. Volatile nature of domestic demand for specific weight, colors, sizes, shapes, and finishes have made importers reluctant to bring large amounts of foreign hats into the country, even though the landed cost prices might be lower. For this reason, imports are largely limited currently to the basic dark colors such as blue, black, and brown in standard shapes and finishes.

4. These staple colors, shapes, and finishes, however, comprise 60 to 65 percent of entire consumption of women's wool felt hat bodies, and the domestic

industry could not economically survive by supplying only the requirements for bodies of special color and design. If tariff reductions are made, millinery manufacturers will find the price differential so attractive that they will undoubtedly find ways to channel the whims of fashion into the readily available imported items.

5. European and Japanese manufacturers utilize the same types of machinery available in this country, thus canceling any opportunity to offset vastly higher labor costs in United States with more efficient production processes.

Basically, our industry must express its opposition to H.R. 11970 because of the probable disastrous effect of import competition. We recognize the beneficial intent of the legislation to retain and improve our world trade position. We do not believe, however, that it is the intention of Congress to legislate entire domestic industries out of existence, however small they may be. Based on the foregoing facts, it is our considered opinion that this will be the result of any increased foreign competition.

It has been stated by administration spokesmen for the bill that the trade adjustment features will provide relief to adversely affected industries. We submit that the proffered technical, financial, and tax assistance would be useless to an industry which, to qualify, must be already weakened to a point where it could not pay back loans, absorb technical assistance for an already efficiently operating manufacturing operation, or benefit from tax credits. The amount of Government control that would accompany the proffered aid is alien to our way of life, and could lead to Government encroachment on private enterprise.

We advocate these specific changes in H.R. 11970 as now written:

1. Eliminate the so-called trade adjustment features for industry.
2. Strengthen the escape clause to positively remove articles from the President's proposed negotiating list when the Tariff Commission finds a threat of serious injury to the domestic industry.

STATEMENT OF CARL H. DONNER, PRESIDENT OF THE HATTERS' FUR CUTTERS ASSOCIATION OF THE U.S.A. AND PRESIDENT OF THE CHAPAL DONNER CORP., 29 CLOVER STREET, NEWARK, N.J.

I am president of our trade organization, the Hatters Fur Cutters Association of the U.S.A., and I am also president of the Chapal Donner Corp., which manufacturers fur for felt hats, using as its raw material principally the fur of rabbits and hares, the bulk of which is imported from foreign countries.

THE HATTERS' FUR INDUSTRY

I have been engaged in this business for over 40 of the 170 years that my family has been in the hatters' fur trade. In order to serve the men's and women's fur felt hat trade in this country, we have always been engaged in international trade. All of the members of this industry are thoroughly familiar with foreign business methods and factories, and many of us have established agents who act for us in such countries as Australia, France, Germany, Italy, and Great Britain. The reason for this is that few rabbits and hares are collected in the United States and we must, therefore, have well-established foreign connections. All of the raw rabbit and hareskins that we import are on the free list. Our interests naturally lie entirely with the hat trade of the United States, and the position of the entire hat industry in this country will be not only weakened but actually endangered if the provisions of bill H.R. 11970 are exercised.

UNIQUE TARIFF EXPERIENCE OF THE HATTERS' FUR INDUSTRY

Through most of its long life, this industry has been faced with low-cost foreign competition. We have had tariff protection which has fluctuated rather widely and the tariff laws have always been a matter of vital concern to us. The tariff on our product was successively reduced from 35 to 27½ percent and finally to 15 percent. During and immediately following the war this made little difference, but since 1949 European firms were able to resume production and the rising tide of imports caused considerable harm to our industry. We appealed to the Tariff Commission, and in 1952 we were granted a measure of relief, which tended to equalize the difference in wage costs between the European industry and that in this country. This modification worked very well inasmuch as it reduced imports to a tolerable level without, however, shutting them off entirely, so that competition with the European product continued. Neither we, nor, I am sure, any other industry in the United States, fear competition providing we are not asked to start with a severe cost handicap. Certainly, it has never been our desire to take refuge behind a tariff wall so high that all foreign competition would be excluded. By the same token it seems only fair that where a large cost differential exists because of the higher labor rates in this country, this cost differential should be equalized so that our own factories are not at a disadvantage. It was so in our industry from 1952 until 1958 when the Tariff Commission recommended the withdrawal of the modification, and we were again forced to operate under inadequate protection. The 3 years that have elapsed since the withdrawal of the modification have seen foreign imports expand to such a degree that this industry is suffering losses and is in greatest jeopardy.

TARIFF REDUCTIONS UNDER H.R. 11970

Our experience is unique because we have had both a carefully worked out tariff formula which was fair to both ourselves and our foreign competitors, and, during the last 3 years since the withdrawal of tariff relief, we have already undergone the same troubles that many other industries will suffer if H.R. 11970 is enacted. As far as our industry is concerned, any furthr tariff reductions under this bill will spell the end of the industry in this country. This will be the experience of many other U.S. industries if the tariff cutting powers of H.R. 11970 become effective. In fact it is acknowledged by the administration that such will be the case, and for that reason they have included in the bill some measures for assistance to firms and to workers, which unfortunately are rather inadequate. Our company and others in this industry have suffered through a number of years of inadequate tariff protection, and have made every possible effort at diversification and cutting of costs to meet foreign competition. We have been harmed not only by the increase of imports, but by the fact that in order to prevent our business from being taken over entirely by foreign suppliers, we have been selling below cost with resultant losses which cannot be indefinitely continued. In such a case, what value is it for us or for any industry similarly situated, to obtain tax relief or be permitted to borrow money from the Government? The bill presents no alternative but liquidation with the subsequent heavy losses on items such as special machinery and other costs of liquidation. There is no compensation for this included in the bill.

EFFECT OF TARIFF REDUCTIONS ON THE WORKERS

Similarly, people who have worked in this trade for so many years will be offered two-thirds of their former pay for the sacrifice that they are making. It is true that there is also a retraining program, but what good will this be if the gamble inherent in this bill fails and increased exports do not materialize? It simply means further unemployment. The greatest hardship produced by this bill will be the fact that the older workers, too old to retrain, will be permanently unemployed through no fault of their own. It is also true that bad effects of the bill will weigh most heavily on small enterprises and their workers.

DANGERS FORESEEN

We believe that the long experience of this trade with tariff matters qualifies us to give sound advice about the dangers of H.R. 11970. Not only have we always imported the bulk of our raw material, but many of us have had our skins partially manufactured in Europe under a special tariff definition which permitted goods manufactured up to a certain point to be imported duty free. We are therefore familiar not only with European business conditions but with many of their factories as well. We have watched the phenomenal rise of industry in the Common Market since the war. We are familiar with European wage scales and manufacturing methods. It is this knowledge which prompts us to give warning that the export goals expected to be achieved by the enactment of this bill are very unlikely to be realized. It is one thing for the Common Market countries to group together and reduce tariffs among themselves, since wage differentials between the European countries are relatively minor. It is quite another thing to speak of reducing tariffs between these European countries and the United States. Whereas the differences between the Common Market countries can be measured in relatively small percentages, the levels in the United States are three, four, and five times higher than those of Europe. Were we dealing with backward nations without the essential skills which are at our command, even such a differential would not be a serious matter. In Europe, however, we are dealing with a group of people whose skills are equal to our own, and the only reason they have not overwhelmed us already is because there has not been time since the war. Given the opportunity presented by lower tariffs, it is simply a question of time before the European Economic Union is able to penetrate almost any of the items that we manufacture. There will be few industries which can overlook as big a differential of wage cost as exists between ourselves and Europe. In fact it is probable that if the tariff barriers were almost completely removed by the European Economic Union, our exports to that area would increase very little.

RECOMMENDATIONS

Everyone must, of course, agree that the objectives of H.R. 11970 are good. Unfortunately, the bill is based on theories that are not workable and will not produce the happy result of increasing exports by a much larger margin than the increase in imports. We believe that a bill could be drawn which would permit fair competition between ourselves and foreign countries without crippling a large segment of the U.S. industries. The basis of such a bill would have to be a moderate tariff which would level off the wage cost differential between the United States and other countries. This too would not be infallible, and it would be most important to retain both the escape clause and the peril point provisions of the present law.

We further believe that Congress should never again relinquish its control over tariff questions, as we have found that it is intolerable for any industry to live under the constant threat of tariff changes which are not based on actual conditions within the industry but are based on other international considerations. Through the deep cuts that have already been made in the levels of the U.S. tariff barrier, the value of the tariff in international negotiations has been largely dissipated.

The nations of the Common Market will well understand such an approach. They are even more familiar with methods of protecting their own industries than we are, and are much more ready to use them. They will not come to the bargaining table with any idea that our exports to them will be permitted to increase at the expense of their own industries. They are already taking from us the largest share of the trade with other nations of the world. With this too we have had our experience. At various times our trade has had profitable business with such countries as Argentina, Brazil, and Canada. All of these nations now depend almost entirely on Europe for their supplies since we cannot compete on an equal price basis due to our high labor costs.

Reduced to its fundamentals, the success or failure of H.R. 11970 depends entirely on the estimate that it will result in a greater increase in exports than in imports. Based on our own practical experience, we believe this to be a dangerous gamble with little chance of success. The harm that will be done to the United States will be hard to undo, and our prestige will suffer when necessity forces us to restore some of the tariff cuts in order to prevent disaster. Much more time is needed to study this complex problem and it would be much better to extend the present act until a sounder measure can be prepared.

The CHAIRMAN. The next witness is Mr. Kenneth M. Plaisted of the National Board of Fur Farm Organizations, Inc.

Take a seat, sir, and proceed.

STATEMENT OF KENNETH M. PLAISTED, GENERAL COUNSEL, NATIONAL BOARD OF FUR FARM ORGANIZATIONS, INC.

Mr. PLAISTED. Mr. Chairman and members of the committee, my name is Kenneth M. Plaisted. I am appearing here today in the capacity of general counsel for the National Board of Fur Farm

Organizations with offices at 152 West Wisconsin Avenue, Milwaukee, Wis.

I might say it was originally the intention of Mr. Roy Harman from Christianburg, Ky., to be here with me this morning. However, his mother was taken ill and he was unable to join me.

This organization represents 49 State, regional, and marketing associations, the 6,000 members of which are engaged in the domestic raising of mink and fox, and who are now producing an annual crop of approximately 7 million mink pelts having a sale value in excess of $125 million.

Due to the brief time which has been allotted us to state the views of our industry with reference to the bill now before this committee, I will make no attempt to review in specifics the particular sections of the bill before the committee, nor will I embark on any general discussion of basic foreign trade philosophies.

These issues, I am certain, have been forcibly brought to the attention of this committee, and were thoroughly aired in the extensive hearings held by the Committee on Ways and Means of the House of Representatives.

As to our views regarding the broader provisions of the trade bill, I respectfully refer the committee to our testimony presented before the Committee on Ways and Means of the House of Representatives.

In view of the foregoing, therefore, my single purpose in appearing before this committee today, Mr. Chairman, is to emphasize the importance of retaining that provision of H.R. 11970 which extends the prohibition of the importation of mink and fox and certain other furs into the United States which are the product of the Union of Soviet Socialist Republics or of Communist China.

The specific provisions to which I refer is contained in the present provisions of section 11 of the Trade Agreements Extension Act of 1951, as amended, which section reads as follows:

> SEC. 11. The President shall, as soon as practicable, take such measures as may be necessary to prevent the importation of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furs and skins, dressed or undressed, which are the product of the Union of Soviet Socialist Republics or of Communist China.

The above-quoted section, Mr. Chairman, was, in effect, omitted in the original draft of H.R. 9900 (now renumbered H.R. 11970) as submitted by the President.

However, by action of the Committee on Ways and Means of the House of Representatives, the embargo provision was, again, in effect, restored by the House bill as the bill is now before this committee.

I use the term "in effect" because while the specific wording of section II of the Trade Agreements Extension Act of 1951, as amended, has not been directly inserted in H.R. 11970, the House amendment changed the repeal section (sec. 257) of the present bill, to allow for the continuance of the Russian fur embargo.

A repeal of the Communist fur embargo, which embargo has been in effect since 1951, would have serious psychological effects on the current delicate condition of the domestic mink market which is presently in a depressed state, as well as causing the very direct and tangible result of adding even greater quantities of mink skins to the domestic market which is already saturated with mink imports from friendly nations.

Mink imports, for example, rose from 2,846,000 skins in 1960 to 4,131,000 skins in 1961. This represents an increase of more than 45 percent in 1 year.

Based on the reports now available from the U.S. Department of Commerce, mink imports for 1962 have increased 28 percent over and above the same period of a year ago.

For the convenience of the committee, schedule I which is attached sets forth specific data for the period 1955 through 1961 with regard to domestic mink skin sales, imports, exports, and average unit values both foreign and domestic.

We believe it imperative that Congress extend the embargo on Russian mink and other furs if our farm industry is to survive as a representative segment of our national agricultural economy.

The domestic market under the massive weight of imports of mink skins, all duty free, which are produced by friendly nations, cannot stand additional imports of from 1 million to 1½ million skins, which would have their source in Russia or Communist China, without breaking far beyond the point of recovery.

We are not unmindful of certain action being taken by segments of the fur trade in New York City in an effort to convince this committee and Congress that the embargo on Russian furs should be repealed.

I have in my hand, for example, a copy of a memorandum circulated by the American Fur Merchants' Association, Inc., to its nationwide membership, pleading that the members write or contact the members of this committee urging the repeal of the restriction on the importation of furs from Communist Russia.

In this memorandum to which I refer, it is stated that the fur import restriction "was put in (H.R. 11970) unfairly without a hearing, * * *."

I respectfully submit, Mr. Chairman, that nothing could be further from the truth. As this committee is well aware, the Committee on Ways and Means of the House of Representatives held hearings on the legislation in question for a period of more than a month.

During the hearings by Mr. Mills, we appeared on behalf of the farmers to point out the omission of the embargo provision in the President's original bill.

There was a full discussion of this provision at the time we appeared before the House committee, and we have every right to assume that the same was considered by the members of that committee in the drafting of H.R. 11970 as reported to the House.

There was every opportunity, therefore, for the representatives of the American Fur Merchants' Association or any other interested party opposed to the fur embargo to speak on the subject before the House committee.

We deem it an unfair accusation directed toward Congress, and indeed this committee, to now claim that the fur embargo provision was, in effect, made a part of H.R. 11970 as reported by the House in an unfair manner or without a hearing.

Our association has made no such solicitation for letters or wires from our farmers to be directed to the members of this committee.

We are fully aware of the great burden and volume of work thrust upon the members of this committee as a result of this important trade legislation and other bills.

However, I speak for our 6,000 member farmers throughout the Nation, as a single voice, when I say we earnestly plead, Mr. Chairman, that your committee retain those provisions of section 257 of the bill now before you which, as passed by the House, will continue the embargo on furs from the Communist countries.

The Senate's adoption of this portion of the bill passed by the House, will simply result in an extension of the Communist fur embargo law as it has existed since 1951.

(Schedule I, referred to above, is as follows:)

SCHEDULE I.—*Mink skins: U.S. sales; average price, domestic sales; imports for consumption; average price, imports; exports; average price, exports*

[Quantities in 1,000 skins]

Year	U.S. sales	Average unit value, domestic sales	Imports for consumption	Average unit value, imports	Exports, domestic merchandise	Average unit value, exports
1955	2,912	$24.82	1,657	$17.94	[1] 376	$26.25
1956	3,364	26.06	1,870	16.28	[1] 422	22.72
1957	4,417	19.54	2,763	13.06	[1] 692	18.29
1958	4,515	19.38	2,591	15.97	877	19.29
1959	5,078	20.96	2,774	16.99	850	19.94
1960	5,703	21.48	2,846	15.62	882	21.38
1961	6,445	16.41	4,131	11.82	1,018	17.32

[1] Does not include exports of dressed mink skins; information not available.

Source: U.S. sales, domestic value: Annual Statistical Reports, National Board of Fur Farm Organizations, Inc. Imports-exports, average values: U.S. Department of Commerce.

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

Any questions?

The next witness is Mr. David W. Kendall.

STATEMENT OF DAVID W. KENDALL, REPRESENTING THE CORNSTARCH INDUSTRY, GENERAL TIME CORP., AND THE BOOK MANUFACTURERS' INSTITUTE

Mr. KENDALL. Mr. Chairman, your consideration and that of the members of the Finance Committee in giving me this time is appreciated very much. I am David Kendall, a member of the law firm of Cummings & Sellers, and am here representing and making a statement on behalf of our clients, a majority of the cornstarch industry, General Time Corp., and the Book Manufacturers' Institute.

First of all, despite obvious differences in background, all of these people believe deeply in extension of U.S. trade throughout the world, they believe in the obvious facts of greater ease of communication and commerce in the world in which we live today, and they believe, above all, in maintenance of U.S. leadership of the free world and its peoples.

Secondly, in order to preserve the high economic plane and standards of this country, they recognize obvious difficulties in the achievement of this aim of freer intercourse and less restricted trade.

Thus, on the one hand they had hoped that legislation to broaden the Executive power with regard to tariff and customs and to give the President the elasticity which is so necessary in prompt and intelligent trade and tariff negotiations, would be forthcoming at the earliest possible date. This was their hope in the light of fast-moving events in the world today.

On the other hand, however, they have been cautioning care and foresightedness in the drafting of legislation and measures in this regard.

Also, over and above the foregoing balancing factors, this committee must be aware that the climate of consideration of this legislation is far different in August than it was in March and June. Enough problems within the nations of the Common Market have already developed to indicate less than the rosy atmosphere promised by some of the more vigorous of the proponents. The "cotton textile agreement" has been discovered to be no agreement and not even much of an "arrangement." The status of the United Kingdom and the participation of her Commonwealth have not been resolved.

The headlines of yesterday, indicating solution of the difficulties of Great Britain and her Commonwealth at Brussels, when measured against those in today's papers announcing another apparently final failure of negotiation, do not lead toward confidence that all is well.

All in all, there is a rising tide of sentiment doubting the necessity of haste. The heretofore few suggestions that the United States await a clearer atmosphere in Europe and throughout the world, while more carefully fashioning the legislation desired, have now become more widespread—almost to the proportion of insistent demand.

Against this entire background, however, we have come to the conclusion that the desirability of moving toward freer trade overweighs reasons for delay, provided the sort of careful amendments which are here suggested can be achieved. By way of illustration of what we believe is necessary and how we believe it may be accomplished, we call your attention to the following:

The business of tariff and customs duties cannot be carried on in a vacuum. Many other facets of trade, of the economy, and of political factors must be kept in mind.

To name a few which had been thought of utmost importance are the differences amongst nations in central banking policies; with regard to taxation—both Federal and otherwise—as the same is used to varying degrees to foster domestic trade and industry, to raise revenues or to actually erect protective walls which we do by duty, and of course the differences in commercial laws, our own antitrust and monopoly statutes as opposed to lack of control and indeed the fostering of cartels in our sister ally nations.

All of these historic and present facts influence our approach to lowering or raising tariff walls. And these differences, enough in themselves, are minimal when compared to differences in wages, even after allowance for greater productivity in the algebraic equation which some think to be important.

Hence, it was the source of great disappointment, indeed surprise, to some of American industry which feels, as I have just expressed it, that we should move forward positively in the field of freer trade, when H.R. 9900 was examined as it was sent to the Congress.

In all fairness, too, a great deal of the confusion and lack of planning can be laid at the door of American industry as a whole. For haste in desiring exports and equally unthinking protectionist antidotes have not led to either helpful discussion, wise language, or other than complete confusion.

That there is good reason for all of these hopes and beliefs and fears, and for the consequent concern over the complete lack of catholic consideration of tariff together with the other equally important aspects of international economic understanding is probably better understood by the members of this committee than by any other group anywhere.

It is axiomatic that the United States, with her gigantic burden of fiscal responsibility in the maintenance of defense for the free world, with her almost equally heavy assumed expenditure for less developed peoples of the neutral world, and with her positive high burden of domestic Federal responsibility, can ill afford to risk any dislocation of the economy, of the tax base, of tax sources at this particular moment of history.

There has been real disappointment that, in the interests of expedition of the passage of legislation, what seems to us too little time has been given to a careful consideration of the pitfalls which might result.

Without going into the history of activity before the Ways and Means Committee and in the House of Representatives in attempting to bring about a more careful and lawyer-like solution to the twin problems of necessity for the legislation and care in design, almost everyone agrees that H.R. 11970, now before this committee, is a somewhat better bill and contains more thoughtful provisions than H.R. 9900. At the same time it should be pointed out that the legislation still leaves a great deal to be desired:

1. It lacks, in its delegation to the President of the constitutional power of the Congress to tax and to regulate commerce, appropriate and well planned guidelines.
2. It does not provide for true reciprocity.
3. It overlooks the time honored and well understood machinery of both peril point and escape clause.
4. It ties down the United States to most-favored-nation responsibilities without concomitantly requiring them of others.
5. It still contains adjustment measures open to real doubt.

We strongly believe that many, if not all, of the objections outlined above can be overcome by the rather simple expedient of reinstating updated versions of the foregoing omissions.

The apparent necessity to plan tariff in a vacuum, with its attendant inponderable problems, can, we believe, be overcome to a large extent by thoughtful adoption of such safeguards.

It is believed that traditional and well-charted guidelines of former law will amost automatically take care of differentials in wages, tax structures and aims, banking practices, and all the gamut of putting different domestic commercial policies and traditions into a common denominator, more easily handled and certainly more readily understood.

On behalf of those widely divergent portions of American industry which we represent, and others, a small group has been working earnestly and, I hope, intelligently, certainly broadly, trying to piece together various amendments of substance and of form, to the end that the real objective—twin objectives if you will—of the people who believe in U.S. leadership based upon economic strength as well as political wisdom, may be attained.

Before the committee is a group of amendments introduced by Senator Bush, of Connecticut, who is also the ranking member of the Joint Economic Committee, and a group of other Senators, including Senator Bennett.

Mechanically and legislatively, these amendments are designed to be interlaced throughout H.R. 11970; are severable to permit elasticity in discussion, persuasion in adoption; are aimed at distinct objectives of the legislation; and have the tremendous advantage of being considered not from the standpoint of any single industry or area of the United States, but approaching the problem in its entirety.

They are particularly urged upon you for your consideration.

They answer many of the constitutional questions which have arisen from the delegation to the President of the power of Congress to tax and to regulate commerce. They propose a clear statement of the principles by which the President is to be guided in the use of the delegated power and require findings of fact by him in his use of such power and through publication of such findings and the moves based thereon.

This, to the end that the people, to whom the President is ultimately responsible, and the Congress, to whom he should be directly responsible in such cases of delegation, will be kept fully and clearly advised.

The amendments in their entirety restore some of what are believed to be the necessary traditional principles of selective tariff reduction, which will avoid the threatening of serious injury to workers, to agriculture, and to domestic industry.

They are designed especially to prevent the impairment of growth industries.

And these amendments, so threaded throughout the present bill, also would reestablish certain basic negotiating principles which have been the cornerstone of enlightened, though somewhat shaded, American trade policy since the days of Cordell Hull and Arthur Vandenberg.

Basic negotiating principles insure true reciprocity. The maintenance of the integrity of duty concessions by the Common Market, equal treatment by beneficiaries of concessions as required by the principle of most favored nation, and carefully thought out safeguards and guidelines will insure to American exporters, all American industries, and the American economy, gradual and well-planned tariff accommodation. Such is the framework of this approach to the tariff and customs portion of guaranteeing American leadership in the whole structure of foreign trade and economy.

As your consideration deepens, as you think through individually and collectively the many amendments which will be pointed toward this or that imagined or real improvement of the bill before you, it is hoped that the clear purpose of the Bush amendments will be appreciated for their singleness of purpose as well as their wisdom of choice.

By incorporating these amendments in the bill as passed by the other House, speed and effectiveness can be achieved.

Better than that, the Bush amendments are so written and arranged as to achieve a balance of the present with the past, of modern expediency tempered with bedrock experience, using escape and peril mechanisms improved by trial and error.

In conclusion, I would like to say one more thing. It is based on the philosophy of Government itself, but is just as applicable to tariff problems or international trade as it is to domestic policy.

I have long felt that we should not pit, in our political philosophy, conservatism against liberalism.

Rather should we think and plan in the context of fundamentalism versus expediency—constitutionalism versus convenience—basic thinking versus opportunism.

The application here is clear. Before taking steps which will have repercussions not only in Bonn and Brussels, but Tokyo and all South America—not only in 1962 and 1963, but for many years to come, in Detroit as well as Des Moines, in Wilmington as well as Winchester—not only here, but abroad and affecting the firm base of United States strength economically, politically, and spiritually, we had better use a little fundamentalism—look a little bit to constitutional principles.

The CHAIRMAN. Thank you very much, Mr. Kendall. We appreciate your appearance.

Any questions?

The next witness is Mr. James R. Sharp.

Mr. HUTCHISON. Mr. Chairman, Mr. James R. Sharp, who was scheduled to appear before you was unexpectedly called out of town and requested me to read his statement to you.

STATEMENT OF ALAN D. HUTCHISON, ATTORNEY, REPRESENTING BELGIAN CARPET ASSOCIATION, BOARD OF SCANDINAVIAN FUR FARM ORGANIZATIONS, AND SWEDISH WALLBOARD ASSOCIATION

Mr. HUTCHISON. My name is Alan D. Hutchison of the Washington law firm of Sharp & Bogan. I am appearing before the committee on behalf of the Belgian Carpet Association; the Board of Scandinavian Fur Farm Organizations, which represents the fur breeders of Norway, Sweden, Denmark, and Finland, and the Swedish Wallboard Association.

During the past 14 years the firm of Sharp & Bogan has represented a substantial number of importers of various articles, as well as associations of importers and exporters.

Our legal services have been rendered primarily in peril point and escape clause proceedings; and investigations under section 22 of the Agricultural Adjustment Act, the Antidumping Act, and the national security provisions of the Trade Extension Act.

Our clients support H.R. 11970. We believe the President must have new broad power to negotiate reciprocal trade agreements so that the United States may maintain and increase its position in the field of international trade.

There is no question that as a result of reduced tariff duties some U.S. firms and industries will be adversely affected. Many domestic producers, though, believe that every dollar of sales of imported goods like or directly competitive to those which they manufacture, directly replace articles which they would otherwise have sold, and that this is per se serious injury.

But, judging on past experience, the effect of imports will not be substantial and domestic industries will be able to make the necessary adjustments to the free competitive situation.

The few industries and firms substantially affected by increased imports should, as a matter of national policy, receive aid and assistance from the Government to permit them to adjust to the changed situation, if unable to make the necessary adjustments themselves.

I would like to direct my remarks primarily to section 301 of the bill, entitled "Tariff Commission Investigations and Reports," the new escape clause.

The opponents of H.R. 11970 have stated, on numerous occasions, that in the past the escape clause has not been an adequate safeguard for American industry injured by increased imports.

Therefore, they reason, any broadening of the escape clause in H.R. 11970 will surely decrease what little protection these industries already have.

But an analysis of all of the escape clause investigations unequivocably establishes that in every case where industry was denied relief by either the Tariff Commission or the President, the denial was entirely consistent with the congressional intent of providing protection to domestic industries which were seriously injured or threatened with serious injury by increasing imports.

My written submission discusses, in detail, some of the problem areas in the administration of the escape clause, such as the definition of "industry" and the criteria for determining "serious injury."

The written statement contains suggestions and recommendations for amending the statutory language.

I believe, though, it would be worthwhile, at this time, to briefly review the history of the escape clause to demonstrate that the criticisms of the opponents of this bill are not founded on actual fact and experience.

There have been 134 applications filed with the U.S. Tariff Commission requesting relief under the escape clause. This total of 134 investigations represents 106 different articles or commodities, since, in some cases several investigations were held concerning the same article.

The 106 commodities cover the gamut from Alsike clover seed to binding twines, crude horseradish, dressed rabbit fur, garlic, hops, knitted berets, lighter flints, marrons, narcissus bulbs, pregnant mare's urine, red fescue seed, safety pins, tennis rackets, umbrella frames, and finally violins and violas.

Nine escape clause investigations were dismissed by the Commission at the applicant's own request, and an additional nine investigations were terminated by the Commission because the applicants failed to cooperate with the Commission in furnishing the necessary information.

In addition, the Commission dismissed 14 applications under an earlier procedure without issuing any report, leaving 102 cases for serious consideration.

In only 57 investigations did the Commission decide against escape clause action; and in 42 of these 57 cases the report of the Commission was either unanimous or had only one dissenting member.

Anyone who will study these 57 reports of the Tariff Commission will be firmly convinced of the correctness of the rationale of these reports. I would like to cite you just several examples:

In 1955 a unanimous Commission found that domestic oversupply and not imports was the prime reason for the decline in the price of mink skins.

In 1956 it was unanimously held that the dressed rabbit furs and skins industry was suffering from a decrease in the demand for rabbit furs and not from imports.

Domestic manufacturers of axes and ax heads were found to be suffering not from import competition but from heightened use of domestically produced powersaws.

In the case of calf and kip leather, short supply of raw skins was the main reason for the decline in domestic production.

The manufacturers of barbed wire were denied relief in 1960 because it was found that the real problem was not import competition but the increased use of electrical wire fencing.

In the recent typewriter investigation, the Commission found that 80 percent of imported typewriters sold at a higher retail price in the United States than comparable domestic typewriters.

I can go through the entire list but the pattern is the same, a domestic industry allegedly in trouble, sometimes very insignificant trouble, other times serious trouble; but in none of the cases were the domestic industry problems caused by increased imports.

In 8 investigations, the Commission was evenly divided in which case its report was forwarded to the President; and in 33 cases the Commission decided in favor of escape-clause action and so recommended to the President.

The President, then, has received 41 Tariff Commission recommendations in favor of escape-clause action.

In 15 cases the President granted relief. The President, of course, must place the recommendation of the Tariff Commission in its proper perspective in relation to foreign affairs and national security requirements of the United States.

In summary, then the Tariff Commission has conducted escape-clause proceedings involving 106 commodities.

At the present time 4 investigations are pending decision, and as mentioned earlier, 18 applications were dismissed either on the applicant's motion or on the Commission's motion for failure to cooperate, leaving a total of 84 commodities, and in 41 cases, the Tariff Commission recommended escape-clause relief to the President. As any lawyer will tell you, that is a very good average.

A careful analysis of the 41 reports recommending escape-clause relief will further indicate that in many cases there was no real serious injury to the domestic industry because the scope of the domestic industry has been unrealistically restricted to a narrow segment of the domestic-producing organizations.

In other cases, injury was caused not by imports of like articles, but by domestically produced directly competitive articles which the Commission refused to consider is within the scope of the investigation. These issues are fully discussed in my written submission.

Gentlemen, it has been a pleasure and a privilege to appear before this distinguished committee in these hearings.

A trade bill with a sound and fair escape clause incorporating the provisions which are suggested in my written statement, would adequately protect domestic industries, firms, and workers from serious injury from imports, and at the same time remove the uncertainties and ambiguities which plague U.S. importers and foreign producers in developing foreign trade.

I thank you for the opportunity to present my views here and hope I have made some contribution to your deliberations.

(The written submission referred to is as follows:)

STATEMENT OF JAMES R. SHARP, OF THE LAW FIRM OF SHARP & BOGAN, WASHINGTON, D.C., ON BEHALF OF ASSOCIATION NATIONAL DES TISSEURS DE TAPIS, VELOURS ET TISSUS D'AMEUBLEMENT (BELGIAN CARPET ASSOCIATION); BOARD OF SCANDINAVIAN FUR FARM ORGANIZATIONS; AND THE SWEDISH WALLBOARD ASSOCIATION

The escape clause as enacted as section 7 of the Trade Agreements Extension Act of 1951 contemplated that any U.S. producer whose business was seriously injured or even threatened with serious injury because of a tariff concession could request the Tariff Commission for relief. Industry was accepted in the usual definition of that term to include all of the companies manufacturing the article or commodity within the United States. However, the Tariff Commission during the 1950's tended to fractionize industries in such a way that serious injury did not have to be demonstrated on an industrywide basis or even on a plantwide basis. If a manufacturer could demonstrate that a minor line of his total production had suffered as a result of a tariff concession, the Tariff Commission could consider that minor line to constitute an industry and solemnly rule that "an industry" was in need of tariff relief.

In 1955 this Commission interpretation of fractionized industry was enacted into the statute and the Commission was not only permitted but directed to segregate single products from large product lines for this purpose.

Thus, section 7(e) of the Trade Agreements Extension Act decrees:

"As used in this act, the terms 'domestic industry producing like or directly competitive products' and 'domestic industry producing like or directly competitive articles' mean that portion or subdivision of the producing organizations manufacturing, assembling, processing, extracting, growing, or otherwise producing like or directly competitive products or articles in commercial quantities. In applying the preceding sentence, the Commission shall (so far as practicable) distinguish or separate the operations of the producing oragnizations involving the like or directly competitive products or articles referred to in such sentence from the operations of such organizations involving other products or articles."

The question of inqury, under this definition, became a matter of pure technicality and cost accounting having only the remotest associations with the realities of the marketplace. This fragmentation amounted, in effect, to a directed verdict in favor of the applicant and to the "repeaters" who did not permit themselves to become discouraged by previous adverse reports from the Tariff Commission.

The administration in its original bill, H.R. 9900, limited escape-clause relief for an industry only if there had been (1) significant idling of producing facilities of firms; (2) prolonged and persistent inability of firms to operate at a profit; (3) unemployment or underemployment of workers; and (4) reasonable efforts had been made within the industry to adjust, but such efforts had not substantially mitigated the conditions found to exist. The House of Representatives modified this provision considerably but did avoid the use of the fragmented definition of industry. Section 301(b)(2) of the House bill states:

"In making this determination * * * the Tariff Commission shall take into account all economic factors which it considers relevant, including idling of productive facilities, inability to operate at a profit, and unemployment or underemployment."

Before going any further, I would suggest, as a matter of legislative draftsmanship, that this section should be amended to avoid the rule of ejustem generis, a canon of statutory interpretation holding that general words are not to be construed in their widest extent, but are to be held as applying only to persons or things of the same general kind or class as those specifically mentioned. I would suggest that the language be amended to read:

"In making this determination * * * the Tariff Commission shall take into account all economic factors which it considers relevant, *including but not limited to*, idling of productive facilities, inability to operate at a profit, and unemployment or underemployment."

In the House report on H.R. 11970 (H. Rept. 1818) the Committee on Ways and Means in discussing the definition of industry explained:

"In the case of an industry investigation, the Tariff Commission will inquire into the effect of the imports in question on the whole industry concerned and will base its determination on the results of such inquiry.

* * * * * * *

"It is your committee's intention, for purposes of this bill, that in general, the industry, in the case of any industry investigation, will include those operations of those establishments in which the domestic article in question (i.e. the article which is 'like,' or 'directly competitive with,' the imported article, as the case may be) is produced. If the domestic article in question is produced in an establishment along with several other articles, the overall operations of the establishment would be included in the domestic industry. Where a corporate entity has several establishments (e.g., divisions or plants) in only one of which the domestic article in question is produced, the establishments in which the domestic article is not produced would, as a general rule, not be included in the industry. This would be particularly apt to be the case where the allied establishments produce articles which are wholly unrelated to the articles produced in the establishment in which the domestic article in question is produced, unless the equipment and skills devoted to production of the domestic article in question are freely interchangeable among establishments of the firm.

"It should be recognized, however, that the determination of the extent to which establishments producing articles different from the domestic article in question may be separated from establishments under the same corporate roof that produced the domestic article in question will necessarily be affected by the accounting procedures that prevail in a given case. That is, the establishments not producing the domestic article in question would not be excluded from the domestic industry if it is impracticable to distinguish or separate their operations from the operations of their allied establishments in which the domestic article in question is produced" (pp. 23–24).

This explanation indicates that the Tariff Commission is not to follow the fragmentation rule in most cases. It is, though, only an expression of the committee's interpretation of the statutory provision. It is not a part of the substantive law itself. While it would be hoped that the Tariff Commission would follow the mandates and direction of Congress as expressed in the legislative history, it would be preferable to clearly spell out the definition of industry in the statute itself so as to make recourse to legislative history unnecessary.

Section 301 should be amended to state:

"The Tariff Commission will inquire into the effect of the imports in question on the whole industry concerned, including the overall operations of those establishments in which the domestic article in question is produced, except where the domestic producer has several divisions or plants in only one of which the domestic article in question is produced, and where the allied divisions or plants produce articles which are wholly unrelated to the articles in question, unless it is impracticable to distinguish or separate their operations from the operations of the allied establishments in which the domestic article in question is produced."

This definition would avoid unrealistic fractionalization of industries, and provide the foundation for a sound and meaningful escape clause fair to both the domestic and foreign producer, as well as the American importer.

The CHAIRMAN. Thank you, Mr. Hutchison.

Any questions?

The CHAIRMAN. The next witness is Mr. Craig D. Munson, president of the International Silver Co. of Meriden, Conn.

Please proceed, Mr. Munson.

STATEMENT OF CRAIG D. MUNSON, PRESIDENT, INTERNATIONAL SILVER CO. OF MERIDEN, CONN., ON BEHALF OF STAINLESS STEEL FLATWARE MANUFACTURERS ASSOCIATION, STERLING SILVERSMITHS GUILD OF AMERICA, AND SILVERPLATED FLATWARE AND HOLLOWARE MANUFACTURERS ASSOCIATION

Mr. MUNSON. The principal flatware and/or hollowware manufacturers of the United States are members of one or more of the trade groups on whose behalf this statement is submitted according to the products manufactured. Some manufacture in all categories, and, therefore, are members of all three groups. These 3 groups include 16 companies with plants located in 7 States—Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, and Rhode Island—and employ approximately 15,000 workers. The products and the interests of all are so closely related that, for the purpose of this hearing, their testimony can be consolidated.

The bulk of our products are essential to everyday living. Flatware is the trade name for the knives, forks, and spoons with which you eat. Hollowware is the trade name for coffeepots, teapots, platters, bowls, trays, et cetera—the items from which food is served. Certain members of our group work principally in sterling silver, others in sterling silver and silverplate, some only in stainless steel, and still others in all three categories. Between us we supply 85 to 90 percent of the eating tools made in the United States. We supply items for every income bracket—from the very inexpensive you find in the five-and-dime stores, to the fine quality available in the finest jewelry and department stores.

We have a unique story to tell that is worthy of the committee's special attention—unique because we are one of the very few small industries which was successful in obtaining relief under the escape clause of the present law. We are, therefore, a rare specimen that can tell the committee how it has actually worked.

Even more unusual is the fact that our relief took the form of a Government-enforced global tariff quota—a device that is viewed with critical disdain by all devotees of free trade. Yet we can tell the committee that this means of relief has worked for the best interest not only of our industry but of our relationship with foreign nations; to suggest that it could work as well for other injured industries; and to urge that an escape clause, which would provide the possibility of this kind of relief in the future, be written into H.R. 11970.

Our story will also illustrate that American industry, aided by this kind of relief, can find solutions to the problem of foreign competition without expensive adjustment-assistance programs for industry and labor and life-adjustment provisions, such as are contained in title III of the bill before you.

The flatware segment of our industry was found to be seriously injured by imports of low price stainless steel flatware by a unanimous vote of the Tariff Commission in 1957. Charts A and B attached show the rapidity with which, and extent to which, imports absorbed our U.S. markets. The Tariff Commission recommended certain relief, but the President elected instead to accept a voluntary quota on stainless steel flatware offered by Japan for the year 1958. This quota was found to have been grossly violated in a second hearing before the U.S. Tariff Commission in 1959. The President then proclaimed a tariff quota on imports of certain low price stainless steel flatware (under $3 a dozen) and increased tariffs on all imports in excess of quota. All flatware imports above this price were unaffected by tariff increase or quota.

This quota, at present rate of sales, constitutes about 25 percent of the U.S. market for stainless steel flatware. Actually, total imports for 1960 of stainless steel flatware, including quota and nonquota, absorbed about 30 percent of the U.S. market for stainless and silverplated flatware. It should be understood that—in flatware, stainless steel and silverplate serve the same market—women buy one or the other, they do not buy both. Those of us who make silverplated flatware have not regained the business we lost to foreign stainless steel flatware but the industry as a whole is making progress in selling more stainless steel flatware. This would not have been possible without the global quota on low-priced imports proclaimed by the President, and there is no doubt that imports would have absorbed so much of the U.S. market as to force a member of domestic manufacturers out of business. As it is, the industry has lost at least $60 million of business in the last 5 years.

We are not happy about giving up 30 percent of our market. Our foreign competitors are not completely happy either. They want a larger share of the American market, particularly the Japanese, who now get 90 percent of this import business. They want the quota increased, or lifted entirely. Actually, the situation is that the American market is supporting the entire domestic flatware industry, a substantial part of the Japanese and European flatware industries. This is proving to be a practical way to share the American market with foreign competition without liquidating the American industry.

The American consumer is being given ample opportunity to choose between many qualities, styles, and prices of flatware offered by domestic and foreign producers. In short, it seems to us that all the most unselfish motives of reciprocal trade are being satisfied.

Of course, there is nothing directly reciprocal about it. No doors are being opened nor any barriers lowered to our products in Europe, and certainly not in Japan. However, we can hope that the access we are providing for imports of our products is resulting in an expansion of exports of some other American products.

We have learned to live with imports of stainless steel flatware in spite of the fact that even with the quota, they are absorbing 30 percent of the U.S. market. The quota has saved the major part of our business but it has provided other benefits. It has given us both the incentive and the opportunity to increase efficiency and reduce costs, although we have never been a backward industry about capital investment. We still cannot meet the competition of goods made by Japan's extremely low wage rates, but by great effort we have become more competitive with other imports.

The quota has also given us the opportunity to diversify, to get into the production of other products, not so adversely affected by imports. A number of the manufacturers in our industry have already added new products to their lines to offset their loss of flatware volume to imports, and thus have maintained their corporate strength and provided jobs for their employees. Included in these new products are plastic dinnerware, writing paper, electronics, fireplace fixtures, etc. I am, of course, most familiar with what we in the International Silver Co. have done. I think it is pertinent to the committee's considerations.

By late 1954 we knew that imports of low-price stainless steel flatware were absorbing a disturbing share of the U.S. market and that we were threatened with serious injury. So we embarked on a planned program of diversification. We decided not to add to our present products but instead to get into the production and sale of products completely foreign to our traditional business. Our first acquisition was in 1955. We purchased the Times Wire & Cable Co., of New York, a manufacturer of engineered coaxial cable. That put us in the communications business. In 1958 we purchased the Eyelet Specialty Co., of Waterbury, Conn., a manufacturer of lipstick cases, cosmetic holders, etc. That put us in the cosmetic business. In 1959 we acquired the Eastwood-Nealley Co., of Belleville, N.J., manufacturers of fourdrinier wire. That put us in the paper business. Also in 1959 we acquired the Drycor Felt Co., of Staffordville, Conn., manufacturers of needled felt. That put is in the building business. During these same years we improved the facilities of our rolling mill, which was suffering because of our loss of volume in silverplated flatware, and now we are indirectly in many different businesses with the brass and nickel silver we supply to companies making automobile radiators, keys, and what not. In other words, we did precisely what the new bill prescribes for a manufacturer whose traditional business is injured by imports. We made up our loss in other lines, but because of the relief provided by the quota, we did it on our own, without loans or subsidies from the Government, without bureaucratic interference with management. Whatever retraining of our workers was required, we paid for.

The important point I want to make is that here is an industry which is proving that it can solve its own problems in the best spirit of free enterprise and independence, under the relief provisions of the present law and without expensive and dubious adjustment assistance from the Government. We believe many other U.S. industries, as vulnerable as we to low cost imports will do as well and do it on their own without Government help if the escape clause of the present law is retained and administered as Congress intended.

On the strength of our successful experience with its working, we urge that:

1. The adjustment assistance features of title III be eliminated from H.R. 11970.

2. The escape clause be retained and strengthened by incorporating criteria under which the Tariff Commission must recommend relief to any U.S. industry injured by imports.

3. Peril points in tariffs be determined by the Tariff Commission under criteria similar to that established for escape clause actions.

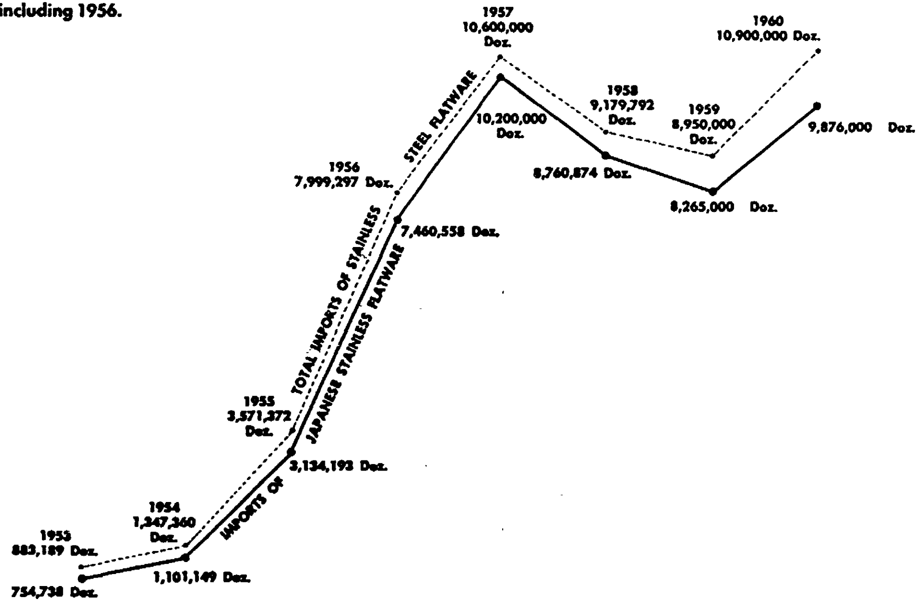
4. The Tariff Commission's recommendations be final in both peril point and escape clause actions unless overruled by a majority vote in either House of Congress.

(The chart and table referred to follow:)

CHART A

Growth Rate of Imports of Stainless Steel Flatware Has Been Fantastic.

U.S. Tariff Commission unanimous finding of serious injury to domestic industry based on record to and including 1956.



Source: U. S. Tariff Commission.

CHART B.—*Imports of stainless steel flatwear continue to absorb large share of U.S. flatware market*

	Total U.S. consumption stainless steel flatware (dozens)	Percent Japanese of total U.S. stainless consumption	Percent total imports to total U.S. stainless consumption	Total U.S. consumption stainless steel and silver-plated flatware (dozens)	Percent Japanese of total U.S. stainless and plated flatware consumption	Percent total imports of total U.S. stainless and plated flatware consumption
1951	11,626,000	3.3	(1)	27,389,000	1.4	(1)
1952	9,474,000	2.9	(1)	21,298,000	1.2	(1)
1953	11,563,000	6.5	7.6	24,520,000	3.1	3.6
1954	12,050,000	9.1	11.2	24,334,000	4.5	5.5
1955	18,081,000	17.3	19.8	29,027,000	10.7	12.3
1956	22,309,000	33.4	35.9	31,856,000	23.4	25.1
1957	23,725,000	43	44.7	30,473,000	33.5	34.8
1958	22,775,000	38.5	40.3	29,253,000	30	31.4
1959	27,217,000	30	32.8	34,188,000	24.1	26.1
1960	29,363,000	33.6	37	35,155,000	28	30

[1] Not available.

Source: U.S. Tariff Commission.

The CHAIRMAN. Thank you.

Any questions?

Thank you.

The next witness is Prof. Patrick Boerman, Bucknell University.

Take a seat, sir, and proceed.

STATEMENT OF PATRICK BOARMAN, ASSOCIATE PROFESSOR OF ECONOMICS, BUCKNELL UNIVERSITY, ECONOMISTS' NATIONAL COMMITTEE ON FOREIGN TRADE POLICY

Mr. BOARMAN. Members of the committee and Mr. Chairman, my name is Patrick Boarman. I am an associate professor of economics at Bucknell University. I am representing here the Economists' National Committee on Foreign Trade Policy which is opposed to the trade liberalization and expansion bill known as H.R. 11970.

Dr. O. Glenn Saxon, professor emeritus of Yale University, is chairman of the committee and Dr. James Washington Bell, of Northwestern University, is cochairman.

The names of the economists who constitute the full committee are affixed to our full statement and we respectfully request that the full statement of our views, of which I am presenting a summary, be included in the record of these hearings.

The CHAIRMAN. Without objection it may be done.

Mr. BOARMAN. It is our belief that unless there are substantial changes in the proposed legislation and unless it is accompanied simultaneously by thoroughgoing internal reforms (which we shall specify), its net effect will be to harm the Nation's domestic economy and worsen its already weak international posture.

Let it be said at the outset that all of us as economists subscribe to free trade, the law of comparative advantage, and all that these terms imply. We oppose protectionism in principle. This much said, however, it behooves us to inquire into the conditions under which the gross gain to the world from free trade will be fairly shared by the participating countries. Free trade was never supposed to operate in a vacuum, but only within the context of certain conditions. There is much loose talk about the invigorating and dynamic impact of foreign competition on the domestic economy. We are told in effect that since the reduction or abolition of tariffs will increase competition, and since competition is per se good, tariffs ought to be abolished whenever and wherever possible. This seemingly unexceptionable economic truism nevertheless holds within it a logical pitfall of the gravest import to the United States.

There is a world of difference between the competition which originates within a country and competition which comes from without via imports. The consumer will admittedly be the beneficiary of increased competition regardless of whence it comes. But to the consumer in his ultimate role as jobholder and as sharer in the general health or sickness of the national economy, the domestic or foreign guise which competition may assume cannot be a matter of indifference. The intensification of competition from within as the result of increased vigilance in the prevention of industrial concentration and more effective legislation to maintain competition both in the labor and in the product markets will normally have the effect of increasing the flexibility and vitality of the system; sales at home and abroad will tend to be stimulated, foreign capital attracted, and job opportunities multiplied.

Competition which takes the form of increased imports, on the other hand, while it may in the short run prove to be a boon to the consumer and subject domestic monopolistic excesses to effective restraint, comes at a cost: the dislocation and disemployment of domestic factors of production, stagnation of the domestic economy, excess capacity, outflow of capital in search of the more profitable factor combinations available abroad, and—as a result of all these movements—a worsening of the balance of payments situation, increased outflows of gold, and a decline of international confidence in the currency of the affected country.

Let there be no misunderstanding: we believe that competition from abroad is good, provided that it does not continue indefinitely to be the dominant form of competition. The latter will tend to be the case, however, where a nation's domestic economic policies inhibit confidence, risk taking, and growth, and where its lack of homegrown competition generates a vacuum which is persistently filled by competition from the outside.

To ask for tariff reduction or tariff abolition on the grounds that such action will increase competition and at the same time to refuse to correct the basic maladjustments which make the domestic economy internationally noncompetitive is to ask for the administering of a medicine which, while it may banish the symptoms of disease (in this case, reduce domestic manifestations of monopoly), may simultaneously cripple or perhaps even kill the patient.

It should be added that a most important assumption of a genuinely free trade world is that the participating countries are all following roughly the same fiscal and monetary policies. The postwar period has provided us with some egregious examples of the problems which result where this is not the case.

The notorious chronic export surpluses of West Germany in the 1950's were due primarily to the fact that Germany, remembering her disastrous inflations, was pursuing a determinedly anti-inflationary policy, whereas Britain, France, and the Scandinavian countries, remembering the great depression, were pursuing policies of monetary ease, tolerating inflation for the sake of promoting full employment and the objectives of the welfare state.

Equally notorious and annoying, in consequence, were the chronic balance-of-payments deficits registered by these countries. Indeed, so acute did intra-European imbalance become in the middle 1950's, so scarce the deutsche mark, that the painfully reerected system of partial multilateralism in Europe was on the point of collapse. It was only when the British in 1957 abandoned the long-dominant cheap-money policy (the Bank of England raised its rediscount rate in that year to an alltime high of 7 percent) that a semblance of equilibrium was restored.

More particularly, it was because France, at the end of 1958, put a stop to inflation and devalued the franc, coupling these acts with certain drastic reforms of the domestic economy, that the Common Market became possible. In effect, the Common Market countries all adjusted their internal policies to those of the most disciplined member, West Germany. Had France, the deficit member, not so adjusted its internal price and income levels, the opening of the Common Market on January 1, 1959, would have bankrupted that nation in very short order.

Events proved that the French economy needed only the right policies in order to come alive and realize its full potential; following closely on the heels of the drastic reforms of 1958, the French balance of payments turned from deep deficit to substantial surplus. It was not the establishment of the Common Market which made the Common Market countries economically strong. On the contrary, it was the return to monetary and economic discipline of these countries which made possible the Common Market and the associated benefits of tariff cutting and expanded trade. The Common Market experiment has demonstrated that free trade (or freer trade) and the tariff reductions which it implies, are but pleasant byproducts of prior monetary and fiscal integration and harmonization.

It is now the United States which has moved into the deficit position in the international economy. The dollar shortage—which so mesmerized the attention of economists until a very short while ago—has been converted into a dollar glut. And, if the chronic dollar shortages of the early postwar period were due chiefly to the refusal of some deficit countries to remove excess demand from their economies by appropriate monetary and fiscal policies, the dollar glut must be attributed in great part to the persistent failure of the United States to make the internal adjustments, in particular the stopping of inflation and the reduction or restraint of labor union monopoly, necessary to maintain balance with the changed world surroundings of the 1950's and 1960's.

The real issue confronting the United States today in its international economic relationships is not, therefore, whether we should have tariff reform or no tariff reform, It is whether we should have tariff reform with, or tariff reform without simultaneous (or, better still, prior) internal fiscal, monetary, and economic reforms. But, concern for such reforms is conspiciously absent from H.R. 11970.

Free trade is being urged as the answer to almost all our problems, domestic and international. It is important to note that there is a very large assumption on which this expectation is based. The assumption is that the proposed legislation will not only cause exports to increase to an extent equal to the expected increase in imports, but that it will yield a net increase in exports over imports. Only if exports increase faster than imports will it be possible to increase domestic employment, step up the national growth rate, and maintain our present rate of expenditure abroad for national defense and foreign aid without further aggravation of our existing and cumulative balance-of-payments deficits.

There is, however, no guarantee whatsoever that unilateral tariff reduction by the United States, no matter how sweeping, will yield the expected net increase in exports. The reasons for this—which are spelled out in detail in our full statement—are, first, the improbability of the proposed drastic tariff reductions being matched by our neighbors abroad, in particular by the Common Market countries, and, secondly, the slowdown of exports and increases in imports which persistent stagnation with inflation in the United States relative to other countries will bring about.

We object especially to the sweeping powers granted to the President to reduce or eliminate at his sole discretion any or all remaining tariffs on U.S. imports without review or supervision by Congress. It is of significance that the President is also authorized in the proposed legislation "to proclaim such increases in or imposition of, any duty or other import restriction" as he wishes. In short, the incumbent President or some future President could raise tariffs as well as lower them, could use his new powers for protectionism as well as for free trade. In the area of tariff manipulation, the consequences of any given action are not easy to predict and to estimate; if mistakes are made, the damage to the Nation could be considerable and irreparable. Hence, we strongly urge that any legislation which is enacted provide for adequate review by Congress of the President's actions in this field. The grant of powers should be in any case limited to 2 rather than 5 years. This will provide each new Congress with a chance to examine the record and to determine if changes in the program are indicated.

Our committee is disturbed at the structural dislocations in our economy—the unemployment and the underutilization of industrial capacity—which the radical changes in tariffs proposed in H.R. 11970 might cause. It is not at all certain that our economy will be able to handle these dislocations without cyclical upset, especially if the tariff reductions are to be accomplished in as large amounts and within as short a period of time as the proposed legislation implies. But our deepest concern is with the shortrun balance-of-payments effects of the anticipated increases in imports. Clearly, increases in imports at this time, where not accompanied by rises in exports (and such rises are based on pure hypothesis) can only enlarge our already alarming payments deficit, aggravate the outflow of gold, and increase the pressures leading to a devaluation of the dollar. There can be little doubt that the latter occurrence would be a catastrophe for the free world and might very well trigger an international liquidity crisis of the kind which ushered in the great depression in 1929.

We believe that the overriding task of the present hour is for our Government and all citizens to do whatever is necessary to activate the full and unquestionably enormous economic potential of the United States. It is a "grand illusion" to believe that, by knocking down a few already low tariffs, we are going to solve all the problems of the U.S. economy at home and abroad.

Other more powerful and elemental forces are at work in the world than the law of comparative advantage, valuable though this principle be. It is the anti-inflationary and anticollectivist free enterprise systems which have emerged in various parts of the free world which are challenging our long dominance of the international economy. If these forces are to be met successfully, they must be met on their own terms; viz, in the area of internal policy, not by engaging all our energies in the tariff issue.

To sound the trumpets of tariff reform, as is now being done, appears courageous on the surface. And it is very popular. Who wants to be called a protectionist? In fact, it is taking the line of least resistance, politically and economically. For such action, and the spirit of righteousness with which it can be undertaken, becomes a substitute for facing up to the real issues: The need to undertake internal reforms, to end domestic inflation, to put a stop to wage and price increases which make our commodities increasingly noncompetitive in world markets, to apply equal energy to the restraint of both business monopoly and labor union monopoly, and to establish strict priorities in Federal spending to the end that deficits of the Federal budget shall be avoided.

Tariff reductions coupled with the internal reforms we have specified could go far toward restoring to the United States the economic leadership of the free world of which it is indubitably capable. Tariff reductions of the sort envisaged in H.R. 11970, applied without the needed internal reforms, could spell disaster both internally and internationally.

Thank you, Mr. Chairman.

(The full statement follows:)

U.S. FOREIGN TRADE POLICY, A DECLARATION OF PRINCIPLES BY THE ECONOMISTS' NATIONAL COMMITTEE ON FOREIGN TRADE POLICY

(Presented to the Senate Finance Committee August 6, 1962, by Patrick M. Boarman, Associate Professor of Economics, Bucknell University)

THE ECONOMISTS' NATIONAL COMMITTEE ON FOREIGN TRADE POLICY

Chairman; O. Glenn Saxon, professor emeritus, Yale University, New Haven, Conn.
Cochairman; James Washington Bell, professor emeritus, Northwestern University, Evanston, Ill., presently secretary, American Economic Association.
Vice chairman; Prof. Patrick M. Boarman, Bucknell University, Lewisburg, Pa.
Herman H. Beneke, professor emeritus, Miami University, Oxford, Ohio.
Prof. Frederick A. Bradford, Lehigh University, Bethlehem, Pa.
Prof. Lewis E. Davids, University of Missouri, Columbia, Mo.
Prof. L. E. Dobriansky, Georgetown University, Washington, D.C.
Prof. Roy L. Garis, University of Southern California, Los Angeles, Calif.
Prof. Harold Hughes, West Virginia Wesleyan College, Buckhannon, W. Va.
J. H. Kelleghan, economic consultant, Chicago, Ill.
Prof. Donald M. Kemmerer, University of Illinois, Urbana, Ill.
Prof. Russell M. Nolen, University of Illinois, Urbana, Ill.
Prof. Clyde W. Phelps, University of Southern California, Los Angeles.
Prof. Arthur Sharron, C. W. Post College, Long Island University, Brookville, N.Y.

Charles S. Tippetts, professor emeritus, University of Pittsburgh.
Prof. J. B. Trant, Louisiana State University (vice president, Guaranty Life Insurance Co.), Baton Rouge, La.
Edward J. Webster, professor emeritus, American International College, Springfield, Mass.
Prof. G. Carl Wiegand, Southern Illinois University, Carbondale, Ill.
Prof. Ivan Wright, University of New York City, New York, N.Y.
Hudson B. Hastings, professor emeritus, Yale University, New Haven, Conn.

I

The committee of economists whom I have the privilege to represent (their names are prefixed to this statement) is not concerned with the special interest of any particular group or entity; firm, industry, occupation, or geographical region. Our concern is rather with the interest of the Nation as a whole as we judge this interest to be affected by the proposed tariff reform legislation known as H.R. 11970.

It is our belief that unless there are substantial changes in the proposed legislation and unless it is accompanied simultaneously by thoroughgoing internal reforms (which we shall presently specify), its effect will be to harm the Nation's domestic economy and worsen its already weak international posture.

Let it be said at the outset that all of us as economists support the ideal of universal free trade and all that it implies. All of us will agree with Adam Smith that "it is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy" and that "what is prudence in the conduct of every private family can scarce be folly in that of a great kingdom."

We favor free trade (or freer trade) and the measures which will promote such trade for reasons which are derived directly from the first principles of economics. Free trade increases economic welfare for all the participating countries. It expands consumers' choices, giving them the possibility of acquiring goods which cannot be had at home, or which can be had at home only at higher prices. Free trade makes it possible for each country to specialize in those lines of economic endeavor in which it is most efficient, thus maximizing the gross gain to the world from the world's resources.

This much said, however, it behooves us to inquire into the conditions under which this gross gain to the world from free trade will be fairly shared by the participating countries. Free trade was never supposed to operate in a vacuum, but only within the context of certain conditions. These are, first, that there will be no quantitative restrictions of trade (quotas) imposed by the trading countries. Reductions of tariffs on specified items will be meaningless where there are limitations on the quantity of the commodity which may be imported.

Secondly, it is assumed that full and complete convertibility of currencies prevails; i.e., that the free trade area in question constitutes, in effect, one homogeneous payment community. Were this not to be the case, reductions in tariffs, whether undertaken unilaterally or multilaterally, could be deprived of any real significance. Of what use would it be to have the tariff reduced on a given import if one cannot freely acquire the foreign exchange needed to buy the import in the first place?

Thirdly, for free trade not to result in unfavorable advantage being taken by one country of another, it is assumed that no special advantages are reserved to one country by virtue of its tax structure, the subsidies it pays to domestic producers, or the domestic monopolies and cartels its laws may permit to exist.

Fourth, while it is not necessary for wages in a multilateral system to be the same in every country—indeed, the existence of trade is to a large extent predicated upon such differences—it is necessary that the ratio of money wage increases to productivity increases be approximately uniform in the free trade area. It is easy to see what the consequence would be if this condition were not met. If the general level of wages in country A is increasing faster in relation to the increases in its productivity than wages are increasing relative to productivity elsewhere, A will find that its cost of production in respect to labor will place it at an increasing disadvantage in the world's markets, leading to a relative fall in its exports. Moreover, where the unfavorable wages-to-productivity ratio is maintained, a general rise in imports will ensue as A's industries lose out to foreign producers even in their own home markets.

These issues are of particular concern to the United States at the present time since the wage-productivity relationship has become increasingly unfavorable for us. The statistics cited by Emile Benoit in his study "Europe at Sixes and Sevens"[1] show that while wages in manufacturing rose 31 percent in the United States between 1953 and 1960, they rose 34 percent in France, 45 percent in Italy, 49 percent in Japan, 60 percent in Great Britain, and 69 percent in West Germany. However, the apparent modest increase in the level of U.S. wages was more than offset by the relative stagnation of U.S. productivity in the same period. Thus, U.S. productivity in manufacturing rose only 15 percent as compared with a rise of 63 percent in Germany, 54 percent in France, 58 percent in Italy, and 71 percent in Japan. Even Great Britain, where productivity growth has lagged, registered an increase of 29 percent, a rate almost twice that of the United States.

It may be argued that in the long run these developments will cease to be a matter of concern as the law of comparative advantage will cause the structure of production to adjust to the new international wage-productivity relationships. Specifically, the United States will be forced ultimately to shift resources into activities where it is most productive and in which its high general level of wages is justified. This is correct but two vital considerations impose themselves in this case.

The first is the extent and the duration of the transitional process involved in the reallocation of the factors of production. A sudden displacement of factors from present employments, where there are no immediate prospects of reemployment, is a situation attended always by the danger of cyclical upset. The larger the quantity of factors involved and the longer the time needed to reabsorb them into other lines of activity, the greater is the likelihood of a domestic collapse of confidence, leading, via the multiplier effect, to the perverse dynamics of a recession. Moreover, the fewer are the alternative uses to which the factors can be put, the more likely it is that factor displacement due to imports will be chronic (for example, sheet glass factories can be used only to produce sheet glass; there is no other use to which they can be put should imports make domestic sheet glass production unprofitable). Widespread and chronic underuse of labor and other factors, and the economic stagnation which accompanies unemployment of this kind, must be regarded as a heavy price to pay for the gains of free trade. Indeed, the gains of free trade will in this case accrue only to one segment of the population; namely, those who are still employed and who have incomes available to expend on goods and services, whether of domestic or foreign origin.

The second consideration is that it is at least theoretically conceivable that a wage-to-productivity ratio could become so unfavorable for a given country (in this case, the United States) that there would be continuous shrinkage of domestic employment to industries of the highest productivity. The more unfavorable the overall wage-productivity ratio becomes, the smaller will be the volume of domestic employment that it can support. In an extreme case, 50 percent of our labor force could conceivably be put out of work with the employed 50 percent earning the exceptionally high wages that it is possible to pay in the remaining most productive industries.

A fifth, and most important, basic assumption of a free trade world is that the participating countries are all following roughly parallel fiscal and monetary policies. The postwar period has provided us with some egregious examples of the problems which result where this is not the case. If country A follows a persistently inflationary course whereas country B follows a strictly anti-inflationary course, the resulting relative excess demand in A will tend to consume exportable resources, thus slowing exports to B, and to suck in imports, often regardless of price. Conversely, the relatively restrained level of demand in B will free resources for export to A while simultaneously slowing B's consumption of imports. The combined effects of these movements will be to cause A to have a chronic deficit and B a chronic surplus in its balance of payments. To the extent that tariffs and other barriers to trade are lowered, these imbalances will tend to become even more pronounced.

Other characteristics of a free trade world would be the absence of barriers to the free flow of labor and capital across national borders and security for capital investments against nationalization without just compensation. These and all of the preceding conditions which have been mentioned are indispensable to the operation of a free trade system which is not to result in the exploitation of one

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[1] Emile Benoit, "Europe at Sixes and Sevens" (New York: Columbia University Press, 1961).

country by another or in chronic international disequilibrium, or both. But it is patent that today not one of the conditions mentioned is fulfilled, at least as far as the trade between the United States and the rest of the world is concerned. In particular, there is a glaring lack of parallelism in the monetary and fiscal policies of the United States and other countries. It is this circumstance which will undoubtedly give us the most trouble as we embark upon any program of trade liberalization.

II

Among the most dramatic recent examples of what happens where there is sharp divergence in internal monetary and fiscal policies amongst the members of a trading system is provided within the European complex itself. The notorious chronic export surpluses of West Germany in the 1950's were due primarily to the fact that Germany, remembering her disastrous inflations, was pursuing a determinedly anti-inflationary policy whereas Great Britain, France, and the Scandinavian countries, remembering the great depression, were pursuing policies of monetary ease, tolerating inflation for the sake of promoting full employment and the objectives of the welfare state.

Equally notorious and annoying, in consequence, were the chronic balance-of-payments deficits registered by these countries. Indeed, so acute did intra-European imbalance become in the middle 1950's, so scare the deutsche mark, that the painfully reerected system of partial multilateralism in Europe was on the point of collapse. It was only when the British in 1957, under the leadership of Macmillan, the "great deflationist," abandoned the long-dominant cheap money philosophy (the Bank of England raised its rediscount rate in that year to an alltime high of 7 percent) that a semblance of equilibrium was restored.

More particularly, it was because France at the end of 1958 put a stop to inflation and devalued the franc, coupling these acts with certain drastic reforms of the domestic economy, that the Common Market became possible. In effect, the Common Market countries all adjusted their internal policies to those of the most disciplined member, West Germany. Had France not so adjusted its internal price and income levels, the opening of the Common Market on January 1, 1959, even with the relatively modest tariff reductions which then occurred, would have bankrupted that nation in very short order. Frenchmen, with their inflated incomes and prices, would have rushed to buy German goods, whereas Germans, with their relatively lower incomes and lower prices, would have had no particular urge to purchase French commodities in spite of lower French tariffs.

The point is that France in the pre-Common Market era did not suffer from progressively larger deficits because she was poor—she was and is potentially one of the richest nations of Europe. And Germany did not enjoy progressively larger export surpluses because she was "rich." Two things, wrote Wilhelm Roepke [2] apropos of the French difficulties of 1957, must be kept distinct.

"* * * on the one hand, the economic potential of a country or what may be called the foundations of its wealth and, on the other, its economic-monetary order upon which depends the degree to which this potential is activated * * *. Attention must be directed to the undeniable fact that the economic potential of France is in spite of everything greater than that of Germany by a not inconsiderable margin * * *. Against this, however, Germany was more fortunate in the activation of its economic potential than France * * * the former country succeeded by means of a clearly conceived and for the most part effectively executed economic policy in solving the economic problem No. 1 of every economic system; viz., the problem of economic order. This is the secret of everything which has occurred since the reform of summer 1948 under the rubric of the Germany "economic miracle" * * *. The principle which requires that one not confuse economic potential with economic order, nor superiority of economic condition with economic equilibrium was especially pertinent in the case of German balance-of-payments surpluses and recent French balance-of-payments deficits. The differences in economic condition between France and Germany—differences which are in France's favor—remained in spite of the disturbance to the balance of payments * * *. But it was precisely the perverse effect of the disturbance to balance-of-payments equilibrium between France and Germany and of the associated differences in inflationary pressure between them

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[2] Welhelm Roepke, professor at the University of Geneva, is an internationally respected authority on European trade problems.

that the poorer country was forced to become the creditor of the richer country."[3]

It is perhaps unnecessary to add that Professor Roepke's analysis and his prophecy that the French economy needed only the right policies in order to come alive and realize its full potential were fully vindicated in the turnabout in the French balance of payments from deep deficit to substantial surplus. What is of significance here is that it was not the establishment of the Common Market or the lowering of tariffs as such which made the Common Market countries economically strong. On the contrary, it was the return to monetary and economic discipline of these countries and their individual efforts to adjust their internal policies to a common international standard which made possible the Common Market and the associated benefits of tariff cutting and expanded trade. The Common Market experiment has demonstrated that free trade (or freer trade) and the tariff reductions which it implies are but pleasant byproducts of prior monetary and fiscal integration and harmonization.[4]

III

It is now the United States which has moved into the deficit position in the international economy once held by certain of our European neighbors. The dollar shortage—which so mesmerized the attention of economists until a very short while ago—has been converted to a dollar glut. And if the chronic dollar shortages (and deutsche mark shortages) of the early postwar period were due chiefly to the refusal of some nondollar (and non-deutsche-mark) countries to remove excess demand from their economies by appropriate monetary and fiscal policies, the dollar glut must be attributed in great part to the persistent failure of the United States to make the internal adjusments, in paricular, the stopping of inflation, necessary to maintain balance with the changed world surroundings of the fifties and sixties.

The real issue confronting the United States today in its international economic relationships is not, therefore, whether we should have tariff reform or no tariff reform. It is whether we should have tariff reform with, or tariff reform without simultaneous (or better still prior) internal fiscal, monetary, and economic reforms. But concern for such reforms is conspicuously absent in H.R. 11970.

If the appropriate conditions under which free trade can work to our advantage in the present world situation seem to us to have been unduly neglected in the proposed legislation, it is nevertheless clear that what the proponents of this legislation have in mind is something far more than the simple economic gains to consumers here and abroad which more free trade will bring. The trade-expansion program is supposed to achieve in one fell swoop nothing less than the following ambitious goals:

1. Increase in consumer welfare.
2. Increase in employment.
3. Accelerated growth of the U.S. economy.
4. Maintenance of U.S. economic leadership of the free world.
5. Aid to the developing nations.
6. Overcoming of U.S. balance-of-payments deficits and ending of the drain on U.S. gold reserves. (This has been implied by spokesmen for H.R. 11970; there is no specific mention of this objective in the bill itself.)

Free trade, in fact, is being urged as the answer to almost all our problems, domestic and international. It is important to note that there is a very large assumption on which these expectations are based. The assumption is that the proposed legislation will not only cause exports to increase to an extent equal to the expected increase in imports, but that it will yield a net increase in exports over imports. Obviously, if exports increase only at the same rate as imports, none of the stated objectives, except perhaps increased consumer welfare, can be attained. Only if exports increase faster than imports will it be possible to maintain our present rate of expenditure abroad for national defense and foreign aid without further aggravation of the existing and cumulative balance-of-payments deficits. And only if there is a net increase in exports can employment be increased and growth rates accelerated.

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[3] Wilhelm Roepke, "Zahlungsbilanz und Nationalreichtum," in Gegen die Brandung (Erlenbach-Zurich: Eugen Rentsch Verlag, 1960), pp. 306–312.

[4] The Belgian economist, Alexander Lamfalussy, has shown convincingly that recent European progress cannot be ascribed to reductions of tariffs within the Common Market; in fact, the postwar record levels of output, employment, exports, and general economic growth of the continental economies commenced years before the opening of the Common Market on Jan. 1, 1959. See Alexander Lamfalussy, "Europe's Progress Due to Common Market?" Lloyds Bank Review (October 1961), pp. 1–16.

There is, however, no guarantee whatsoever that unilateral tariff reform by the United States, no matter how sweeping, will yield the expected net increase in exports. This is evident if we consider, first, the improbability of the proposed drastic tariff reductions being matched by our neighbors abroad, in particular, by the Common Market countries, and secondly, the slowdown of exports and increases in imports which persistent inflation in the United States relative to other countries will bring about.

U.S. tariffs are already at exceptionally low levels as compared both with U.S. tariffs in earlier periods and with the tariffs of other industrial countries now. Using the (admittedly imprecise) gage found in the ratio of total duties collected to dutiable imports, it would appear that the present U.S. tariff level is only one-fifth of what it was in the unlamented days of Smoot-Hawley. And from the Joint Economic Committee of the Congress has come a set of figures which shows the averages of posted tariff rates composed on industrial goods by various key countries, including the Common Market and the United States taken as a unit. The pertinent rates are shown in the accompanying table:

Industrial tariffs (weighted averages)

	Percent		Percent
Japan	19	Australia	12
Austria	19	United States	11
United Kingdom	17	Norway	11
New Zealand	17	Benelux	11
Italy	16	West Germany	9
Canada	16	Sweden	8
France	15	Switzerland	8
EEC	14	Denmark	6

Source: Joint Economic Committee.

The table indicates that only four countries, including one member of the Common Market (Germany), have a lower average tariff than the United States. This being the case, it may be asked why the many benefits (in particular, the expected tariff concessions by other countries) which are alleged to follow a program to reduce tariffs have not as yet become apparent?

At the same time, however, it is needful to emphasize that the low average U.S. tariff is an average, i.e., the resultant of the addition of high tariffs, medium tariffs, and low tariffs. The average figures thus conceal the highly selective nature of many tariffs, the total elimination of which—on those categories of goods covered by the so-called 80-percent rule—could cause havoc in the affected industries. Nor can the psychological reverberations of unfavorable developments in these industries on other industries and, through the multiplier mechanism, on the whole economy, be lost sight of. In factors of production disemployed by imports could be as readily reabsorbed as the theory of international trade has traditionally argued, there would be no cause for concern. But the chronic stagnation of the U.S. economy clearly attests that we have not even succeeded in reabsorbing factors disemployed due to purely domestic shifts in demand-and-supply functions. What will it benefit the country to deliberately add to the present overall condition of excess capacity as the proposed legislation, consciously or unconsciously, will tend to do?

It is to be noted, nonetheless, that the existing low level of U.S. tariffs on a wide variety of imported commodities gives our negotiators relatively little leeway in making future concessions for the purpose of getting other countries' tariffs against the United States reduced. A representative example of the difficulty which confronts us here is the tariff on automobiles. Our import duties on foreign automobiles were reduced recently from 8.5 percent to 6.5 percent in exchange for a much-touted reduction by the EEC group of automobile duties from a proposed high of 29 percent to 22 percent. The actual duty paid by U.S. automobile exporters to Germany and to the Benelux countries, to which the bulk of our automobile exports go, has been 18 percent, but will be increased to 22 percent under the new common external tariff of the EEC. Is it likely that reduction of our tariff from 6.5 percent to zero, for example, will bring a reduction of the EEC tariffs from 22 percent to zero?

It would be naive to expect such more-than-proportionate reciprocity from the Common Market group. This being so, the implications of lowered U.S. automobile tariffs are disturbing in the extreme. Demand by Americans for European vehicles is already relatively intense as compared with European demand for American vehicles, which is slack. Further lowering of our tariffs on foreign automobiles will bring these close to zero, and increase the already significant U.S. demand for such imports. A proportionate lowering of European duties would still leave exports of U.S. vehicles handicapped by a substantial tariff obstacle, not to mention the discriminatory use taxes and horsepower taxes imposed on American vehicles in European markets.[5]

But there is no guarantee that even proportionate reciprocity will be forthcoming from the Common Market. It is certainly no secret that the lowering of duties amongst the Common Market countries and the simultaneous raising of external tariffs against outsiders is aimed at creating a mass market in which the economies of scale of mass production—heretofore a U.S. monopoly—will become possible. Moreover, this economic unification and consolidation is viewed only as a way station on the road to the more substantial goal of political unification.

It is thoroughly unrealistic and unreasonable to suppose that the Common Market countries, out of their sheer love for the United States and a desire to help us retain our economic primacy, will veer away from their stated economic and political objectives. It is not to be expected, in short, that our friends abroad will be willing to pull American balance-of-payments "chestnuts" out of the fire. George Washington's wise words are worth recalling in this connection: "There can be no greater error than to expect or calculate upon real favors from nation to nation. It is an illusion, which experience must cure, which a just pride ought to discard" (Farewell Address).

The truth is that the Common Market has a good thing going and will undoubtedly strive to keep it going. This is an uncomfortable prospect in some ways, so uncomfortable that many of us will wish we had not been so precipitate in encouraging and supporting the closed economic bloc (as contrasted with the original, more broadly conceived free trade area) which is now emerging. But it is a prospect which realism requires us to entertain. One of the strangest and most paradoxical omissions in H.R. 11970, in the judgment of our committee, is its almost total failure to make provision for genuine trade reciprocity. This omission is naive and it is dangerous.

IV

Even if these guarantees of full reciprocity in tariff reductions by other countries are obtained; even, to use an extreme case, if other countries were to reduce their tariffs to zero, are there other factors involved which would hold back U.S. export growth? The truth of the matter is that it is not primarily foreign tariffs which are keeping our goods out of foreign markets. Large categories of American goods are noncompetitive in the world's markets even where they have no tariffs or other trade barriers to hurdle. In the production of these commodities, other countries simply have lower unit costs than we do, primarily due to their substantially lower wage costs. And in those commodity areas where superior American capital endowment and productivity still gives us an edge in spite of our wage scales, the trends indicate that the U.S. advantage is diminishing; that is, European capital endowments in these areas are increasing substantially. The resulting cost reductions which will be realized will be intensified to the degree that increasing economies of scale are achieved, as will certainly be the case in the European Common Market.

The hope that foreign wage levels will rise and thus make U.S. goods more competitive is at once unrealistic and cynical. It is unrealistic because wages in Germany, for example, are already at inflationary levels, causing great concern to the authorities there, and because the amount of increase in German wages (which are now about 27 percent of average earnings in U.S. industry) needed to bring about equality would be enormous and completely unacceptable to the Germans. Thus, last year, German labor costs increased about 10 percent while U.S. costs increased about 5 percent. But a 10-percent increase of a 75-cent wage is only 7½ cents an hour while a 5-percent increase of a $3 wage is 15 cents an

[5] The diminished international competitiveness of the American automobile industry for reasons other than tariffs is reflected in the fact that in 1951 when tariffs and other foreign obstacles to all classes of American goods were relatively high, U.S. firms produced 72 percent of the world's total output of passenger vehicles. In 1959, despite the intervening substantial reductions of barriers to American exports, the U.S. share of the world auto market was only 48 percent. (Source: George Romney, "Customer Sharing and the Nation's Economy" [verbatim transcript of New York press conference], American Motors Corp., Dec. 15, 1960).

hour. This gap may be closed oevr a period of years; it certainly will not be closed in the near future. The hope placed in foreign wage-rate increase is cynical because the assumption is that other countries should have inflation merely because we have not had the fortitude or the determination to put an end to it.

It is worth remembering that the unusual political stability of West Germany and her resulting very substantial contribution to the stability and strength of he whole free world is due in no small measure to the single-minded and largely sucessful German fight against inflation in all its forms. Does our rescue from the consequences of our own home-made inflation requires that one of the most dependable of our allies permit the erosion of the monetary foundations of its economic and social order?

What must be recognized is that inflation in the United States, and its continued toleration will tend to cancel out any increased advantages our goods may enjoy in foreign markets due to reduced foreign tariffs (assuming our tariff reductions are fully matched abroad). Where U.S. inflationary pressures are greater than those abroad, as they are in respect to the Common Market countries and Japan, United States producers will tend to concentrate their selling efforts in the domestic rather than in the foreign market. They will do so because, given the relatively high level of domestic costs and the associated relatively high level of domestic incomes, sales in the home market yield more profit than sales abroad. Peptalks to American businessmen to interest themselves in the vast opportunities abroad cannot substitute for the fundamental economic incentives for enterprise, whether at home or in foreign markets.

But domestic inflation dampens these incentives. Exports fall off in this situation because the interest in foreign markets diminishes and other countries are increasingly able to undersell and outsell us in third markets. In addition, otherwise exportable resources are diverted to American home consumption because of the inflationary expansion of domestic demand. Conversely, imports tend to rise in a context of inflation, both because they may be more competitive costwise than comparable domestic products and because, apart from price-level differences, they serve to fill the inflationary gap (which occurs when the total monetary claims on a nation's resources exceed what is available to satisfy them).

Occasionally, it is asserted that inflation can hardly be the cause of our present international economic difficulties since the U.S. cost of living (the most commonly used barometer of inflation) has not moved up significant faster than this same index in the countries now drawing off our gold, e.g., West Germany and France. The answer is that the movement of the cost-of-living index (or of other similar indexes) only very imperfectly and partially reveals the extent of domestic inflation. Indeed, it is perfectly possible for severe inflation to coexist with price stability. For inflation need not, though it often does, take the form of rising prices.

Inflationary pressures emerge in the first instance where the economy's liquidity, i.e., the total monetary claims on its resources, is increasing disproportionately to the rate of increase of real, i.e., physcial product. For such overliquidity (or latent excess demand) two principal escape valves, apart from increased savings, are available: (1) a rise in prices, which offsets or absorbs the increased liquidity and/or (2) an increase of imports over exports, which has the same effect. It is precisely our foreign deficits—the excess of imports over exports [6]—which, together with whatever price rises have occurred, reveal the full measure of our homemade inflation. Price stability, in short, is no proof by itself that inflation has been halted.

V

H.R. 11070 is concerned with increasing exports, but it makes no attempt to come to grips with a major and continuing cause of the U.S. balance-of-payments deficit, viz., the outflow of private capital. It is necessary, however, that the cause of this large and rapid outflow of funds from the United States be analyzed and acted upon if the deficit is to be brought under control. The outflow of private capital is, like the relative diminishment of our export surplus, not unrelated to the domestic inflation of costs, prices, and incomes. Entrepreneurs everywhere seek to invest their capital in projects which will yield the highest

[6] Exports are defined here as all transactions which give rise to U.S. claims against other countries; imports are defined as all transactions which give rise to foreign claims against the United States.

return. But returns will tend to be higher—other things being equal—where costs, especially wages, are lower.

While there is, in principle, no reason to be concerned at the outflow of private capital from a country so plentifully endowed with it as the United States, the close dependence of employment upon capital—the instruments of production—cannot be overlooked. Capital outflow, where it occurs in sufficiently large amounts and rapidly enough to depress opportunities for employment of domestic labor, is something about which one has a right to be alarmed, particulalry where the outflow is occurring because inflation makes it uneconomic to invest in the home country.

It is ironic that the same persons who lament the slack in the domestic economy tend to favor precisely that course of action—the toleration of inflation for the sake of alleged growth—which is creating the slack by forcing domestic capital into foreign enterprises. This is not intended to imply that we should raise artificial barriers to the export of American capital or in any other way interfere with freedom of investors to place their money wherever they choose. In this light, it is our contention that to impose a discriminatory tax or undistributed earnings from foreign investments would be a mistake. It would not stop the outflow as such, for the bulk of this capital is not going abroad for tax advantages. It is going abroad because costs of production abroad are substantially lower than in the United States.

If American firms withdrew from foreign production operations, the repatriated capital would not necessarily be used to expand American production of the commodities in question. Rather, foreign firms would move in to fill the vacuum left by the departed American cencerns. The competition of American subsidiaries abroad; that is to say, is not with U.S. producers of the same commodities. It is with other foreign producers. A punitive tax on U.S. earnings abroad would place U.S.-owned firms at a tax disadvantage with their real competitors abroad.

What is important is that conditions within the domestic American economy which are giving rise to what may be an unhealthily large capital outflow should be corrected. It is hard to see how our international accounts can be brought into better balance until these issues and the need for internal reforms which they imply are faced and effectively dealt with; it is, however, even more difficult to see how drastic reductions in tariffs will enable us to deal with them.

VI

In sum, U.S. inflationary pressures coupled with a probable lack of full reciprocity by other countries in tariff reductions make it likely that the Nation will experience an increase not of exports, but of imports. Two important consequences may be expected from such a net increase in imports: (1) The disemployment of domestic labor and other factors; (2) the aggrevation of the U.S. balance-of-payments deficit.

There can be no question but that with a significant portion of the labor force already unemployed and with the existing substantial amounts of unused industrial capacity, a further deliberate disemployment of domestic factors would be a reckless course of action. For this would slow down our already low rate of economic growth, demoralize the labor force, and reduce the output of the economy precisely at a time when the fullest possible mobilization of our potential is required.

The "adjustment assistance" portion of H.R. 11970, which is intended to deal with expected dislocations, represents in our judgment a vast and ill-considered scheme to substitute bureaucratic government administration of business for the private-enterprise system. If the adventures of the U.S. Government in agricultural "adjustment and assistance" are any criterion of what may be expected in this field, the prospect of having such a system applied even more extensively throughout the economy must arouse deep misgivings. Our committee strongly urges the most serious consideration of the ultimate implications—in terms of cost, efficiency, and of survival of the free-enterprise system—of a nationwide dole system such as the proposed legislation envisages.

Even if exports were to increase pari passu with imports, the problems created by the need to transfer resources disemployed by imports to export industries could be severe. Indeed, not all resources now employed in producing for home consumption are so transferable. Certain tools, certain machines, certain factories, certain workers are suited to do one thing only. No amount of "adjustment assistance" will avoid the losses, possibly substantial, that would be suffered here.

It is in any case clear that too sudden disemployment of domestic factors of production, such as would ensue from large and extensive tariff reductions accomplished in a short period, would cause a catastrophic disruption of existing patterns of consumption, production, and employment. It is on this account that our committee strongly urges that the staging requirements of the present bill be strengthened; reduction in duties should be limited in amount to a reasonable figure, say 5 percent a year. This would allow at least some time for a cushioning of the impact on the economy of the inevitable structural dislocations of reduced tariffs.

VII

What is of deepest concern to our committee is not alone the long-run structural consequences of the radical change in our tariffs proposed in H.R. 11970, but the short-run balance-of-payments effects of the anticipated increases in imports. It is these effects, as we are all aware, which demand attention as never before. Clearly, increases in imports at this time, where not accompanied by rises in exports (and such rises, as we have seen, are based on pure hypothesis) can only enlarge our already alarming payments deficit and aggravate the outflow of gold.

In the first 6 months of this year alone, the United States experienced net gold losses of $420 million, bringing the total gold stock of the Nation to a new low of $16.4 billion. For its part, Western Europe increased its monetary gold reserves (excluding dollar assets) to more than $18 billion, thereby clearly displacing the United States as No. 1 in monetary strength. Moreover, European gold stocks are mostly free of short-term liabilities; the U.S. stock, however, is doubly mortgaged, both by the statutory 25 percent gold cover requirement of over $11 billion and by foreign short-term claims in excess of $21 billion.

The crucial question is: How much larger can the cumulative deficit become and how much more gold can flow out before international confidence in the dollar, already on very shaky foundations, collapses, and the pressures leading to a devaluation of the dollar become irresistible? The latter occurrence, it seems fair to assume, would be both a national and an international catastrophe. If our reasoning is correct, the proposed legislation, far from helping to cure the ills of the dollar, may have short-run consequences—an inrush of imports—which could precipitate a flight from the dollar and thereby wreck the monetary foundations of the free world. The alleged gains from the proposed tariff reform legislation are too small and too uncertain by far to justify the assumption of risks of such magnitude.

VIII

To sound the trumpets of tariff reform, as is now being done, appears courageous on the surface. And it is very popular. Who wants to be called a protectionist? In fact, it is taking the line of least resistance, politically and economically. For such action, and the spirit of righteousness with which it can be undertaken, becomes a substitute for facing up to the real issues: the need to undertake internal reforms, to end domestic inflation, to put a stop to wage and price inceases which make our commodities increasingly noncompetitive in world markets, and to establish strict priorities in Federal spending to the end that deficits of the Federal budget shall be avoided.

There is much loose talk about the invigorating and dynamic impact of foreign competition on the domestic economy. We are told in effect that since the abolition of tariffs will increase competition, and since competition is per se good, tariffs ought to be abolished whenever and wherever possible. This seemingly unexceptionable economic truism nevertheless conceals a logical pitfall of the gravest import to the United States. There is a world of difference between the competition which originates within a country and competition which comes from without via imports. The consumer will admittedly be the beneficiary of increased competition regardless of whence it comes. But to the consumer in his ultimate role as jobholder and as sharer in the general health or sickness of the national economy, the domestic or foreign guise which competition may assume cannot be a matter of indifference.

The intensification of competition from within as the result of increased vigilance in the prevention of concentration and more effective legislation to maintain competition both in the labor and in the product markets will normally have the effect of increasing the flexibility and vitality of the system: sales at home and abroad will tend to be stimulated, foreign capital attracted, and job opportunities multiplied. Competition which takes the form of increased imports, on the other hand, while it may in the short run prove to be a boon to the consumer and subject domestic monopolistic excesses to effective restraint comes at a cost: the dislocation and disemployment of domestic factors of production, stagnation of the domestic economy, excess capacity, outflow of capital in search of the more profitable factor combinations available abroad, and—as a result of all these movements—a worsening of the balance of payments situation, increased outflows of gold, and a decline of international confidence in the currency of the affected country.

Let there be no misunderstanding. Competition from abroad is good provided that it does not continue indefinitely to be the dominant form of competition. The latter will be the case, however, where a nation's domestic economic policies inhibit confidence, risk taking, and growth, and where its lack of homegrown competition generates a vacuum which is persistently filled by competition from the outside. To ask for tariff reduction on the grounds that such action will increase competition and at the same time to refuse to correct the basic maladjustments which make the domestic economy internationally noncompetitive is to ask for the administering of a medicine which, while it may banish the symptoms of disease (in this case, reduce domestic manifestations of monopoly) may simultaneously cripple or perhaps even kill the patient.

Since there is no formally stated intention to accompany tariff reforms with the vital internal reforms mentioned above, we believe the passage of H.R. 11970 in its present unamended form to be fraught with severe conomic risk to the Nation.

We object especially to the sweeping powers granted to the President to reduce or eliminate at his sole discretion any or all remaining tariffs on U.S. imports, without review or supervision by Congress. The effect of this would be to substitute arbitrary Executive discretion for rule of law in what is a critical area of national life. The President is also authorized in the proposed legislation "to proclaim such increases in or imposition of, any duty or other import restriction" as he wishes. This means that the incumbent President or some future President could raise tariffs as well as lower them, or impose new tariffs, or subject imports to any kind of other restriction or control he deemed necessary. As someone has remarked, this section of H.R. 11970 is the granddaddy of all escape clauses. By granting such drastic powers to the President, which he could use either for protectionism or free trade, the Congress in effect would be abandoning its sovereignty in matters upon which in the present conjuncture, a very large part of the national welfare is dependent. In the area of tariff reduction, the consequences of any given action are not easy to predict and to estimate; if mistakes are made, the damage to the Nation could be considerable and irreparable. Hence, we strongly urge that any legislation which is enacted provide for adequate review by Congress of the President's actions in this field.

One consideration which has been consistently overlooked in the euphoric glow which has surrounded the discussion of tariff reduction is the possibility that U.S. tariff concessions which are not fully matched by the Common Market countries will result in a diversion of third countries' exports to the United States. It is the part of prudence therefore to amend the present bill in such a way that beneficiaries of U.S. tariff concessions be required to admit goods from Asia, Latin America, and Africa on terms (whether these involve tariffs, quotas, or licensing) equal to those accorded by the United States to these areas. European countries will in this way not be able to continue to exclude low-cost goods from the underdeveloped countries with resulting diversion of such goods exclusively into the U.S. market.

It is important in the above connection to note a similar difficulty which could arise as a result of the so-called 80-percent rule. According to this rule, U.S. tariffs will be abolished on all commodities, 80 percent of the world export of which is accounted for by the combined trade of the United States and the Common Market countries. The intent of this section (sec. 211) of the bill is ostensibly that with respect to certain categories of commodities the United States and the Common Market countries are each principal suppliers, so that elimination of duties as between these two suppliers would not benefit third countries primarily.

But the present bill would allow for the reduction of U.S. tariffs to zero even on commodities in which the trade of the United States accounted for only a small fraction of the 80 percent. However, where the United States is not a significant supplier of commodities falling in the 80-percent category (e.g., in cases where the United States supplies 5 percent and the Common Market countries 75 percent), the reason may be that the United States is not competitive in these product categories with the Common Market countries. Hence, the elimination of duties on such product categories would not benefit U.S. exports. On the contrary, reduction of duties in such case might have the effect of worsening our trade balance in such commodities by making it substantially easier for important third-country suppliers to enter U.S. markets. At the very least, the proposed legislation should be amended to require that at least one-quarter of the 80-percent figure be accounted for by the trade of the United States.

On the same reasoning, it is essential to eliminate from the estimate of export value for the purposes of the 80-percent rule, agricultural surplus crops donated or exchanged for counterpart funds. These exports, which are not a true measure of U.S. export competitiveness, should not be included in data used to determine those categories of commodities for which all tariff protection may be eliminated. Rather, the domestic policies (parity programs) which make such "dumping" necessary should be drastically revised or abolished. Here as elsewhere, what is required for the internal and external health of the U.S. economy is an internal adjustment of basic economic, monetary, and fiscal policies, not an external gimmick such as is represented by tariff manipulation.

We urge, finally, that the grant of powers be in any case limited to 2 rather than 5 years. This will provide each new Congress a chance to examine the record and to determine if changes in the program are indicated.

IX

Our Recommendations

1. The Federal budget should be balanced (by economies in nondefense spending) with the purpose of ending debt monetization and inflation; for inflation raises prices, stimulates imports, reduces exports and employment, and reduces our gold reserves.

2. Our tax structure should be thoroughly overhauled to provide adequate incentives for the modernization of American plant and equipment. The tax burden should be shifted as far as possible from the producers of income and wealth to the consumption and trade sector of the economy. In West Germany's economy, to take that one outstanding example of rapid and steady growth and full employment, more than three-quarters of total tax revenues are derived from consumption taxes and business turnover taxes, less than one-quarter from direct taxes on income and wealth. In the United States, the tax burden is distributed in an exactly opposite ratio, with three-quarters of the tax revenue derived from direct taxes on income and wealth and only one-quarter from consumption and use taxes. We have enjoyed a high-consumption economy as a result, but by the same token we have seriously dampened the incentives that make for growth and prosperity in a free society. We must gain a new appreciation of the truth, long since learned by heart by our European competitors, that it is more important to increase the size of the national cake than to quarrel about the more equal distribution of any smaller cake.

3. Foreign aid funds should be expended in the United States to the maximum extent practical; they will naturally tend to be spent in the United States if domestic inflation is stopped and our goods and services are made otherwise competitive with those elsewhere.

4. Annual productivity gains of U.S. industries should be used primarily to reduce prices, thereby stimulating consumption and employment, encouraging exports, and increasing the real wages and incomes of all Americans.

5. The President should have the authority, with congressional review made mandatory, to negotiate elimination of all trade barriers (not merely tariffs) in amounts and at a rate which will not jeopardize our own economic development and the maintenance of an adequate defense establishment.

We believe that the overriding task of the present hour is for our Government and all citizens to do what is necessary to activate the full and unquestionably enormous potential of the United States. In doing this, we must abandon the techniques and the catchwords which were designed especially for the depression phase of our economic history and which have dominated policy making in the United States in the postwar era.

We must adopt a radically new approach, such as was adopted originally in West Germany, and is now being applied in the other Common Market countries and in Japan, and the results of which are visible to all. It is a "grand illusion" to believe that by knocking down a few already low tariffs we are going to solve all the problems of the U.S. economy at home and abroad. The benefits of H.R. 11970 have been extravagantly overadvertised, in our opinion. Free trade is fine but it cannot save the world. Free trade did not save Europe from the cataclysm of World War I, nor did it insure the economic dominance of Great Britain, the first trade nation. Other more powerful and elemental forces are at work in the world than the law of comparative advantage, valuable though this be. It is the anti-inflationary and anticollectivist free enterprise systems which have emerged in various parts of the free world which are challenging our long dominance of the international economy. If these forces are to be met successfully, they must be met on their own terms; viz, by adjustments of our internal economic and monetary policies, not by engaging all our energies in the tariff issue.

Tariff reductions, coupled with the internal reforms we have specified and within the context of the new approach we have mentioned could go far toward restoring to the United States the economic leadership of the free world of which it is undoubtedly capable. Tariff reductions of the sort envisaged in H.R. 11970, applied without the needed internal reforms, could spell disaster both internally and internationally.

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

Any questions?

Senator DOUGLAS. Mr. Boarman, in your statement——

Mr. BOARMAN. Yes.

Senator DOUGLAS. It is the paragraph:

the dollar glut must be attributed in great part to the persistent failure of the United States to make the internal adjustments, in particular the stopping of inflation.

Mr. BOARMAN. Yes.

Senator DOUGLAS. Do you say that in the last 5 years we have had inflation in the United States?

Mr. BOARMAN. Senator, I would say so. If inflation is defined not as it usually is defined as a rise in any one of the various price indexes, but as an increase in the amount of liquid claims in comparison with the growth of the real product at a given level of prices, I would say there has been substantial inflation and that this inflation is reflected in our balance-of-payments deficits.

Senator DOUGLAS. Well, isn't the real question of inflation the price level? What are the facts concerning the wholesale price level since 1957?

The wholesale price level is the best index. What are the facts on that?

Mr. BOARMAN. I agree, Senator, the prices——

Senator DOUGLAS. Wait now, let's find out what the facts are. What are the facts?

Mr. BOARMAN. The facts about our price levels?

Senator DOUGLAS. Wholesale price levels since 1957.

Mr. BOARMAN. I would—I don't have the figures before me, but from my reading, I would say the wholesale price index and the consumer price index have been fairly stable.

Senator DOUGLAS. Exactly. Not only fairly stable but almost absolutely stable?

Mr. BOARMAN. Yes.

Senator DOUGLAS. I have sent out for the Economic Indicators but as I remember it the wholesale commodity index is only about 1 percent higher now than it was in 1957-58.

Mr. BOARMAN. Right.

Senator DOUGLAS. In other words, we have had almost complete stability.

Mr. BOARMAN. Right.

Senator DOUGLAS. Now, so far as the consumer price index is concerned that has increased at about the rate of 1 percent a year.

Mr. BOARMAN. Yes.

Senator DOUGLAS. But is it not true that the increase has been entirely in the field of services?

Mr. BOARMAN. Yes.

Senator DOUGLAS. And not in the field of commodities?

Mr. BOARMAN. Right.

Senator DOUGLAS. So that really the United States maintained a stable commodity price level for 5 years?

Mr. BOARMAN. Yes.

Senator DOUGLAS. Now, in spite of all this we hear talk about inflation, and I think you in an unguarded moment put that into your statement and I think we should correct this impression.

The United States has had one of the most stable price levels in the world and at the moment it is much more stable than the German price level——

Mr. BOARMAN. Yes.

Senator DOUGLAS (continuing). Which is rising.

Now, we have the Economic Indicators. If you will forgive me, I would like to quote the figures from them. I refer to the table on page 24 of the current Indicators. Well, it is even better than I thought. The index in June 1962 was 100.1. It has risen by only one-tenth of 1 percent over the average for 1957-59 which is 100.

Now, the latest figure for consumer price index is 105.2, with 1957-59 being 100, but for commodities it is only 103, whereas for services it is 109.4, and the increase, of course, of 3 percent in commodities may be due in part to an improvement in the quality. It probably is due, in part at least, to that.

So that I hope that you will correct this impression that we have had inflation. We haven't had inflation, and we have had on the whole the most stable price level in the world.

Mr. BOARMAN. May I answer that, Senator?

Senator DOUGLAS. Surely, of course.

Mr. BOARMAN. I accept all that you have said. There is no question about the fact that the various price indexes we have used in the past years have been stable.

But if you go back to my remark at the beginning: We have had inflation only if inflation is interpreted as a rise in the price level.

Senator DOUGLAS. That is the only interpretation that has been attached to it.

Now, if you give it an entirely different interpretation——

Mr. BOARMAN. I agree there is almost universal belief that inflation can be measured by changes in the price level, and yet I think where you have an open economy, where inflationary pressures can be absorbed by imports or by the consumption of exportable resources or by the export of capital that this definition of inflation is inadequate for the elaboration of economic policy.

If you will permit me, Senator, may I just quote one paragraph from my full statement where I dwell on this particular point?

Senator DOUGLAS. Yes.

Mr. BOARMAN. This is in the full statement——

Senator DOUGLAS. In the statement you read?

Mr. BOARMAN. No, the statement I read is the summary and the full statement is attached to that document.

Senator DOUGLAS. I see.

What page?

Mr. BOARMAN. Page 9, the bottom paragraph. I say there:

> Occasionally, it is asserted that inflation can hardly be the cause of our present international economic difficulties since the U.S. cost of living (the most commonly used barometer of inflation) has not moved up significantly faster than this same index in the countries now drawing off our gold, for example, West Germany and France. The answer is that the movement of the cost-of-living index (or of other similar indexes) only very imperfectly and partially reveals the extent of domestic inflation. Indeed, it is perfectly possible for severe inflation to coexist with price stability. For inflation need not, though it often does, take the form of rising prices.
>
> Inflationary pressures emerge in the first instance where the economy's liquidity, that is, the total monetary claims on its resources, is increasing disproportionately to the rate of increase of real, that is, physical product. For such overliquidity (or latent excess demand) two principal escape valves, apart from increased saving, are available:
>
> (1) A rise in prices, which offsets or absorbs the increased liquidity; and/or
>
> (2) An increase of imports over exports, which has the same effect. It is precisely our foreign deficits—the excess of imports over exports [1]—which, together with whatever price rises have occurred, reveal the full measure of our homemade inflation. Price stability, in short, is no proof by itself that inflation has been halted.

And I would add to that the very interesting data which are available from the European experience, since we are dwelling on this so much lately.

In France during the period when there were substantial budget deficits in the French Government accounts there was a rise of prices but it was a relatively modest rise of prices compared to price rises going on in surrounding countries, including West Germany.

But what France was experiencing, which the other countries were not, were enormous deficits in the balance of payments, and this was the real French problem. It was the reason why the French had to continually get loans from the EPU and come to the United States for aid. It was when the French stopped budget inflation, and eliminated the annual deficits, that the French balance of payments turned around.

In other words, French excess demand was absorbed by imports rather than causing domestic prices to rise. Where we have an open economy, and we have an open economy in the United States, this consideration becomes increasingly important.

Senator DOUGLAS. I hope you will forgive me if I say this is a very tortured definition of inflation. I never heard it before.

[1] Exports are defined here as all transactions which give rise to U.S. claims against other countries; imports are defined as all transactions which give rise to foreign claims against the United States.

On the question of the ratio of liquidity, that is the total monetary claims to resources, increasing disproportionately on the fiscal side, we have a figure on the increases in private demand deposits.

That increased from 128 billion at the end of 1953 to 145 billion for the second half of this year or 17 billion or 12 percent, whereas the gross national product in terms of constant prices increased from $429 to $545 billion or an increase of $116 billion, and if I can divide, and I am not very good at dividing, an increase of 27 percent. So that you had an increase of money claims of only 12 percent as compared to an increase in real product of 27 percent.

And I am using 1953 as a base. Not 1946. In other words, the growth in the money supply in the last 10 years has been appreciably less than the growth in the real gross national product.

Mr. BOARMAN. Do you define "money supply" as including velocity of circulation of money?

(Supplemental remarks submitted for clarification.)

Everything depends on the velocity of circulation of the "money supply." This is a factor which cannot be left out of account in estimating the effects on levels of demand of changes in money supply. It is perfectly possible for the "money supply" as such to remain constant or even to decrease in relation to physical product and yet for price rises and/or deficits in the balance of payments to be incurred if the velocity of circulation of money is increasing.

While I am not able to give you the relevant statistics for the United States on this point, plenty of evidence is available from the experience of Western Europe of which I have made a special study. Thus in Great Britain in the years 1954–58, the money supply grew hardly at all in relative terms and yet prices rose fairly rapidly because of increases in velocity of circulation. Funds previously held as idle balances were apparently being put into circulation. In France, a very large increase in the money supply occurred but the prices did not rise excessively because the bulk of the excess demand was being satisfied by imports (and ultimately by balance-of-payments deficits). Contrariwise, in Western Germany the very large increase in the money supply in that country, due to the influx of specie from abroad, was not attended either by price rises of any significance or by noticeable increases in imports. This was due to the fact that in Germany the velocity of circulation was drastically slowed as money was withdrawn from circulation (that is, saved by the Government in the form of its budget surpluses and saved by private citizens).

To repeat: figures on money supply and physical product considered by themselves do not tell us the full story concerning the level of effective demand in relation to supply (at constant prices) in a given case.

Senator DOUGLAS. That is right. Well, I suggest you think these things over. I don't wish to be disagreeable, but I hope you will forgive me if I go into this question of the balance of payments.

There is also an index in the indicators on page 21 of merchandise exports and imports. Everyone knows that so far as commodities are concerned we have a favorable balance of payments.

I think that the ratio is something like 18 to 15 for a favorable balance of about 3 billion, and this has been our position throughout the period. We have an unfavorable balance of payments, because this favorable balance of trade is offset, first, by foreign aid; second, by the direct cost of the Military Establishment largely in defense of Europe; third, expenditures by dependents, by American troops overseas and dependents of American troops overseas; fourth, the export of capital; and fifth, foreign tourism.

Now, it is also clear that so far as the defense of Europe is concerned and the expenditures by American troops overseas are concerned, these items are incurred in large part because Europe is not making very large contributions to defend itself.

The Germans have just refused to increase their army to 750,000 men. They have a much smaller ratio of men under arms than we have, I think 750,000 would still give them a slightly smaller ratio than ours.

I think no one quite knows, because I take it this is somewhat classified, what the total number of men under arms Germany has but I think that in relation to population it is only half ours and, although it is hard to figure out about the French, they have refused to contribute more than two divisions to the NATO army.

Great Britain has withdrawn a large portion of her troops from the continent, and I think it can be argued that a large part of the favorable budget position of West Germany and now, you say, of France, is due to the fact that they have not been making their contributions to the defense of their own continent, and if they are concerned about American deficits, as they say they are, they could make a splendid contribution to this by helping to defend themselves in more adequate measure.

Mr. BOARMAN. I think you are quite right in your statement that we are carrying perhaps an unduly heavy share of the defense burden.

But, would you not agree, Senator, that the very fact that West Germany and France have taken steps to reform their internal economies, to bolster their economic strength domestically, and to do the other things that make their political and economic systems healthy and viable is a very major contribution to the strength of the Western World?

Senator DOUGLAS. In what ways have they reformed their economy?

Mr. BOARMAN. I think you are familiar with the German, the early German, reforms, the monetary reform, and the adoption in Germany of what they call the "Social Market Economy."

Senator DOUGLAS. I believe in a stable price level.

Mr. BOARMAN. Yes.

Senator DOUGLAS. I believe in a stable price level.

Mr. BOARMAN. I think the French reforms are the most dramatic of all, they are the most recent. These have taken the form of reform of the French budgetary expenditures and I think very importantly of efforts to reinvigorate the French economy by increasing its competitiveness.

Jacques Rueff, the adviser to the French Government, has issued a report in which these various reforms were spelled out, and the British are now engaged in doing something of the same kind, in establishing a restrictive trade practices court, moving in the direction of greater competitiveness. I think all of these things are valuable for us; I think they help us. At the same time I would agree that these countries should assume a larger burden.

I don't see, however, Senator, how this relieves us at the present time of the responsibility of taking steps to get our own accounts in order.

The fact remains that we do have a balance-of-payments deficit which will require action on its own, on its own terms. Our favorable balance of trade is not large enough to take care of these additional responsibilities, and while we can argue that other countries should and ought to contribute more to the common defense, the present short-run problem is, I would say, a critical one, requiring us to do something to put an end to the deficits in the balance of payments or to do whatever we can internally that would help toward that end.

Senator DOUGLAS. Well, national virtue is comparative and I must say I was not irritated but I was a little bit pained to find you holding up the European governments as exemplars of virtue and the United States as the great sinner when the truth of the matter is we have had a more stable price level than any of these countries. We had a favorable balance of trade and would have a favorable balance of payments were it not for our great concern for the defense of the free world, and also I think an undue desire to conciliate the three great powers of Western Europe, namely, West Germany, France, and England.

I think the time has come for some very straight talking with those gentlemen. I believe in the NATO alliance very strongly, but I think they have taken advantage of us, and played upon the inferiority complex of certain Americans and upon the guilt conscience which Christian ethics in this country give to many of us.

There is one final point on this budgetary question. I asked the Bureau of the Budget to make available a study which is being made under their auspices of the various budget deficits particularly with a view to putting the budgets of our country and the other countries on a comparable basis.

As you know, the European budgets almost uniformly do not include capital expenditures, except possibly the French budget for a time did, and we do include capital expenditures.

Now, their report is now available. I have made it available to the Congress and have spoken about it on numerous occasions.

The facts are that on a comparable basis, West Germany had deficits 4 out of 6 years, from 1954 to 1960. I haven't got the figures from 1961. But I think she's currently running a deficit if you include capital expenditures.

France has had a deficit every year, after De Gaulle as well as before De Gaulle. The British have had deficits in all except, I think, 2 years, 2 or 3 years, and our record on that basis, if you put the figures on a comparable basis, is better than the record of the European governments, but somehow they are able to mesmerize the financial writers, the bankers, and I am afraid, I am sorry to say, some economists into their views.

You seem like a very nice fellow. I hope you don't succumb to these seductive arguments.

Mr. BOARMAN. The German budgetary surplus in 1956 which was the peak year for their surplus, as they estimate it, was in the neighborhood of 7 billion marks, and it seems hard to believe that this amount would disappear simply by using a different accounting system.

Senator DOUGLAS. Well, I will send you this report, if you have not already seen it. I think it is accurate.

I think there is a good deal to be done to get competition in this country. I agree with you on that, although I always am struck with the fact that a good many people single out the labor unions as a source of monopoly and don't mention the fact of so many industries being dominated by one, two, or three concerns and seem to ignore such evidences as brought out in the confessions of guilt in the electrical equipment case up in Philadelphia.

Mr. BOARMAN. I referred in my statement to both business concentration and labor union monopoly.

Senator DOUGLAS. I quite agree with you we should try to get more competition inside the country.

Mr. BOARMAN. May I ask one small question, Senator?

Senator DOUGLAS. Surely.

Mr. BOARMAN. You mentioned the ability of these countries to support increased contributions to defense. The German position is a very peculiar one, and it has been for some years, in that the Germans have been accumulating riches in the form of gold and foreign exchange. This so-called wealth of the Germans has consisted really in a mounting horde of specie——

Senator DOUGLAS. That is right.

Mr. BOARMAN. For which they have exported real capital in the form of goods and services in very substantial amounts.

Senator DOUGLAS. That is right.

Mr. BOARMAN. I think there is some misunderstanding in the way we talk about all this German gold. There is a mercantilistic bias in our interpretation of the German accumulations of specie as wealth.

Senator DOUGLAS. They hold them in New York banks for which they get a rate of interest. They are short-term securities, and they hold us at their mercy by threatening at any time to call them and ask for gold, whereas our investments in Germany to a degree are long-term investments which are not liquid, and which cannot be called.

So that if you refer to the international currency movements as national trials of strength, the German strength is in large part the fact they have their holdings in short-term deposits, and so they can issue these mandates that we must put our house in order, and assume a very virtuous attitude, Mr. Blessing did last year at the meeting of the international monetary authorities.

He scolded us in a thinly disguised statement, and the extraordinary thing is he seems to be able to convince some Americans of it. In fact, I sometimes think the American bankers stir him up, they use him as a sounding board with which to try to influence American domestic policy.

This may be uncharitable on my part. But it is not wholly unsubstantiated.

The CHAIRMAN. Any further questions?

Senator DOUGLAS. Thank you.

The CHAIRMAN. The Senator from Illinois has brought up the question of gold. It is an actual fact, is it not, that a few years ago, we had about $26 billion in gold?

Mr. BOARMAN. Yes, sir.

The CHAIRMAN. And we now have less than——

Mr. BOARMAN. 16.4.

The CHAIRMAN. Were the foreign nations responsible in any way for the loss of that gold?

Mr. BOARMAN. I would say it was the juxtaposition of our policies and our situation with theirs, which resulted in this outflow.

The protectionist objection to free trade has been that American wages are higher than foreign wages and that we therefore need protection. The free trader's answer to that is that we don't need protection because we are more productive. However, there has been a change in the productivity ratios between the United States and Europe.

The CHAIRMAN. What I am getting at, the Senator from Illinois was trying to say the foreign nations were trying to discipline our country with respect to financial matters.

As a matter of fact, we voluntarily offered in settling these balance of payments to give gold for dollars.

That is right, isn't it?

Mr. BOARMAN. Yes.

The CHAIRMAN. And when they exercise the right to take gold which they have been doing very freely of late, they are doing it with our consent.

Mr. BOARMAN. Yes.

The CHAIRMAN. So I don't see exactly how they have had anything to do with it. I regard the continuing loss of gold as being one of the great problems confronting our country.

Mr. BOARMAN. I agree.

The CHAIRMAN. I can't envisage any time in the near future that this imbalance of payments will be corrected.

Mr. BOARMAN. As a matter of fact, these countries have been showing, in recent months, considerable forbearance in not demanding gold from us.

The CHAIRMAN. They have a forbearance but if you have a run on the bank, people don't exercise forbearance, either individuals or nations. As long as we continue to be the Santa Claus of the world, and the banker of the world, and the policeman of the world, we are going to be unable to correct this imbalance of payments, as I see it.

Have you any ideas as to what could be done to correct that imbalance?

Mr. BOARMAN. Well, some of these recommendations we have spelled out in our full statement. I would say that there are many things that we could do to put our balance of payments aright, many things we could do domestically to make our economy more competitive, to make it operate more efficiently. I think one of the major problems in the United States today is the lack of confidence, the confidence factor, the uncertain climate in the business community.

The CHAIRMAN. The Senator from Illinois very correctly stated the five reasons why we have an imbalance of payments. I don't follow you in that you have made a suggestion that would correct any one of them.

What about the troops abroad? What about the foreign aid? What about the industries abroad, and the money the tourists spend?

Mr. BOARMAN. Senator, I would think that some capital outflows, such as for our Military Establishment abroad, are very difficult to do much about. We can do something. But I don't think that this is the heart of the problem, I don't think we can eliminate or that we should eliminate our Defense Establishment abroad. I don't think we should do that.

I think that we ought to try to make the difference between our commodity exports and our commodity imports bigger because if we can do that then we can afford to carry the minimal obligations that we have in other parts of the world.

And making the gap between exports and imports larger can be done most effectively by operating on the domestic economy.

The CHAIRMAN. That is what we have been trying to do for many years, haven't we?

Mr. BOARMAN. What is that, sir?

The CHAIRMAN. We have been trying to increase our exports ever since I have been in Congress, which is 30 years. We have increased them some; but on the other hand the imports have increased, too, because we are in a competitive position whereby the labor costs in Europe are perhaps three times our labor costs. I was in Japan last December, where the textile plants are paying 28 cents an hour. They had cots in the textile plants—all of which, let me say, were rebuilt with American money—of the latest equipment. I asked them what the cots were for.

"Well," they said, "if we have extra work to do, then the women who work in these plants, can take a nap, and start to work again."

"Well," I said, "what about overtime?"

He said, "We don't have any overtime in this country."

Is that correct?

Mr. BOARMAN. I think that is one of the fundamental things.

The CHAIRMAN. You have a competitive position there.

Mr. BOARMAN. That is right.

I think the wage differential——

The CHAIRMAN. It is all very well to talk about increasing the exports, but you have to get down to the facts of life, and to do it in a way that you can sell abroad and all that.

If we have to rely entirely on increasing the exports to correct this imbalance of payments, I would feel very hopeless about the situation for the years ahead of us. If we don't increase it, sooner or later, it may be impossible for us to offer gold.

What would be the result then when we settle our international payments if we can't offer gold for dollars, gold being at $35 an ounce.

What would be the result?

Mr. BOARMAN. The result of that would be, I think, a liquidity crisis.

The CHAIRMAN. It would be the greatest catastrophe that could happen to the free world, wouldn't it? It is only with forbearance of these large nations that would be injured, not to the extent we are but would be injured to a larger extent than we are, that they haven't taken the gold.

They have taken a large part of it. Ten years ago we had 75 percent of the gold in the world.

Now, we have 40 percent. That is a big difference in the space of 10 years.

Mr. BOARMAN. I agree.

The CHAIRMAN. Any further questions?

Senator DOUGLAS. May I ask another question?

The CHAIRMAN. Yes.

Senator DOUGLAS. Mr. Boarman, I have now had a chance to look over the figures on merchandise exports and imports which came in to me just as I was starting to ask you some questions.

I will ask these questions and pass the figures down to you for checking. It is sometimes said, for example, that our favorable balance of trade is due primarily to the export of agricultural products, not of manufactured products. But on page 21 of these current indicators, there is a classification of merchandise exports excluding mutual security program shipments, and the final column gives finished manufactures in terms of monthly averages, and for 1961 on a monthly average it was $911 million, which would be just around $11 billion on a yearly basis; that is for the exports of finished manufactures.

The imports of finished manufactures were $423 million on a monthly basis, which would be just about $5 billion. So that these figures seem to indicate that in terms of finished manufactures we are exporting twice as much as were are importing.

For May of 1962 these corresponding figures were $1,740 million, and contrasted to $510 million, again more than twice, or on a yearly basis around $13 billion a year as compared to 6.

I will send these down to you, and wondered if you would be willing to comment on them. They are on page 21, the right-hand page.

Mr. BOARMAN. These figures, in effect, show absolute totals for the United States——

Senator DOUGLAS. In terms of finished manufactures?

Mr. BOARMAN. In finished goods.

Senator DOUGLAS. We have been exporting twice as much as we have been importing.

Mr. BOARMAN. Yes, that is correct.

Senator DOUGLAS. How can you say that we are pricing ourselves out of the market on manufactured goods?

Mr. BOARMAN. I didn't say that, Senator. I didn't say we were.

Senator DOUGLAS. What did you say we were pricing ourselves out of the market then, not on agriculture goods, not on finished manufactured goods, what is it?

Mr. BOARMAN. I don't have the statistics here, but I think that a record of the relative change in the shares of our markets in other countries would show that our position has deteriorated since 1950.

Senator DOUGLAS. The world was flat on its back in 1950.

Mr. BOARMAN. Or even from 1955. I think there has been a steady deterioration in terms of shares, not in terms of absolute amounts of exports and imports. There is no question about the fact that the United States is still a very effective competitor in the world markets.

My concern is with the relative change in our ability to compete in the other countries and if we had maintained the same share of the world market that we had then we wouldn't have had the balance-of-payments deficit.

Senator DOUGLAS. Mr. Boarman, the industrial plant of Germany was destroyed as a result of the war. The industrial plant of France was badly damaged. The industrial plant of Belgium and Holland was injured, and the industrial plant of England was greatly crippled.

You just could not expect those countries who were flat on their backs to stay that way. We wanted them to recover both absolutely and relatively.

Granted we need to be more competitive, nevertheless we don't need to be apostles of despair.

Mr. BOARMAN. No, I agree. I think we have to recognize that these changes to some extent would have occurred, but that this means we are placed under all the greater pressure to trim the fat domestically wherever we can so that we will not deteriorate any further.

Senator DOUGLAS. Well, as a general proposition I agree with you, but sometimes these statements made in such extreme form are such as to give a feeling of hopelessness and very frankly to lend themselves to political use, which I think is unfortunate, and I am sure that you do not want to do.

The CHAIRMAN. Any other questions?

Thank you very much, Mr. Boarman. You have made an excellent witness.

Mr. BOARMAN. Thank you.

The CHAIRMAN. The next witness is Mr. Gerald R. Coleman of the United Hatters, Cap, and Millinery International Union.

You may proceed, sir.

STATEMENT OF GERALD R. COLEMAN, EXECUTIVE SECRETARY, THE UNITED HATTERS, CAP & MILLINERY WORKERS INTERNATIONAL UNION

Mr. COLEMAN. Mr. Chairman, my name is Gerald R. Coleman. I am executive secretary of the United Hatters, Cap, and Millinery Workers International Union.

I come here to speak on behalf of the 40,000 workers in our industry who are organized in our crafts. I speak precisely to two segments of our industry, and I think it's important that the members of the committee get some visual impression of what I talking about.

First, we are going to talk about a hat body. This is a hat body. And this is a toyo cloth cap. In the previous testimony this morning I think Mr. Sharp's representative pointed out that there were but 15 industries in the United States who were the beneficiaries of the escape clause action in past years.

Our industry, the hat body industry was one of those 15. We are somewhat concerned in reading the prior bill that the language of the present bill talks about future escape clause action.

We are hopeful that this committee and the Senate will take cognizance of the fact that if someone were previously in danger, and can establish that he is presently in danger, that haven of the escape clause should still be present, and we would like you to make certain that some language changes are put into the bill that would, at least, take cognizance of previous action of this sort.

Now, I call to your attention something else. In table 1 of my statement I point out how, what has happened to our industry.

In 1950 we got escape-clause action because the imports were downing the industry, and the President issued an appropriate order.

The order covered hat bodies coming in at over $9 a dozen and under $24 a dozen.

Lo and behold, within the next year, and I point to table 2, the importers proceeded to change the price of their commodity, we think artificially—we haven't been able to establish it—and proceeded to dump their product at an artificial price of $8.98 and came in and have continued to slaughter the domestic industry.

We think that this case of dumping could well be investigated. We don't have the accounting resources to go in and check the records of the importers, and the exporting factories in Italy who have been doing this.

We do know that their industries, while they sell their commodities in the United States at $8.98 a dozen, are selling them in West Germany and in Austria at $12 to $15 a dozen.

This we do know. We think—of course we can't prove our case in a court of law. It needs the investigative authority of a Government agency to do this, and we think this is needed, an investigation of this type in this area.

Now, I speak to another point, the toyo cloth cap.

The American-made cap at its cheapest can be made for $5.50 a dozen. The Japanese are bringing them in today at $1.25 a dozen.

Senator Byrd pointed out on his visit to the dormitory factories and the wage level in Japan the very evidence of why this is possible.

We think that there is something else that this Senate Finance Committee can look into. I think we can take an example of the Common Market countries. As you recall the other day, and we haven't seen the economic analysis of it, but the other day there was a report that in the adjustments of the agricultural commodities within the Common Market countries, the individual countries were adopting levies which would take into consideration the wage levels and other cost factors of production.

We think that this present foreign-trade bill might adopt some similar formula on all commodities, to adopt this levy technique to equalize what we think is the unfair wage pattern.

At least let us compete on an equal level, let us compete on our ingenuity, on our productivity, but not on our ability to exploit labor.

I think that in this particular area, this example is quite pertinent. I think we have documented in some detail, before other committees of the House, and the Senate committee, the details of our position.

I don't want to take the time of this body except to ask for these two facts: an investigation of the possibility of adopting a levy to take cognizance of differing wage levels, and two, to take cognizance of the escape clause in terms of industries who have previously received escape-clause protection to make certain that that protection is continued in this present bill.

Thank you for your time.

The CHAIRMAN. Thank you very much, sir.

(The prepared statement follows:)

STATEMENT BY GERALD R. COLEMAN, EXECUTIVE SECRETARY OF THE UNITED HATTERS, CAP & MILLINERY WORKERS INTERNATIONAL UNION, BEFORE SENATE FINANCE COMMITTEE, AUGUST 6, 1962

My name is Gerald R. Coleman. I am the executive secretary of the United Hatters, Cap & Millinery Workers International Union, an affiliate of the American Federation of Labor and Congress of Industrial Organizations.

The injuries sustained by the domestic hat, cap, and millinery industries because of import competition during the past decade have been so great as to leave these industries in a precarious position. The danger of extinction is great. The proposed trade bill, H.R. 11970, which seeks to increase the volume of U.S. foreign trade, requires ameliorative amendment to protect the unique economic position of the domestic hat, cap, and millinery industries.

One of the most seriously affected parts of the industry, men's hats, which produces fur-felt hat bodies for both the men's and women's hat-finishing industry, and also straw and wool hats, presents a dismal picture of a whole industry faced with bankruptcy if the trade bill is enacted as proposed.

The number of production workers in the fur-felt branch of the men's hat industry had dropped from 14,515 two decades ago to 5,200 in 1958. Since 1958 the number has been further reduced by forced liquidations. It is unnecessary to dwell on the extent of the losses sustained by the industry in other areas. Suffice it to say the industry now consists of four major men's hat manufacturing companies, employing altogether less workers than one of them, the John B. Stetson Co., employed years ago. One after another of the companies which two decades, or even a decade, ago, were in operation, have been compelled to retire from the field.

This situation has been caused in the main by unscrupulous competiton from abroad. This matter has been the subject of a previous escape-clause action in 1950 on which the Commission and the President acted favorably. However, the relief thought to have been afforded by withdrawing concessions which had previously lowered the duties failed to materialize.

The restoration of former duties in 1950 was limited to certain price brackets contained in the Tariff Act, and following the restoration of these duties the benefits we had hoped would result were nullified by the foreign manufacturers' studied evasion of the law. Since the increase in duties affected the price brackets beginning at $9 per dozen, the foreign exporters reduced the price of the $12-to-$15-per-dozen bodies to $8.95 per dozen. Thus, in 1950, the year before the "escape clause" action became effective, the percentage of hat bodies imported under the classification of less than $9 per dozen was 1 percent of total imports of hat bodies. In 1960, 58 percent of the total imports of hat bodies were brought into this country under the less-than-$9 classification (see table II).

While imports poured into this country in ever-increasing quantities, the market for the consumption of all products, whether foreign made or domestic, was shrinking (see table I).

The lowest price at which these imported hat bodies can be made in the United States is about $14.95 to $15 per dozen. It is important to note that this differential is not due to the fact that foreign producers get their raw material locally or can buy it at a lower price than the domestic manufacturers. The fur, which is the principal raw material used, is bought in the world market, the prices for which are the same to all manufacturers, regardless of where they are located. The advantage, the sole advantage, is labor cost. Yet, we know that even with wages of 35 cents an hour, these foreign manufacturers cannot sell these fur felt hat bodies at $8.95 per dozen and make a profit. The same number of workers and machines are necessary to produce these hat bodies no matter where they are manufactured. The identical production process is employed in making these hat bodies no matter where the manufacturing site is located (except that in the United States the use of the poison, mercury, to give the felt a gloss and sheen, is prohibited, whereas it has widespread use abroad). We know that when these same manufacturers sell to other European countries, there is a substantial rise in the price.

Thus, regarding the importation of fur felt bodies, we ask that H.R. 11970 be amended so as to continue the protection afforded by the Presidential proclamation of 1950, and this protection extended to cover all price categories in relation to fur felt bodies.

This is not an industry where any one country has an advantage over another because of unique natural resources. The history and character of the economic situation of the domestic fur felt hat body industry, as above described, requires special consideration.

Toyo Cloth Caps

Prior to 1951, cap imports from Japan were virtually unknown. The domestic industry imported toyo cloth from Japan, a kind of processed paper which was used by domestic manufacturers for the production of sports or leisure caps worn by men and women. Japan is the only supplier of this material.

However, in 1952 Japan began copying the caps made by American manufacturers. The caps from Japan are identical with those made here since the material is the same and the workmanship is comparable (exhibit A, show caps). The only difference between Japanese and domestic caps is the price.

When Japanese caps first began entering our market, they were sold to the retail jobbing trade in the United States for $2.85 per dozen. It cost the New York cap manufacturer at that time $5.41 to make the identical cap. The New York manufacturer has to get at least $6.50 per dozen to cover his costs and make a minimum profit, since materials cost $1.87 and direct and indirect labor costs amount to $3.54.

Since the Japanese caps were identical with those made in the United States, the result was immediate and disastrous for the American manufacturer. In 1953, when the caps were first introduced into the American market, 400,000 dozen were imported. By 1954, the figure doubled to 800,000 dozen, and in 1955, it reached 1,500,000 dozen. By 1956 the imports mounted to 1,900,000 dozen.

In 1957, the Japan Textile Products Export Association adopted a self-imposed quota system. Although imports declined to 961,258 dozen by 1960, the relief has not been sufficient to our industry because of the general decline of cap wearing in this country during this period, and because the Japanese manufacturers had already saturated the domestic cap market. As a matter of cold, hard fact, the manufacture and sale of spring hats, which occupied our workers in previous years from October through February, has now been all but eliminated by Japanese competition.

The rise in imports had been facilitated by a steady decline in the price of Japanese toyo cloth caps. The price in 1953 was $2.85 per dozen. The price has continued to drop during the years until today they are sold for about $1.25 per dozen. In fact, the price is so low that in some parts of the country these caps are given away free as promotional devices.

Workers in the domestic market receiving up to $2.25 an hour, exclusive of fringe benefits, cannot hope to compete with products of Japanese workers whose wages, inclusive of fringe benefits, amount to less than $0.15 an hour. Further, there is absolutely no question about there being a lack of efficiency either on the part of the American capmaker or the American cap manufacturer. Our industry has the productivity know-how, good machinery, and skilled workers. Yet this is not sufficient to offset the advantages Japanese competitors have because of low, substandard wages.

The effect of the substantial quantity of Japanese toyo caps being imported into this country can be most dramatically revealed in the number of shops producing summer and toyo cloth caps. In 1952 there were 102 shops; by 1956 there were only 54 shops producing these caps. The number has declined steadily to the point where many manufacturers have gone out of business and others have gone into jobbing Japanese caps.

Not only is the low price of the toyo cloth cap an important factor in the virtual destruction of the domestic summer cap industry, it must also be pointed out that toyo cloth, although stiff in texture, can be considered a substitute for cotton caps. In fact, toyo cloth has enjoyed a healthy consumer acceptance as a substitute for cotton on the basis of low price and high quality. It should be noted that many Japanese toyo caps are considerably more decorative than American cotton caps. The decorations are prohibitive in the U.S. industry because of high labor costs.

An effective avenue of relief for our industry would be the reclassification of these caps so that they will be brought under a section of the Tariff Act which deals with headwear. Toyo cloth caps are made, as we have stated, of a processed paper. Through an oversight, when the Tariff Act of 1930 was written, caps of this material, unlike hats, were not placed in the headwear paragraph of the act. For duty purposes, they are classified under the paragraph dealing with miscellaneous paper products. We consider this an improper classification.[1] If a reclassification could be made it would help to some extent, but efforts along this line, through legislation introduced in the House of Representatives, have been unsuccessful. The State Department has opposed this legislation mainly because it would increase the duty, which the Department stated was contrary to our policy.

We suggest that what is required is a quota restriction in addition to any relief that might be possible by an increase in duty, although our industry is certainly not in a position to absorb any quantity of foreign-made caps. This quota restriction would enable the Japanese manufacturer to have some

[1] Exhibit B.

part of the market he did not have in 1951. It would also enable the domestic industry to regain some part of the cotton cap market it lost to toyo caps imported from Japan.

TABLE 1.—*Women's fur felt hat bodies—Percentage of domestic production and imports to domestic distribution*

Year	Domestic production (dozens)	Imports (dozens)	Total distribution (dozens)	Domestic production as a percent of total distribution	Imports as a percent of total distribution
1937	1,026,838	52,493	1,079,331	95.2	4.8
1938	1,017,230	33,294	1,050,514	96.8	3.2
1939	959,946	6,370	966,316	99.4	.6
1940	859,770	1,025	860,795	99.9	.1
1941	777,760	675	778,435	99.9	.1
1942	617,163	353	617,516	99.9	.1
1943	577,510	507	578,017	99.9	.1
1944	485,830	21	485,851	100.0	
1945	490,265	78	490,343	100.0	
1946	632,120	36,911	669,031	94.5	5.5
1947	492,170	15,983	508,153	96.8	3.2
1948	562,082	44,647	606,729	92.6	7.4
1949	565,767	120,587	686,354	82.4	17.6
1950	646,260	260,081	906,341	71.3	28.7
1951	768,190	121,116	889,306	86.4	13.6
1952	752,610	115,961	868,571	86.7	13.3
1953	743,310	131,356	874,666	85.0	15.0
1954	401,244	120,796	522,040	76.8	23.2
1955	361,390	133,572	494,962	73.0	27.0
1956	347,548	129,398	476,946	73.0	27.0
1957	252,384	142,880	395,264	64.0	36.0
1958	177,976	140,383	318,359	56.0	44.0
1959	153,591	160,982	314,573	48.0	52.0
1960	176,437	155,895	330,063	53.0	47.0
1961	160,368	122,674	283,042	57.0	43.0

TABLE 11.—*Women's fur felt hat bodies, imports under $9 per dozen as a percent of total, 1950–61*

Year	Total imports (dozens)	Imports under $9 per dozen (dozens)	Under $9 as a percent of total imports
1950	260,081	2,879	1
1951	121,116	22,993	19
1952	115,961	59,799	52
1953	131,356	35,234	27
1954	120,796	56,949	47
1955	141,271	79,836	57
1956	129,398	27,541	21
1957	142,880	30,592	21
1958	140,383	77,779	55
1959	160,982	89,765	56
1960	155,895	90,377	58
1961	122,674	58,585	48

The CHAIRMAN. The next witness is Daniel K. Jahnke, American Wire Weavers Protective Association, United Papermakers & Paperworkers, AFL–CIO.

Take a seat, sir.

STATEMENT OF DANIEL K. JAHNKE, SECRETARY-TREASURER, AMERICAN WIRE WEAVERS PROTECTIVE ASSOCIATION, UNITED PAPERMAKERS & PAPERWORKERS, AFL–CIO

Mr. JAHNKE. Mr. Chairman and members of the committee, my name is Daniel K. Jahnke, and I am a wire weaver from Appleton, Wis., and also secretary-treasurer of the American Wire Weavers Protective Association, a craft union of wire weavers.

My friend with me today is a wire weaver from a plant in Brooklyn, N.Y.

We are here representing a trade union in a trade that is forgotten by the Nation until it is at war, the wire weaving trade.

I venture to say we are so little known that one of our members easily could stump a panel on the television show, "What's My Line?"

In fact, we not only represent the wire weavers of America today, we are one of them.

We are here today as full time journeymen wire weavers ourselves.

As we have pointed out in our brief, we cannot make all the paper and paper products on the market today without the woven wire cloth we weave. The paper industry happens to be the fifth largest industry in the United States, too.

However, we believe the new Trade Expansion Act will damage our trade and the industry beyond repair.

Let us report to you that we are here at our union's request only. Every one of our members are behind this and are hopeful you will understand our situation. Our manufacturers have not requested us to appear. In fact, we would have refused to come solely at their request.

Yet, we believe they also will be appreciative if we get our message across.

We sincerely believe the wire weaving trade would become extinct if the Trade Expansion Act becomes law. We would become unemployed and our companies would go out of business, the smaller ones first as was the case in the twenties, under a 15-percent tariff rate.

Because of this, it is reasonable and important for us to want the protection of a higher tariff. Removal of the tariff as proposed will not afford us the opportunity to trade with the Common Market countries or others because our costs are not equal to or close to equal to theirs.

The bill, as outlined by the State Department, seeks to protect wage earners in the skilled and better paid industries.

We are in that category, since our wages are on the average four times that of German wages, and more than that compared to other countries.

We do not seem to be listed in any way in any reports, to our knowledge. That is why we are here before you today to present to you an inside view of our unique problems, because we want to be known to this committee so that something can be done to save us from the no-consideration approach we fear we might otherwise get.

In simple truth, we fear if we had not come before this committee our days of tariff protection will terminate with the passing of bill 11970. We want to underline the statement we made in our brief about our inability to do business overseas.

Tariff reductions can only help the other side in our case as it has done so historically in the past.

In spite of a 1950 tariff rate reduction on the product we weave, we hopefully think we can live with the present rate. We are sure if there should be any changes, it should be in the form of a raise, not a cut.

The wires we make are of excellent quality. Our machinery is comparable to the foreign machinery, however. Some of our looms have been purchased from Germany and we can attest to their performance. We cannot be more productive than other countries for reasons that can only fit our trade and work. Foreign wire weaving plants existed long before us.

In view of all this it is our hope this committee can see what an economic hardship it would be on our members if we had to get by economically without a protective tariff. Your answer might be, "If the wire weavers become extinct because of foreign competition there are so few of you—there are about 600—you could be retrained or fit into another occupation," you would say. Our reply to that, of course, is: In time of need our country will not have sufficient time to train and return to production a dead group of people.

We know as nobody else would, this Trade Expansion Act without full and initial relief to a craft like ours is not good for us, and much more important than that, it is not good for the country.

Total imports into the United States are equal in amount to 3 percent of the gross national product. Of this 3 percent only 1 percent are directly competitive imports. The other 2 percent are in goods and commodities which we do not produce or cannot produce in sufficient quantity to supply our needs.

Our wire weavers fit into the 1-percent category. We have plenty of men and looms to supply the needs of the American paper industry.

In other words, the slightest increase in imports of woven wire cloth for papermill use results in an immediate unemployment problem.

So far as imports of the product of our labor is concerned we might remind the committee that much of the raw material used in wire weaving is imported. Therefore, we suggest that that in itself is doing our share to expand foreign trade. We can very well get along without the importation of the finished product itself.

We understand the Tariff Commission presently has authority to decide if a domestic industry is seriously injured or threatened to be injured, even if the industry is in a healthy state.

This is read in the State Department report.

Our industry is quite healthy, we think, today. Nearly all of our men are working steadily. But we have every reason to believe the Tariff Commission will, if the new act becomes law, become nothing more than a statistical information department.

When I wrote to the Government Printing Office several weeks ago for a booklet entitled "Questions and Answers on the Trade Expansion Act," I was amazed to find out it was put out by the Department of State.

After reading it thoroughly from cover to cover, and then rereading it, I concluded the State Department does have a right to a great degree of interest, but I cannot see how the State Department can be the sole function in what is good for labor, what kind of tariffs we should have, who should be exempt, and so forth.

This is and always has been a function of Congress, and has to remain that way if our country is to remain great.

No executive branch, no appointive group should have a power that belongs to the Congress. Many bills originate in the House, this bill No. 11970 originated there, too. But is it possible the House was just paying lipservice to the State Department and President Kennedy? We hope not. We seem to think so if a craft like ours has to die because of that bill. We know there are no more Alger Hisses in the State Department; it is through with that.

However, the State Department is responsible only to our honorable President and the Congress. You may correct us on this if we are wrong. It certainly is not directly responsible to the people, the American voters.

This may have its merits in many respects; certainly not in all cases.

We believe not in this one. We implore this committee to use its full wisdom and foresight when it comes to this policymaking bill 11970.

We think you may in effect be reshaping the Constitution of the United States.

We trust your conscience will guide you to a just decision. Not just a temporary decision for what lies on the surface, but for what is good for America for many years to come.

We have attached a few things to our main brief in support of our position. One of them being a copy of a letter from our union's president to the mayor of Berlin. This copy proves we are not angry with anyone. We ask you to lend some consideration to our serious predicament which we hope you will not allow to become a calamity. We hope you will study our brief carefully. It is much more informative than this oral testimony.

I made an intensive research before writing the supporting brief in my own words. I am not a lawyer; I am just a wire weaver and I thank you kindly for your time and attention.

I make note in my brief wherever I refer to a 15-percent reduction in wages in 1931 it should be 12½ percent.

Thank you.

The CHAIRMAN. Thank you very much. Your supplemental statement will be placed in the record.

(The supplemental statement follows:)

BRIEF BY AMERICAN WIRE WEAVERS' PROTECTIVE ASSOCIATION—UNITED PAPERMAKERS & PAPERWORKERS, AFL-CIO

Gentlemen, this is the fifth time in a period of 78 years' existence our organization has felt it necessary to send someone to Washington in respect to the tariff question. Upon all occasions before this one it was necessitated by financial lickings we were taking due to foreign imports. While such is not yet the case today, we are certain to return again and soon if the tariff on the product we make is removed.

On the other four occasions in 1913, 1921, 1929, and 1930 our representatives were here to seek relief after the damage was done. This time we seek preventive measures before the storm. In the following brief we will present some noteworthy facts as to why we know we are doomed when we do not have adequate tariff protection. We make, rather we weave, wire cloth for papermill use exclusively and that is all we and our looms are adapted to do.

Before getting into the meat of our problem, let me first outline some of the history and workings of wire weaving. This is not a legally written brief in the true sense of the word but rather sort of an open-heart testimonial of all American wire weavers as passed on to you by one of them. We are not statisticians or economists. We just work at our trade for a living and very hard, at that.

To begin with, ours is a 4-year apprenticeable trade and very highly skilled. We presently have apprentice indentures with the Federal Government. Heretofore they have been with State industrial commissions.

As mentioned above, the product of our labors, woven fourdrinier and cylinder wire cloth, is used exclusively in papermills. Pulp from which paper and paper products is made has to run over our "wires," as we commonly call them, in the first and foremost part of the long process of papermaking. Incidentally, the paper industry is the fifth largest industry in the United States and who can deny the great importance of paper and paper products? By comparison our wire-weaving industry probably is not rated, it's so small.

A wire is something like an endless belt, up to 150 feet in length and 300 inches in width, going round and round at very high speeds on the open, wet end of a paper machine. Being wire weavers and not papermakers we only know that a flaw in one of our wires shows up as a flaw in finished paper. It is upon our wires that pulp fibers first begin to knit into a solid sheet. Drainage of water through our wires at a constant and even rate is all important, along with pickup ability to hold the fibers in place as they move along.

The fineness of a wire helps to determine the resultant fineness of the paper. For example, a 100-mesh wire is used for making cigarette paper and a 54-mesh wire is used for making heavy bag paper. 100 mesh means 100 warp wires to the inch. The shute wire which is woven in between the warp wires is never quite as fine as the warp wire.

In the early days it was all hand weaving, two men to a loom. One weaver threw a shuttle across from the left and the other from the right. The shuttle contains a bobbin of shute wire which passes in and between the warp wires. It was the added physical responsibility of the right-hand man to operate the treadles with his feet, which in turn alternated the warp wires.

Along about 1910 the hand loom gradually was being replaced by the power loom and there was no more need for the left-hand man. However, over a number of years the left-hand man was absorbed into the right-hand category and the wire-weaving trade continued happily on its way until about 1913. Interestingly enough, the new power loom was described by some as an automatic loom. It must have created quite a sensation at the time, but yet it was a far cry from our looms as we know them now and what they probably will be in the future.

Before going any further, let's point out that we are an extremely small group of tradesmen, numbering only about 600 today, a drop in the bucket so far as the labor market is concerned. Many of us have fathers and brothers and uncles who were wire weavers before us. It seems to run in the blood, so to speak. The wire-weaving industry itself is small, doing something like $35 million worth of business yearly at last report. Our union and people do not have the resources to hold out long in bad times and neither do most of our employers.

Our organization has been a national craft union since 1884 and became a member of the AFL under the father of organized labor, Samuel Gompers, in 1900. In the past decade or two things started to get complicated for small unions like ours and in 1959 our membership voted to merge with the United Papermakers & Paperworkers, AFL–CIO, the traditional handlers of our woven wires. The merger will become final in 1964 unless one of the parties decides to break it off before that date. Our officers, like the writer, never have been full-time officers, but rather full-time weavers and part-time officers. The secretary-treasurer is the only executive board officer to draw a salary and that is only $500 per annum.

We have no business agents and we negotiate our own labor agreements with firms in New York, New Jersey, Massachusetts, Connecticut, Ohio, and Wisconsin. Our officers have signed the non-Communist affidavits when required and we have never failed to be in compliance with the Labor and Treasury Departments, just like other good unions. We are rather proud of our record in the labor movement and as Americans.

We have always been able to cope with the usual and ordinary problems labor organizations have to contend with, such as organizing, occasional strikes, unreasonable attitudes of a particular manufacturer and the like. We have not come before this committee to complain about these relatively minor things since experience has taught us the proper approaches and answers to them. However, we have come before you to seek your understanding on something we cannot cope with, also encountered on the hard road of experience. It is time to get on with it.

This "uncopable" something, to be sure, is the suicidal tariff proposition in the trade expansion bill, 11970. This bill, although embodies with many high-sounding features as explained by the State Department, could and would bring an economic death to our trade and the wire-weaving industry. You are entitled to an explanation for such a strong statement and here it is, all fact and no fiction.

Let us return to the year 1913. The Underwood tariff bill reduced the tariff on foreign wires from 45 to 15 percent ad valorum. The flow of cheap European wires increased into this country and so did unemployment in our trade. Our union protested but to no avail. This condition did not prevail for long, though, because of World War I. Yes, it took the tragedy of a war to put our people back to work. In fact, many of them went to war themselves and there was a genuine shortage of wire weavers. No papermill could purchase a Germany wire and none tried during the war. Paper is an essential product at any time and much more so in wartime and, as pointed out earlier in this brief, you cannot make paper without a woven "wire."

Because of World War I the paper industry was kind to American wire weavers until about 1920. A small percentage of mills never have bought a foreign wire and never will. (When imports were at the peak we made personal inquiries as part of a "buy America" campaign and found this to be true.) But, after 1920 the temptation to buy the foreign-made variety became too great and once more our members walked the street.

It became traditional for an apprentice to expect a 6-week layoff or longer upon completion of his apprenticeship, sort of a graduation present or, in many cases, a wedding present.

In 1921 our trade accepted a 15-percent cut in pay to help compete. It didn't help a bit and the layoffs continued. We had high hopes of relief under the Tariff Act of 1922 (par. 318) but it was only wishful thinking. The Commissioner of Customs, E. W. Connor, ruled a fourdrinier wire to be part of a paper machine, although cutter knives and other permanent parts of paper machines were granted a separate paragraph, and foreign wires were given the lowest rates possible, 30 percent.

In view of the fact we thought there'd be a little slackening of foreign imports in 1922, we managed to recapture 10 of the 15-percent cut of 1921. It didn't take long for management to realize it had made a mistake in granting the increase, but somehow or other we hung on until 1931 when we took another 15-percent cut, but this is getting ahead of the story. More emphasis should be placed on the twenties because it proved to be our depression before the great depression all because of low tariff rates or the equivalent of none at all. It is exactly what we fear can and will happen in the sixties if care is not taken.

At this time strong mention should be made of the fact that our manufacturers never have been able to sell their products overseas. They simply could not compete economically with Germany (principal importer), France (next principal importer), Sweden, Austria, Scotland, and England either here or there. Some lease-lend wires purchased by our Government for Russia during World War II and a few small orders to South America has been the extent of our export business. We do not anticipate or want to weave any more wires for Russia and we would surely starve to death on the small amount of orders south of the border—and north as well.

Today's Secretary of Commerce has plans of a mutual agreement between the Common Market countries and our own whereby all tariffs are reduced or scrapped by both parties. We can assure you very emphatically and this we are very positive of, the Common Market nations could unilaterally remove tariffs on our product and we'd still be unable to sell to them.

Wages are way out of line in the Common Market countries and elsewhere compared to ours. A German wire weaver makes around 90 cents an hour and a Frenchman about 60 compared to our average of over 400 cents. All the allied people, such as the helpers, seamers, wire drawers, finishers, wire annealers, bobbin winders, and shipping department employees make substantially less than comparable people (an accurate estimate is three to one for every weaver) in the United States. Yes, there is industrial revolution taking place in Europe (and Japan) today, at least there is every indication of it, but the anticipated labor movement revolution is not moving along rapidly enough with it. Perhaps in time it will, but not in 1962. Transportation costs to ports of importation in this country do very little to offset this. Figures compiled by the U.S.

Tariff Commission in 1931 show transportation costs to be less than 6 percent of entire costs. There is no appreciable change from this figure in 1962.

But be that as it may, our manufacturers have tried very hard to equalize the wage inequities by productivity. It just can't be done. A wire-weaving loom can go just so fast and this is true of both foreign looms and ours. Quality is the most important factor and we believe our workmanship is tops. But theirs is excellent, too. Our research and experimental departments are not asleep, but neither are they in Europe and in Japan, too, today. The demanding requirements throughout the world in the paper industry makes it impossible to pass off a poorly woven wire on any customer.

There is just a little more to mention concerning the lives of wire weavers in the roaring twenties. Our bosses kept insisting there be more cuts in pay with the argument of less pay per hour but maybe more hours. The pressure from them was great and all because of the puny tariff. There were a few weavers who supplemented their meager earnings by taking advantage of prohibition, but most of them just tightened up their belts another notch. Our records show 1927 to be highlighted by the delivery of French wires to the papermills at prices far below what any American manufacturer could meet. Also in 1927 there was a slackening of demand and hand-to-mouth wire buying as a matter of practice. Yes, while a good many other people prospered and the importing firm of Neimeyer & Diomond was a successful middleman for a lot of European wire imports, our members had to charge groceries. Our oldtimers are forever grateful to the little corner grocer who had a little faith in them. It took a long time to justify that faith.

The next phase of this brief starts in 1929, the year our country had a new President in office, President Herbert Hoover, and the year a new tariff bill was in the making. It proved to be only a token of what we needed for rehabilitation, but a hard look at the past prompts the following statement about the controversial Mr. Hoover. He has been given much of the blame by quite a few economists in and outside the house of labor for the great depression of 1929. We could not be honest with ourselves if we went along all the way with that theory for we already lived with a private depression for nearly 10 years. How could we blame a new President for something already in the making?

The president of our executive board, Mr. John Curley, appeared before the Senate Finance Committee on June 28, 1929, in much the same fashion as we have today. Senator Reed, of Pennsylvania, assured Curley his type of testimony was what the committee wanted, the workingman's point of view. We sincerely hope the same is true in 1962.

Curley's written report to the trade says he was the only labor representative to appear. This in itself should underline the uniqueness of our trade and our need for continuous tariff relief. Curley's report makes clear that the importers and international bankers were much in evidence at the 1929 hearings, represented by prominent lawyers. We suppose they are here in 1962. It is their privilege as well as ours, for those who stand to profit by increased imports as well as those who stand to lose would be foolish to be in absentia.

A study of the 1929 House-passed bill showed many bad features. The administrative provisions of the bill left much to be desired and the final version was not much better. Both business and labor asked for tariff rates to be based on American valuation. Foreign valuation won out. American valuation is the only equitable way. It is most fair to the competing foreign countries, too.

The 1930 tariff bill increased the duty on foreign wires 20 percent, but it was too little and too late, as the saying goes. Our industry appealed at once to the Tariff Commission and a year later the President added another 25 percent. The depression was on for real by then. We were forced to take another 15-percent cut in pay or be locked out. We wisely took the cut.

Skipping hastily through the next 10 years, our shop report records show an average of one-third of our weavers laid off at all times. Imports decreased from 29 percent of the paper needs in 1931 to 10½ percent in 1934. Quite comparably, there were some fewer layoffs in 1934 than in 1931. In 1935 we argued successfully for a 5-percent increase in wages. This, of course, was still 15 percent below the 1920 rate. Business was only fair in 1936 and 1937 and less than fair in 1938. By September of 1939 all wire weavers were working for the first time in 20 years.

Therein lies the strange paradox of a trade that is more tariff conscious than any other trade in the United States. It takes either a war or a high tariff to keep us fully employed. We naturally prefer the high tariff. In the past, as this brief has tried to show, we have done everything humanly possible to maintain a guardian tariff. We will continue to do so. However, we are afraid history is repeating itself.

We have explained what happened to us following World War I, the reduction in the tariff rate and the resulting injurious foreign competition. In very similar fashion, the tariff on foreign wires was reduced following World War II in 1950. Fortunately for us, it has taken more years for the foreign recovery to grow following 1945 than it did after 1918. We certainly wish prosperity for the entire world, don't get us wrong, but our trade is fast approaching another crisis. We wish to state our case before the damage is done this time.

We are told the new Trade Expansion Act allows those workers injured by increased imports the privilege of applying to the Government through the Tariff Commission for assistance. This is just what we did in 1929 and it took nearly a year to get the relief that was already years overdue. In this day and age with the cost of living so high along with interest rates, et cetera, a year or even 6 months would be just about enough time to destroy us for all time. We believe in economic assistance to oppressed countries, but there must be a limit to it someplace along the line.

We are very much afraid unless we somehow can make ourselves be heard we are going to be dumped into the mass group that will be relieved of any tariff protection. Experience has taught us to speak up now, in spite of being a small frog in a big puddle, instead of after it is too late.

In 1946 paper production, exclusive of construction grades and wet machine boards, was 18,680,000 tons. In 1961 production was 37,558,000 tons, just doubled.

In 1946 there were approximately 400 wire weaving looms (looms are not convertible to any other type of work) in the United States of which about one-third were idle or, in a few cases, obsolete. By 1961 the increase in total number of looms was small, about 5 percent, but the number of idle looms was reduced to one in six. These figures come from our shop reports on file with our executive board.

In 1946 the average number of weaving hours per man per week was a plus 50, in 1961 it was a minus 41. This goes to prove that in spite of the doubling of paper production, we have been able to very adequately supply the wire needs of the American paper industry. The main secret has been improved wires and longer wire life.

Foreign competitors know this secret, too, however, and we believe they are on the threshold of stepping into the picture again. Proof of this we see in the form of advertisements in the paper trade journals, latest country of note being Sweden, as published in the January 1962 issue of Southern Pulp and Paper Manufacturer, probably others.

We don't need any assistance from abroad. Any increase at all in imports of our woven product is certain to cause unemployment among our American wire weavers. Any substantial increase is certain to cause havoc. We need tariff protection and need it continuously. When we have that, we know we are working under equal competitive conditions. Remember our exports are nil and are forced to remain that way for many years. Costs are not truly competitive without a good tariff in our favor.

Trade expansion bill 11970 says that when 80 percent or more of the world trade in a particular item is conducted by the EEC countries and the United States together, the tariff rate can drop to zero. Our industry would be in that category. Therefore, we must oppose the bill with all our strength. In regards to other countries, particularly Japan, our analysis concludes there would be a 50-percent tariff reduction. In all truth, in order to compete with Japan, we will need a tariff increase, not a decrease. Japan's technological advancements have been tremendous while its wages have remained exceptionally low.

We, as union men, have a great deal of respect for AFL–CIO President George Meany, but in our particular case and there must be others besides, we cannot agree with his position on foreign trade. He seems to forget there are exceptions to every rule. We cannot blindly accept a general concept prescribed for all but injurious to some when part of that some we know would be us.

Some of the major U.S. paper corporations have built or are taking over paper mills within the walls of the Common Market countries. Without question their paper machines will use Common Market country wires. We have no objections to this because we cannot compete in those countries, anyhow.

But what we are afraid of is this. If our protective tariff is tampered with, these same corporations will immediately start to buy the foreign wires for their American mills, too. Foreign salesmen will request it and it will be called a matter of economics and good foreign relations. No, there may not be a great flood of their own products to this country, but it is very easy to expect they will see no harm in helping out the foreign wire weaving plants in both foreign and domestic fashion. What they are waiting for, like a football team poised for the kickoff, is for someone to blow the whistle on tariff field.

Now for the final argument. We and our membership feel it's the best there is to present. It's worth your devout consideration.

As cited previously, there only are about 600 wire weavers, including our apprentices and even the nonunion weavers we have no jurisdiction over. Add to that something like 2,000 related employees and it's a mighty small figure. All could be eliminated and the unemployment figures would harly show it. We are willing to theorize all of us could find work through retraining or our own initiative.

But can our great country afford to let a strategic though infinitely small group of people wither on the vine or fall off. That is the question.

We hate war. Many of our members are veterans of combat. But let us face reality. An atomic war naturally would be very disastrous. Today both we and Russia have huge stockpiles of atomic weapons and it certainly is feasible there might instead be another conventional war. Perhaps you have thought along those same lines from time to time. President Kennedy recently noted that the foot soldier is not a thing of the past and he knows more about the situation than we do.

A conventional war, any kind of war, certainly makes paper more than an essential product. It makes it a high-priority item. In the long run, an abundance of paper products would certainly help to win a war.

If the wire weaving industry and its employees are suddenly overwhelmed by an appreciable increase in foreign imports today, it cannot live to help make paper tomorrow. Please do not say we can seek relief next month or next year or the year after by appealing to the Tariff Commission or even this committee. By then it will be too late. We need continued protection now and for a long time to come.

If and when the Common Market countries and the rest catch up or come close to our standard of living, and prices and wages are nearly equalized, we will be glad to take a fresh look at the picture. Until that time we cannot propose, we cannot plead for anything but to be left alone to weave our wires to the best of our ability.

We sincerely hope we have been able to give you something worthwhile to think about. We wish we could have gone into greater detail, but time would not permit. We know the committee's time is valuable, too, so perhaps brevity is quite in order. Thank you.

Respectfully submitted by

DANIEL K. JAHNKE, *Secretary-Treasurer.*

The CHAIRMAN. The next witness is Mike M. Masaoka, Masaoka-Ishikawa & Associates.

Take a seat, sir.

If I don't get your name pronounced correctly you will excuse me.

STATEMENT OF MIKE M. MASAOKA, OF MASAOKA-ISHIKAWA & ASSOCIATES, ON BEHALF OF THE ASSOCIATION ON JAPANESE TEXTILE IMPORTS, INC.; THE JAPAN TRADERS' CLUB OF LOS ANGELES; THE JAPANESE CHAMBER OF COMMERCE OF SOUTHERN CALIFORNIA; THE JAPANESE CHAMBER OF COMMERCE OF NORTHERN CALIFORNIA; THE JAPANESE CHAMBER OF COMMERCE OF HONOLULU, AND THE AMERICAN COMMITTEE ON JAPAN

Mr. MASAOKA. My name Mike M. Masaoka. This morning I am representing six organizations, the Association on Japannese Textile

Imports, Inc., the Japan Traders Club of Los Angeles, the Japanese Chamber of Commerce of Southern California, the Japanese Chamber of Commerce of Northern California, the Japanese Chamber of Commerce of Honolulu, and the American Committee on Japan.

Mr. Chairman, I have a rather lengthy statement which I would like to submit for the record and then proceed to summarize what we have to present.

The CHAIRMAN. Without objection it will be done.

Mr. MASAOKA. Mr. Chairman, most of the emphasis in these hearings, particularly on the part of the advocates of this legislation, has been on the trade expansion aspect of the bill.

It should be noted, however, that there are certain aspects of this legislation which are contradictory of the objectives of the bill—namely trade expansion.

We note, for example, that this legislation, while expounding trade expansion, at the same time does not eliminate as far as we have been able to ascertain, a single so-called protectionist safeguard which is in current or existing legislation.

For example, the escape clause procedures are retained. Actually they are made somewhat more difficult for the importers in that the present 6-month period for investigation and report has been reduced to 60 days for company and worker determination and to 120 days for industry determinations.

This, we suggest, is a rather difficult imposition on the importers who must do considerable research in order to defend themselves in escape clause procedures.

In addition to this particular protection, the so-called trade adjustment assistance provisions have been added to the escape clause safeguard, which means an additional protective device for the American industry.

The present provisions of the national security amendment and such specialized relief as section 22 for agricultural products are retained.

The reserve list provisions of the current legislation provide the President with considerable power to take commodities and products imported into this country off the list for beneficial import levies, and to put them on a reserve list.

Provisions are made whereby the President may increase duties 50 percent above that of July 1, 1934. We wonder why the cutoff date is not July 1, 1962, for if this trade legislation is actually one to expand trade we believe that the newest date, July 1, 1962, should be used, or else certain rates could be raised, we understand, some 800 percent or more.

Then there are the questions of certain definitions, and we particularly believe that the definition relating to imported articles which are directly competitive with American products is a very difficult one which actually hurts trade expansion rather than helping it.

Over and above these particular matters is the question of nontariff restrictions. The legislation specifically urges and directs the President to conduct his operations and his negotiations in such a way as to eliminate or reduce the nontariff restrictions of other countries.

These nontariff restrictions, Mr. Chairman, we submit are a two-way street, like trade.

The United States also has nontariff restrictions, and we believe it would be in the interests of a true trade expansion program if the President also, and this country also, took a leadership in eliminating these nontariff restrictions. We have particular reference of the so-called Geneva international cotton textile agreement. We ask what value is it to reduce tariffs, for instance, if by unilateral, bilateral, or multilateral agreements we place an absolute low ceiling on the imports of certain products into this country.

Finally, we suggest, Mr. Chairman, that if domestic industry, workers in factories, as they rightly are, are given the opportunity to appear before the Tariff Commission and other administrative agencies to argue for an increase in tariffs, or for the imposition of certain other restrictions or trade adjustment assistance, we believe that true trade expansion would suggest the alternative, namely, that the consumers or importers, if they feel that the tariff duties are too high or that the other restrictions imposed thereon are too onerous, should be given the same opportunity before the Tariff Commission or some other administrative agency to plead their case as is presently provided only for the domestic industry.

We believe that this type of suggestion would go far to convince other nations who are also interested in expanded trade that we truly mean that they want to expand trade on a two-way basis throughout the world, rather than simply for what we consider to be in our own national interest.

Of course, our own national interest is also involved in this matter of an expanded trade.

For we and the organizations we represent, believe that the economy of the United States can be helped if trade with other countries is encouraged.

We believe that our economic growth will be furthered but, most important, we believe that the economic warfare which the United States is presently engaged in with the Soviet-Sino bloc, will be helped by a truly progressive, truly expansive trade program.

Thank you, Mr. Chairman.

(The prepared statement referred to follows:)

STATEMENT ENDORSING TRADE EXPANSION LEGISLATION

This statement was prepared for submission to the Committee on Finance of the U.S. Senate, to supplement and summarize the oral testimony of Mike M. Masaoka, of Masaoka-Ishikawa & Associates, 919 18th Street Northwest, Washington, D.C., to endorse the general objectives and principles of H.R. 11970, "To promote the general welfare, foreign policy, and security of the United States through international trade agreements and through adjustment assistance to domestic industry, agriculture, and labor, and for other purposes."

This submission, as was the oral presentation, is by and on behalf of the Association on Japanese Textile Imports, Inc., the Japan Traders Club of Los Angeles, the Japanese Chamber of Commerce of Southern California, the Japanese Chamber of Commerce of Northern California, the Japanese Chamber of Commerce of Honolulu, and the American Committee on Japan.

All of these organizations, with a single exception, are primarily concerned with U.S. trade and commerce with Japan.

The Association on Japanese Textile Imports, Inc., is a New York incorporated trade association whose members handle some 70 percent of all the Japanese textiles imported into this country.

The Japan Traders' Club of Los Angeles is comprised of those who are directly responsible for most of the imports from, and exports to, Japan that pass through the port of Los Angeles.

The Japanese Chamber of Commerce of Southern California is composed of Californians in and around the Los Angeles area who are interested in promoting trade and commerce, as well as cultural relations with Japan.

The Japanese Chamber of Commerce of Northern California serves the historic port area of San Francisco Bay, the traditional gateway to and from the Orient for more than the past half century and through which are shipped American goods to and from Japan and the Far East.

The Japanese Chamber of Commerce of Honolulu is the central trade association of Hawaii, at the crossroads of the Pacific, whose members—understandably—are involved in commercial, financial, and cultural relations with Japan.

The American Committee on Japan is a nationwide, nonprofit, nonpartisan educational and consultative organization dedicated to improving understanding and cooperation between the United States and Japan in every possible sphere of activity, including trade, as the most effective means of assuring the peace and the prosperity of the Pacific.

Inasmuch as all six of the organizations joined in this statement are very much concerned with U.S. international trade and commerce in general, and with Japan in particular, we favor the objectives and the principles of the Trade Expansion Act of 1962 for, among others, the many and persuasive reasons that have already been cogently advanced by the Secretaries of the various executive departments concerned and by the many public-spirited individuals and organizations that have endorsed this legislation before both this Senate committee and the House Ways and Means Committee.

We shall try, therefore, not to repeat or recapitulate most of the impressive testimony advocating this legislation that has been presented previously at these hearings. Moreover, we shall try to avoid needless repetition in emphasizing several aspects of this issue that we believe have not been given the serious consideration to which they are entitled.

We respectfully submit that this trade-expansion program is urgently needed now (1) to provide the President with the minimum weapons to successfully wage economic war against the Sino-Soviet challenge everywhere on earth; (2) to accelerate the lagging economic growth of our country, thereby strengthening American leadership of the free enterprise, so-called capitalistic system; and (3) to encourage a mutually helpful, two-way flow of trade and commerce among the free world community of nations, recognizing that imports are equally as important as exports to our Nation's welfare and, accordingly, should not be subject to restrictive penalties and practices on our part.

In our presentation, we shall most often cite Japan and textiles as prime examples to illustrate our concerns.

We shall refer to Japan not only because of its economic and strategic significance, but also because it is not a member of the European Economic Community, or Common Market, which is singled out specifically in this legislation as of particular consequence. Japan's fears are not unlike those of Canada, the Latin American countries, and other Asian, African, and European nations in their future trade relationships with the United States. Indeed, it is noteworthy that most of the non-Communist nations of the world are outside of this six-nation European Economic Community and were responsible for accepting 16 out of the 20 billions that were exported by our country last year.

We shall suggest textiles as a case in point in considering affected industries not only because it has been the most aggressive and demanding of the American industries seeking "protection" in the immediate past, but also because textiles are among the most elementary and popular items in international trade.

Furthermore, we are most familiar with the problems of both Japan and textiles and, therefore, better able out of our own experiences and understanding to relate them to the specific concerns of this legislation. This certainly does not mean, and is not intended to imply, that Japan and textiles are unique or novel situations that require special or different treatment from that accorded other countries and industries. In the context of this statement, they are merely illustrative of the general conditions that obtain throughout most of the free world.

In our considered judgment, the instant bill H.R. 11970, as revised and amended by the House Committee on Ways and Means and approved by the full membership of the House on June 28, 1962, by a 299-to-125 margin, is vastly improved as an instrument for trade expansion over that originally drafted and submitted by the administration. This is particularly true in relation to the provisions for public hearings to be held in connection with various administrative determinations.

At the same time, however, we submit that there are further revisions and additional amendments necessary if the objectives and principles of this worthy legislation are to be truly realized.

To begin with, this bill is designed to reduce tariffs and urged as a means to cause other countries to remove and eliminate such nontariff trade restrictions as import quotas, discriminatory tax measures, burdensome customs procedures, arbitrary standards and regulations, etc. And yet, this measure appears to ignore that the United States too has a number of nontariff restrictions, such as recourse to import quotas under section 22 of the Agricultural Adjustment Act, as amended, and under the national security clause of the Trade Agreements Act, as amended. Indeed, while lowering tariffs on one hand, the instant measure also continues most of the current restrictions in the guise of "protective safeguards." Furthermore, the bill overlooks such multilateral arrangements as the so-called international cotton textile agreement recently negotiated in Geneva to restrict and control the free world trade in cotton textiles in the name of "orderly expansion of markets."

Moreover, if increased trade is so beneficial to our economy, and to our consumers, that tariff barriers should be reduced drastically, or even eliminated in some cases, as contended by the administration (and with which we agree wholeheartedly), we cannot help but wonder why certain products should be placed on the reserve list insofar as these reductions are concerned, while others are made the subjects of bilateral and multilateral control agreements.

Again, and more important than the specific language of this legislation, as members of this committee are so aware, will be the manner and the spirit in which so-called trade expansion will be interpreted and administered. That administrative discretion may abuse the intent of Congress is a problem with which the legislature has grappled since the beginning of constitutional government.

We are concerned at the moment, for example, with the seeming inconsistency of this administration in asking for authority to reduce tariffs while inspiring, at the same time, multilateral arrangements, such as those previously referred to for cotton textiles, to restrict and control certain imports into our country.

When this bill becomes law, how will this administration implement its provisions? If increased trade is good for our economy, then should there not be consistency in the treatment of all merchandise and products from all countries without discrimination?

Then again, is there not a danger in concentrating so much on a single area of the free world? There is no question that the rapidly developing European Common Market requires our immediate and generous attention. But, what about the rest of the free world, including Canada and Japan, consistently over the years America's first and second best customers for all our export goods? The six nations of the Common Market total less than a tenth of all the non-Communist countries of earth. Together, they consumed less than 25 percent of our exports last year.

Is it trade expansion when we focus on six nations, and incidentally hope that the remaining free world countries are also covered? Or, is this concentration a calculated risk which we knowingly assume at our own peril? News reports for July 23, for instance, report that the Organization of American States are very much concerned about our attention to the European Common Market and are considering possibilities of a trade bloc of their own.

Finally, if the trade-adjustment provisions are satisfactory for most industries that may be subject to import injury, why are they not also adequate for all industries, including textiles, especially since the legislation retains the present relief procedures of existing law?

If trade expansion is to become the avowed policy and practice of our Government, we respectfully suggest that it ought to provide equal opportunities and benefits for all free nations of earth, without discrimination or preference. This, we believe, should be the real objective and principle of the Trade Expansion Act of 1962.

SINO-SOVIET ECONOMIC WAR

If we are asked to reduce our reasons for testifying today to a single explanation, it would be to urge the Congress, the Government, and the people, of the United States to take up the challenge that Khrushchev hurled at us, proclaiming that "We (the Sino-Soviet bloc) declare war upon you * * * in the peaceful world of trade. We will declare a war we will win over the United States."

As with all such challenges of the Soviet Union and its Red China ally, this must be considered in dead seriousness at our own peril.

In a real sense, this trade war may be more decisive and crucial to the ultimate victory than the current arms race, though we cannot, and dare not, afford to lose either.

In this economic life-and-death struggle, as in any contest of arms, there is only victory or defeat. And, into the total national effort required for victory, Americans have never before faltered, or bargained our willingness to pay whatever the price for the ultimate triumph.

Since 1954, according to a State Department study, the Communist countries have pushed hard for trade deals or arrangements with the underdeveloped areas of Asia, the Middle East, Africa, and Central and South America.

We find as a result that Sino-Soviet trade with 41 non-Communist countries has more than tripled between 1954 and 1960, increasing from about $860 million to around $2,700 million. By the end of 1960, Communist countries had negotiated some 206 bilateral trade agreements with 32 nations, most of them in the less-developed areas.

The State Department's booklet entitled the "ABC of Foreign Trade" explains this development in these words: "The progress of the Communists in the trade field is due partly to the fact that they approach economically weak countries and purchase goods which those countries have great difficulty in selling elsewhere. This has been especially true of goods which are surplus on the world market, such as rice and cotton. Then, in turn, the Soviet Union demands that the underdeveloped countries accept Soviet-bloc goods as payment. Since these are usually products which the country cannot afford to buy from the free world markets, the trade deal makes the Soviet Union look good in the eyes of the less-developed country. Such trade agreements often are followed by the dispatch of Soviet technicians and specialists who, while appearing to 'help' the developing country, work for communism. In addition, the Soviet Union sometimes sells products such as oil at artificially low prices in order to achieve its strategic objectives."

We must be gravely concerned with such developments, because we know that the Communists are primarily motivated by political, and not economic or humanitarian, reasons. Since, to them, trade is a potent and deadly weapon of the cold war, they are willing to trade wherever it is to their political advantage to do so.

This has not always been true of the United States.

To survive as a free people, we must learn the lesson of rallying all of the resources of the free world to promote economic growth as a single community of interest to offset totalitarian blandishments in trade.

We cannot ignore Khrushchev's own justification: "We (the Communists) value trade least for economic reasons and most for political purposes" in assessing the potential of the Sino-Soviet threat in this area of trade.

Although the Soviet Union has not been completely successful with every venture, they have been successful enough to be of concern to all Americans.

Almost any American traveling abroad, especially in the newly independent and developing regions, can attest to the myriad activities of Soviet technicians and trade missions throughout the world.

Communist China's activities in this sphere parallel those of their European counterpart. It has been reliably reported that last year more than 50 trade missions from Latin America alone visited Red China, thereby hinting at their effectiveness here in this hemisphere. We are aware, for example, that Communist Chinese are quite active in Cuba, less than a hundred miles from our own Florida shores.

Were it not for the severe drought crop failures in mainland China, we would be faced with an even greater trade offensive than we are, particularly in southeast Asia where, understandably, they have been most active. There, they have given development loans and helped build factories, including textile mills, which, incidentally, are contrary to U.S. policy which tend to discourage the establishment of textile plants overseas.

In the past decade and a half, our greatest losses to communism have been in Asia, not in Europe or elsewhere. In addition to the losses of the vast Chinese mainland, we have lost half of Korea and half of French Indochina. One of our major concerns at the moment is the threatened loss of Vietnam.

Any trade offensive to be undertaken by the United States must take into consideration Asia and the underdeveloped countries elsewhere, as well as Europe and the other economically advanced nations, including Japan.

We are not suggesting that the European Common Market be minimized, for we appreciate the economic and political considerations that prompt the attention that it is receiving in this legislation. But we are stressing that we cannot afford to overlook the rest of the free nations in any program that we may promulgate. To relegate the countries outside the European economic community to a secondary position, or to discount their hopes and aspirations for expanded trade, will mean that the overwhelming majority of the non-Communist territories may be denied equal access to our markets.

While we doubt very much that the drafters of H.R. 11970 intended such an implication, we fear, nevertheless, that the understandably sensitive in other lands may draw such an inference.

Any such possibility for misunderstanding of our high motives should be corrected by this Senate committee and the Congress.

Clearly, the President needs, and must have, flexible authority to take up the economic challenge of the Sino-Soviet block no matter where, or in what form, that competition is presented.

Our very national security calls for the enactment of an effective and meaningful trade expansion law as a part of our arsenal in the cold war.

In discussing what he himself described as "The Case for American Trade With Japan." the Deputy Assistant Secretary of State for Economic Affairs recognized this national security aspect of our trade with Japan.

In a speech delivered in New York this past January 25, 1962, he decalerd that "Probably the most common and most widely accepted justification for trading with Japan is that otherwise Japan might take a neutralist or leftist course or enter into a political accommodation with the Chinese Communists and the Soviet Union.

"I believe that this line of argument, although it is necessarily oversimplified, is essentially correct. There is undoubtedly a close, causal connection between the state of Japan's external trade and the country's domestic, political well-being. One can readily see how a serious blow to trade could lead through a chain of events to a political disaster for the free world in northeast Asia. Since the United States occupies so dominant a place in Japan's total trade picture, our policies are particularly relevant here. We would be shortsighted indeed if we failed to give due account to this factor in United States-Japan relations."

Unspoken but implicit in the State Department official's words were the political machinations with trade that would be put into effect by the opportunists of the Sino-Soviet bloc in the eventuality that Japanese-American trade relations should become severely strained.

Though the present leaders in the Kremlin may have downgraded Stalin, we cannot forget Stalin's grand design for world domination that he propounded before World War II, for what was true then is perhaps even truer now: the key to the control of all Asia is Japan, and the key to the control of Europe and all the world is Asia.

ECONOMIC GROWTH NEED

In order to retain our acknowledged leadership of the free world as the successful practitioner and advocate of the free enterprise economic system, the United States must have economic growth. This is another major reason for our support for H.R. 11970.

Some 28 years ago, in another era when there was a different kind of economic stagnation and world challenge, we embarked upon what has now come to be known as the reciprocal trade progam. In most quarters, that bold departure from historic U.S. policy is considered a success.

Today, in a greatly changed world, in the beginning of the nuclear, space age, we can again assure the necessary economic growth to maintain our world leadership by embarking upon a truly liberal expanded trade program, such as that contemplated by the instant bill.

Secretary of Labor Goldberg has testified that this expanded trade program would help in solving our employment problems. Secretary of Commerce Hodges has demonstrated graphically that a liberal trade program would help in the growth of industry and business.

The members of this committee know better than most the crucial importance of a faster growth rate for our country.

In the past 10 years, our growth rate has been approximately 2.5 percent a year. This is substantially below that for most European countries. Since its formation, the European Economic Community has averaged over 5 percent annually in overall growth, with 7.5 percent annual growth in industrial production alone. Japan is moving ahead at about 15 percent annually. The Soviet Union's growth rate is about 6 percent a year, or twice ours.

Inasmuch as our gross national product is so far superior to those of other countries, there is no doubt that none can match us in the immediate future. But, unless we accelerate our annual growth rate, we shall need to fear Khrushchev's estimate that the Soviet economy will surpass ours in less than a generation.

We are not now arguing that we should "grow" simply for the sake of economic growth. We do contend, however, that the United States will "fall back" in relation to many other nations unless we enjoy substantial economic growth every year in comparison with these other countries. Our vaunted high living standards are threatened by slow economic growth.

To assure ourselves this economic growth, we must become more efficient and competitive in the markets of the free world. We must become, overall, second to none in efficiency of operation and competitive ability.

Unfortunately, hiding behind the cloak of protectionism, some of our industries, or more accurately some segments thereof, are not as competitive as they should be.

For the sake of our national self-interest, these industries, or their faltering segments, should be exposed to competition from free world countries. The various subindustries, as they might be termed, or even whole industries, where applicable, which are not now competitive should be given every incentive to crease their efficiency and productivity.

The Secretary of Labor has reported that industries that have been forced to face import competition have met the challenge and have shown more growth than the average for all industries.

Since it is the challenge from oversea producers that contributes to make our economy strong and viable, meaningful trade liberalization will go far to accelerate our growth rate.

Not only must we be interested in economic growth but we must also be concerned with the maximum utilization of our total resources.

This is so fundamental to our survival in the economic war in which we are engaged that it ought not need discussion. And yet, too often nowadays, we ignore or tend to minimize as no longer applicable the economic truths. In the classic definition, these fundamental resources are land, labor, and capital. In one form or another, they comprise our economic complex.

To produce the maximum benefit for our country, all of these basic resources that are available to us must be used in the most efficient and effective manner possible. Any waste, or inefficiency, penalizes the capability of the Nation to cope with the worldwide economic struggle.

When it comes to imports, however, too many industries clamor to be sheltered from world competition by the protective umbrella of tariffs and other trade barriers. This type of "protection" does not result in the maximum usage of our own resources, nor does it contribute to the most efficient and productive utilization of free world resources.

Too often, in the guise of "equalizing costs" with foreign producers, we disregard the logical end of such arguments, for, if there were complete "equalization" of the costs of production, there would be no international trade or commerce. Certain nations enjoy more or less of all the economic resources. Japan, for instance, has tremendous resources in manpower, or labor, but is very short on land and capital. We are scarce on that manpower account, but have much land and capital.

Each country should be encouraged to maximize its utilization of its most abundant resource. And the United States, in the interests of expanding growth and trade, should recognize these factors and treat them accordingly.

When we must compete with Sino-Soviet aggression in arms or in trade in the world arena, there are no protective umbrellas under which we can, ostrichlike, safely hide. When we are engaged in a trade war with the Communist imperialists, we have no alternative weapons except our efficiency in production.

We cannot afford to be second to the Sino-Soviet conspirary in either military preparedness or in commercial success. For the latter, the world marketplace is the battleground.

In this grimly competitive contest, undoubtedly a few small segments of the various industries involved may fall by the wayside. Sometimes this failure will not be cause by inefficiency per se, but perhaps because they are no longer compatible with our advanced economy.

In any case, imports are too often an easy and ready scapegoat for bankruptcies. Close and unbiased examination will reveal that few, if any, actual industrial failures can be attributed even substantially to imports.

It may also be noteworthy that, usually, the industries that complain most about the alleged low wages in foreign countries are among the lowest paying in the United States. Conversely, as pointed out by the Commerce Secretary, among our most successful exporting industries are those that pay the highest wages.

That American efficiency can overcome the "advantages" of low wages is demonstrated by the Secretary of Commerce, who declared in testimony 2 weeks ago before this committee: "With Japan, which many people fear as a low-wage competitor, we earned a substantial margin in our favor in the balance of trade; $700 million out of commercial trade totaling $2¾ billion. With almost every country (and all of them have lower wage standards than the United States), we had a favorable balance of trade."

Many of these low-wage American industries can only raise their pay by increasing prices. And, coincidentally, in most instances, their prices are already often considerably higher than the world market levels.

We believe that the number of such unproductive and uneconomic industries are few. At the same time, however, no one is in a position to authoritatively determine which industry, or segment thereof, or industries or segments, are in this classification. The final answer can only come by exposing all industries to import competition, for, in a free enterprise system such as ours, the ability to survive in a free market is the hallmark of efficiency and productivity.

If our country is to be strong and unafraid, we must utilize to the utmost every resource at our command—land, labor, and capital. Effectively marshaled for maximum efficiency, we need not fear, and should welcome, competition in the marketplaces of the free world.

If some of our industries, or segments thereof, are unable to meet this competition from abroad, we should give them every possible assistance—as H.R. 11970 proposed to do.

Then, if in the long run it should be proven that certain industries or their subdivisions cannot compete with imports, they may be the industries that must be left by the wayside on the American road to higher living standards. Such industries will be those which, for one reason or another, cannot successfully vie with imported products for the consumers' dollars. They are the ones that slow down and brake our economic growth.

From the standpoint of our Nation, the sooner these uneconomic industries are exposed and allowed to pass away, the sooner will their participants be enabled to seek and find more efficient and more productive industries for the better use of their time and skills.

Although, at first blush, and to some, this attitude may appear ruthless, there is no question that in the kind of economic war in which we are participating, we cannot subsidize at public expense the inefficient, the inappropriate, the out of date, the incompatible.

Our enemies will not fail to take every advantage of every weakness that they can find in our competitive capacity.

To rationalize uneconomic production is at our grave risk, while depriving our allies with perhaps better resources for certain industrial production the opportunities to develop the full utilization of their economic attributes and facilities.

Our own security, and the mutual security of our allies, is no stronger than the weakest of the links with which we have forced our collective security arrangements around the world. Accordingly, the stronger every element in that defensive chain, the stronger we too will be.

THE IMPORTANCE OF IMPORTS

Recently, in a New York speech, a Cabinet Secretary judged that "The most ideal state in foreign trade would be where the United States would only have exports."

We suggest that this assessment is a serious error and ignores fundamental economics.

As this committee is so well aware, we export because this provides us with the foreign exchange to obtain the goods and the services which we desire and can afford. From the economic viewpoint, exports drain off land, labor, and capital, or their end products, from our reservoir of total resources. Imports, in a true sense, are the rewards that come from exports.

Viewed in this economic perspective, imports are equally important to our national well-being as are our exports. We cannot have the one without the other.

This committee knows too that the American consumer benefits most from imports, for such merchandise provides him with a wider selection at lower prices.

In its efforts to "sell" its trade expansion program, the administration has emphasized the export trade. As a matter of record, nearly all of the witnesses who have testified in favor of this H.R. 11970 have expressed the need for greater exports from the United States and have neglected to stress the equal significance of imports.

In considering not only this legislation but also the subject of international commerce, we must remember that trade is a two-way street. In this context, both exports and imports are equally important.

Our friends and allies must sell us their goods, if they are to earn the dollars with which to buy our American exports. We cannot continue to sell to them without either allowing them the opportunity to earn dollars with their imports or loaning or giving them outright the funds with which to buy our products.

In this context, the slogan "Trade or Aid" is most apt. Either we provide our allies opportunities to earn dollars in our marketplace with which to continue to buy our export items and to build up our common defenses in their respective areas, or we loan or give them the necessary funds for these same purposes. We believe that most Americans prefer to encourage trade, and not giveaways.

The Secretary of Commerce declared that last year (1961) the value of the goods we marketed abroad was $20 billion, or approximately 8.7 percent of our total production.

Imports, on the other hand, he placed at about $15 billion. Of this total, he estimated that "roughly 60 percent have little or no significant competitive effect on our producers."

In balance, we sold last year about $5 billion worth more than we purchased.

While individual companies and segments of industries may complain of the import competition they may face, the Congress and the Executive must evaluate trade not as a matter of a single company or product but as the aggregate of all imports and exports.

For example, the domestic cotton textile industry complains that imports of the raw cotton equivalent of 526,000 bales of cotton textiles in 1960, and of 383,000 bales in 1961, seriously injures their business.

They overlook the fact that in 1960 the United States sold 8,018,000 bales of raw cotton to oversea mills in 1960 and 6,891,000 bales in 1961, for a favorable trade balance in bale equivalents of raw cotton sold as against cotton textile imports of 7,492,000 bales in 1960 and 6,508,000 bales in 1961.

It would seem to us that part of the assessment to be made by the Congress and the President is to determine which, and to what extent, is more valuable and helpful to the national interest—the exports or the imports.

Is it more in the public interest if the imports were restricted and foreign buyers shifted their purchases to other sources?

The case of Japan is illustrative of this issue.

In the cotton year 1960–61, the United States exported to Japan 1,747,000 bales of raw cotton. In this same period, Japan was allowed to send to this country the raw cotton equivalent of only 137,000 bales in cotton manufactures.

In dollar terms, Japanese purchases of United States raw cotton amounted to $217 million, while American purchases of Japanese cotton textile imports amounted to only $74 million, for a net balance in cottons alone in favor of the United States of $113 million.

As far as total trade with Japan is concerned, the Foreign Commerce Weekly, published by the U.S. Department of Commerce, for March 26, 1962, shows statistics to the effect that Japanese purchases from the United States in 1961 added up to $2,079,499,000, as against American purchases from Japan of $1,021,464,000, for a favorable trade balance in our favor of more than a billion dollars.

Comparėd to 1960, Japanese purchases of American exports increased by 34.6 percent, while United States purchases of Japanese imports decreased by 5.7 percent.

Arithmetically, if the United States does not encourage more Japanese imports, how can Japan continue to buy American exports?

The Secretary of Commerce, in testimony to this committee on July 23, 1962, declared that "Japan, for example, bought $1.7 billion from us last year—$700 million than she sold to us. In the next decade, her economy is expected to double and her imports to triple. Here is an attractive and profitable potential business for us."

At another point in his testimony, the Commerce Secretary stated that "Japan, our second greatest customer, is expected to triple her purchases of foreign goods in the next decade and we must get our share. These opportunities cannot be fully realized unless the barriers to trade are reduced."

What is true of Japan is also applicable to many other nations with which we trade. Therefore, if the United States is to export more, the dictates of trade expansion, to be realistic, must encourage more in the way of imports.

In spite of this economic reality, advocates of the instant legislation, including those of the administration, fail to urge that imports from Japan in all categories be encouraged. As a matter of fact, the administration has taken the leadership in attempting to curb Japanese imports of her most exportable items through "voluntary," bilateral, and multilateral control arrangements.

TRADE RESTRICTIONS—QUOTAS

In considering this H.R. 11970, we urge the committee to keep in mind that there are many other barriers to restrict trade besides tariffs. And meaningful trade expansion should take into consideration these other impediments to freer trade and due allowances made, for, of what value is the reduction of tariffs, if by other means the objectives of this legislation are frustrated?

Among the restrictive actions so well known to this committee are quantitative import and export quotas, embargoes, exchange controls, Government purchasing preferences, subsidies to domestic producers, compulsory and prejudicial "identification marks," etc.

To excuse U.S. utilization of these restrictions on the basis that others also practice restrictive actions is not realistic. If the United States truly liberalizes international trade, then the other less-favored nations will be better able, and sooner, too, to eliminate their restrictions. Too often, in retaliation one country or another establishes restrictive practices.

Two weeks ago, when the Secretary of Commerce appeared before this committee as the leadoff witness for the administration, he devoted two full pages of his prepared testimony to the nontariff restrictions that other countries have placed on the inportation of American goods. He concluded this section by stating that "This bill therefore strengthens our hand against both tariff and nontariff barriers."

We respectfully submit that exporting nations, in examining our practices as against our professions, question our sincerity and good faith in this international trade field.

When Japan devleoped her textile trade to successfully enter the American marketplace, her textile industries were "persuaded" to diversify their products in order to avoid "excessive concentration" and to promote "orderly marketing." The Japanese industry shifted some production to Wilton carpets, only to have the Tariff Commission hold that such imports were causing serious injury to the "domestic industry producing like products" and the President increased the duties almost 100 percent, from 21 percent to 40 percent ad valorem. Cotton typewriter ribbon cloth is another example of diversification that has only resulted in tariff hikes for the Japanese.

Then, Japan was persuaded to impose what have been euphemistically called voluntary export quotas. And, even with these export ceilings on her textile shipments to the United States, she continued her major purchases of U.S. raw cotton. Nevertheless, the domestic cotton textile industry convinced the Department of Agriculture that it should recommend section 22 relief for the industry by imposing a so-called equalization fee on all cotton textile imports.

Just a week before the Commerce Secretary appeared before this committee to urge trade expansion, the Secretary of Defense announced a most restrictive "Buy American" policy that would give U.S. bidders for both domestic and overseas contracts far more preferential treatment than already accorded them in bidding against foreign competitors. In oversea bidding, the U.S. companies are to be given contracts if their bids are not more than 50 percent more than foreign bids. Prior to this announcement, the differential was already a substantial and almost prohibitory 25 percent.

In the face of this record, is it any wonder that many free world exporting countries suspect our motives in urging the enactment of such legislation as this, particularly when there is nothing in the bill to require that this country eliminate its nontariff restrictions and practices, such as the international cotton textile agreement?

The United States, as the world's major exporter and importer, has the most to gain from the elimination of trade barriers. If we lead, others are more likely to follow.

Probably the most vicious device ever conceived in the name of trade promotion to restrict imports is what are apologetically referred to as quotas. Overall quantitative limitations are bad enough, but this method for controlling imports has been further refined to include categories and classifications, each with its own ceiling, within the overall quota, because of their rigid character, imports cannot adjust to quotas.

Of what actual value are reduced tariffs to an exporting country if the quantity of its imports is rigidly controlled by arbitrary and artificial means? If imports are held to a minimum by quota arrangements, for instance, lower prices are meaningless to the ocnsumer who is unable to purchase the desired import.

These special trade arrangements, regardless of whether they are "voluntary," bilateral, or multilateral in scope, all have this in common: They violate fundamental economic operation by restricting the supply when the demand is great.

Although the American experience in the past decade has been to lower tariffs, our resort to quotas as a means of "restraining" imports has increased materially.

Since Japan regained her sovereignty, with the exception of a single year, the United States has enjoyed a relatively wide favorable trade balance with this nation that must trade to exist.

In spite of this difficult situation for Japan, nearly all of the major items exported by the Japanese to this country are now under some quota arrangements. Most of these quotas were imposed by the Japanese Government at the request of our own Government. Nevertheless, since they were officially promulgated by the Japanese, they are described by us as "voluntary quotas" and our country is enabled to maintain the fiction that we continue to adhere strictly to a liberal trade policy.

From our view, the recent multilateral arrangements for the free world control of the cotton textile trade, generally known as the International Cotton Textile Agreements, which were concluded in Geneva, are the most serious setback that the United States has suffered since the end of World War II in the cause of freer trade.

At the insistence of the United States, the General Agreement on Tariffs and Trade (GATT) sanctioned and convened an international conference to consider what was, and is, essentially a domestic problem—the question of cotton textile imports entering into competition in the American marketplace.

The short-term arrangement was agreed to in July 1961. This authorizes an importing country to impose, unilaterally, quotas on the entry of goods from an exporting signatory. This power to impose absolute quantitative limitations may be invoked if the importing country has a "feeling" that particular imports have caused market disruption.

More recently, in February 1962, the administration negotiated, though it is still subject to ratification by the participating countries, the long-term companion arrangement to the short-term agreement. This 5-year arrangement contains restrictions similar to the 1-year agreement.

These recent actions taken to restrict cotton textiles do not contribute to liberalizing our expanding trade among the free nations of earth.

Unfortunately, the Administration which is requesting this trade expansion bill is the same Administration that proposed the international restrictions on the cotton textile trade.

GATT also suffered a severe setback in its goal of freer trade, for these international cotton textile agreements are the first multilateral arrangements negotiated under the auspices of GATT which restrict manufactured items.

We respectfully urge this committee in considering this legislation to make certain that its enactment will not be followed by the frustration of the expressed purposes through circumvention by resort to such restrictive trade practices as quotas, regardless of whether or not the GATT is involved.

We say what we have advisedly, and with reluctance, because we are cognizant of the hopes and aspirations of the developing and underdeveloped countries to industrialize as rapidly as possible—and with very limited capital.

Because of the nature of the textile industry, this is among the first of all the manufacturing industries to be established in any country, especially those seeking export products. Textile manufacturing in certain lines is particularly suited for nations in the developing stage, and is less appropriate for countries with a more mature industrial complex and high living standards.

If these countries are not allowed, and encouraged too, to build up industries that are most adaptable to their capabilities and resources, it will make it that much more difficult for these peoples to gain the higher standard of living which will enable them to know and buy American export merchandise.

SECTION-BY-SECTION COMMENTS

We shall, hereafter, comment on the various provisions of H.R. 11970 that have special meaning to the six organizations represented in this submission to the Senate Finance Committee.

These comments, incidentally, are not offered as technicians in the field but rather as concerned laymen that the most effective possible trade expansion bill will be enacted into law.

Section 102. Statement of purposes

The original bill, H.R. 9900, as introduced by Chairman Wilbur Mills of the House Ways and Means Committee on January 25, 1962, stated that "It is the purpose of this act, by lowering trade barriers through trade agreements affording mutual benefits, to stimulate the economic growth of the United States, maintain and enlarge foreign markets for the products of U.S. industry and agriculture, and make available to the people of the United States a greater variety of goods at lower prices; to strengthen economic and political relations with the European Economic Community and (other) foreign countries through the development of an open and nondiscriminatory trading system in the free world; to assist in the sound economic progress of countries in the earlier states of economic development; and to counter economic penetration by international communism. In addition, it is the purpose of this act to provide appropriate assistance to enterprises, workers, and farmers of the United States in adjusting to new conditions which may result from increased trade with the European Economic Community and (other) foreign countries."

H.R. 11970 has telescoped the objectives of this legislation into the following:

"* * * through trade agreements affording mutual benefits—

(1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of U.S. agriculture, industry, mining, and commerce;

(2) to strengthen economic relations with foreign countries through development of open and nondiscriminatory trading in the free world;

(3) to assist in the progress of countries in the earlier stages of economic development; and

(4) to prevent Communist economic penetration."

As we have noted earlier, it is not so much the specific language of the law as it is the actual implementation that concerns us most. At the same time, however, we respectfully suggest that the original language is more appropriate to the objectives and principles of the proposed than the amended version.

The phrase "by lowering trade barriers," we believe, is most important in terms of explaining the principal means by which trade expansion is contemplated. And, the last sentence in the original draft relating to Government responsibilities to provide adjustment assistance is also crucial.

It is clear to us that trade expansion through the reduction of tariffs is a desirable goal. But, we contend that such reduction should not be accompanied by, or supplemented with, other forms of trade restrictions. All forms of trade barriers should be reduced or removed.

And due regard to the legitimate welfare of workers and industries that may be affected by imports should be provided.

With our economic and national survival at stake, we trust that principle, not expediency, will motivate the Congress in enacting, and the President in carrying out, a meaningful liberal trade expansion program.

Section 201. Authority for all trade agreements and section 211, basic authority

Indicative of the stress placed upon the European Economic Community (EEC) by the administration in requesting this legislation is that the phrase "European Economic Community" appears 11 times in the first 7 pages of the bill.

We have already expressed our understanding of the emphasis that is placed on this newly created trade coalition, but we must repeat our belief that the same authority that is granted to the President to deal with the EEC also should be extended him with reference to all the nations of the free world. If this is not done, misconception of our purposes, misunderstanding of our motives, and ill will toward us may be the unfortunate consequences of restricting this Presidential power generally to the six-nation EEC.

Understandably, it is one of the real fears of the nations outside the EEC and with probably no chance for membership in the foreseeable future that the various countries may join in regional blocs and discriminate against nonparticipants of their respective groupings.

If this should occur, the free world will be split and divided into many rival camps. Such an eventuality is neither in the interests of the United States nor of the free peoples of earth.

This is not to minimize the real significance of the European Common Market arrangement. This is, though, an effort to plead for equality of opportunity to trade with the United States for all the free nations of the world.

In order to understand this plea, it is necessary only to remind ourselves that our first best worldwide customer is Canada and that our second is Japan, both of which are outside the EEC. Canada and Japan together account for approximately $5 billion of our exports, which is considerably more than for the entire EEC six-nation total.

Furthermore, percentagewise, the Japanese market is expanding far more rapidly than any other major U.S. export market, again including the EEC. If the Japenese should liberalize, as planned, 90 percent of her imports, this growth will be accelerated. The United States could be the prime beneficiary of such liberalization of import policies.

Summed up, we propose that the same authority specified in the bill for the EEC should be extended so that the President may treat with all the countries of the free world on a global, rather than a regional or bloc, basis.

Section 201. (b)

This subsection provides that the President may not decrease any rate of duty to a rate below 50 percent of the rate existing on July 1, 1962, or increase any rate of duty to (or imposing) a rate more than 50 percent above the rate existing on July 1, 1934.

If the decrease limitation deadline is July 1, 1962, we see no justification for setting the increase deadline for July 1, 1934, which is prior to the initial Reciprocal Trade Agreements Act. When a nation is embarking on a bold, new trade policy, the enabling legislation to be meaningful should not be hampered by a rate increase based on the tariff schedule of some 28 years ago.

Indeed, if the 1934, and not the 1962, base year is used, we have been given to understand that some rates can be raised as high as 800 percent.

Section 225. Reservation of articles from negotiations

The proposed language of this section is mandatory on the President that he "shall reserve" certain described articles from negotiations for the reduction of duties, etc.

We suggest that the permissive "may reserve" be substituted for the mandatory language in order that the President may have the freest possible hand in dealing with these trade problems which are also an integral part of the international relations of the United States.

The Chief Executive should not be bound by conditions that may change from time to time. He should have the permissive authority to act as he sees fit in the national interest of the United States. The President should have the option, or discretion, to determine each case on its individual merits or implications to the national interest and to decide whether that article should be placed on the reserve list or not. He should not be forced to accept automatic situations beyond his control but liable to affect his overall national program.

Section 252. Foreign import restrictions

This section requires the President to take certain stipulated action against countries that impose unjustifiable import restrictions which impair the value of tariff commitments made to the United States, oppresses the commerce of the United States, or prevent the expansion of trade on a mutually advantageous basis.

We do not quarrel with the suggestion that the President should have the power to deal with nations that do not "live up" to its commitments in the trade field in good faith. But, as with his authority to "reserve articles," so we believe that the President should have discretionary powers in this regard. He should not be directed to take specific action, if in his judgment such action might not be in our national interest.

Furthermore, since this is a trade expansion program, and since trade is a two-way matter, may we respectfully urge that provisions be written into this act to require the Government to reexamine our trade policies and to grant the President discretionary authority, if he feels that it is in the national interest, to remove the nontariff trade barriers that this country may have.

Just as appropriate public hearings are provided in connection with the determination of "unjustifiable foreign import restrictions," so similar public hearings should be afforded to any interested party to urge the elimination of any American trade barrier that is inconsistent with this trade expansion objective.

Section 351. Authority (tariff adjustment)

This section provides authority for tariff increases "or other import restriction," in cases where the Tariff Commission has recommended such an increase or import restriction by either the President or the Congress.

In the interests of true trade expansion, may we respectfully propose that "reverse" authority also be provided under which any interested party may appeal to the Tariff Commission for an investigation to lower the duties or to remove an import restriction.

Earlier this year, the President, upon the recommendation of the Tariff Commission proclaimed an increase in the duty for wilton carpet imports from 21 to 40 percent ad valorem. Since the President issued his proclamation, we have reason and information to believe that the facts on which the Tariff Commission and the President based their decisions are no longer true and valid.

The interests of trade expansion, of "fairplay and justice," of international good will and comity would seem to suggest that importers and consumers of foreign goods should have equal rights and opportunities with the domestic industry to seek tariff adjustments.

A subsection also provides that no proclamation may be issued "increasing any rate of duty more than 50 percent above the rate existing on July 1, 1934." The same objections which we raised to the limitations of section 201(b) are relevant here. The authorized increase could amount to 800 percent in some cases, which is certainly not an expression of trade expansion.

Section 405. Definitions

Subsection (4), of the "Definitions," states that "An imported article is 'directly competitive with' a domestic article at an earlier or later stage of processing, and a domestic article is 'directly competitive with' an imported article at an earlier or later stage of processing, if the importation of the imported article has an economic effect on producers of the domestic article comparable to the effect of importation of articles in the same stage of processing as the domestic article. For purposes of this paragraph, the unprocessed article is at an earlier stage of processing."

House Report No. 1818, of this 87th Congress, 2d session, of the Ways and Means Committee on H.R. 11970, provides the following explanation at page 68: "Paragraph (4) is intended to suggest a somewhat broader interpretation of 'directly competitive with' than has been applied to like words in existing law, by defining the phrase to embrace the competition presented by an article at an earlier or later stage of processing as well as by a like article in the same stage of processing. The definition makes clear that an unprocessed article may be regarded as an article at an earlier stage of processing. The term 'earlier or later stage of processing' contemplates that the article remains substantially the same during such stages of processing, and is not wholly transformed into a different article."

Earlier, at page 24, the report explains that "Your committee has incorporated in the bill a provision which has the effect of permitting an extension of the scope of the term 'directly competitive.' Under this provision, an imported article may be considered 'directly competitive with' a domestic article, or vice versa, if the one is at an earlier or later stage of processing than the other, or if one is a processed and the other an unprocessed form of the same article, and if the economic effect of importation of the imported article is comparable to the effect of importation of articles in the same stage of processing as the domestic article.

"The term 'earlier or later stage of processing' contemplates that the article remains substantially the same during such stages of processing, and is not wholly transformed into a different article. Thus, for example, zinc oxide would be zinc ore in a later stage of processing, since it can be directly processed from zinc ore. For the same reason, a raw cherry would be a glace cherry in an earlier stage of processing, and the same is true of a live lamb and dressed lamb meat (sec. 405(4))."

We must confess our inability to understand this particular language in terms of the import trade in textiles, for example. As a matter of fact, even the cherry and glace cherry illustration is not clear when considered in the alternative of a chocolate-covered cherry.

If the interpretation is that an unfinished imported suit is directly competitive with a finished suit made in the United States, we would find little to quarrel with. On the other hand, if the intended interpretation is so broad that an imported silk fabric, for example, is to be considered as directly competitive with a high fashion dress, we suggest that the stipulated purposes of this "Trade Expansion Act of 1962" is being circumvented and frustrated.

This definition needs further clarification. And the clarification may well be advance notice as to whether this legislation is truly a liberal trade program.

CONCLUSIONS

We believe that the Trade Agreements Extension Act of 1958, as amended, which expired June 30, 1962, is totally inadequate to meet the many challenges of this changed world. This extension of the original reciprocal trade program that was enacted by the Congress almost three decades ago, with its exhausted item-by-item authority for tariff reduction, served well its purposes, but in this day and age is now as outmoded and outdated as are other 1934 models.

Today, throughout every part of the world, we are faced with total economic warfare as waged by the aggressive and ruthless forces of the Sino-Soviet combine, which is utilizing the totalitarian weapons of economic penetration and subversion—in the words of Khrushchev—"to bury" us. The Communist conspiracy is confident that the United States is unwilling to make the necessary sacrifies and adjustments to successfully challenge their trade offensive in all sectors of the globe.

Today, also, the European Economic Community, with its vast merged industrial potential, manpower, and market, is becoming a competitive reality.

We need to provide the President with the required authority to deal not only with the revitalized economy of the six-nation EEC bloc but, more importantly, with the grimmer and more crucial challenges of the economic imperialism of the Communists in every corner of the earth.

We believe that the instant legislation, H.R. 11970, properly revised, and appropriately implemented in the spirit of the stated purposes, will provide our Chief Executive with the minimum powers necessary to cope with the problems of the EEC and the threats of the Sino-Soviet trade offensive.

At the same time, if imports are encouraged from other nations of the free world to enter our marketplace, we are confident that our exports too will be increased substantially, to the mutual benefit, security, and profit of all of the free peoples. Our lagging economic growth would be stimulated as our productive resources are tested and become more efficiently utilized.

True trade expansion—in imports and in exports—will serve to strengthen the economies of our allies and friends on the farflung ramparts of freedom that gird the Sino-Soviet alliance land mass—the NATO, the CENTO, and SEATO arrangements and northward up through the arc that Japan and the Republic of Korea comprises.

Such liberal trade expansion, too, will stay the covetous political subversion through economic penetration of the less developed countries by the Kremlin-Peiping axis.

In all of this, we believe that Japan serves a special purpose above and beyond being a bulwark in our mutual defense system and our second best world trading partner.

Japan, astride the Pacific gateway to mainland China and the vast Siberian approaches to European Russia, is the sparkling showcase for both democracy as a way of government and free enterprise as a means to economic salvation.

Red China, with the brutal techniques of communism and state socialism, is attempting to demonstrate not only to its own 650 million, but to the hundreds of millions of other Afro-Asians emerging from colonialism to independence and developing societies and economies, that the Marxist way of government and industry are better suited to the basic needs, and the hopes and aspirations, of these newly free peoples who, too, must lift themselves up, by their proverbial bootstraps, from backward feudalism into the middle of the 20th century and the space age.

Japan, at the moment, is living proof that an Asian-African nation can successfully cope with the grave problems of this epoch while enjoying the benefits of a more abundant life and personal dignity in freedom. It is the only nation in all the Far East and outside of Europe that has progressed so far so rapidly. It is one of the four major industrial complexes in all the world.

Japan, therefore, remains the coveted prize of the communistic powers. Her neutralization and subsequent subservience will not only demonstrate to most of the two-thirds of the world's population that is either uncommitted or within the totalitarian orbit, the supposed superiority of communism as a way of life but also that communism is the "wave of the future."

Even more importantly, such a shift in national identification may have major strategic implications for our national security, for the shift in industrial potential and trained manpower may tip the strategic balance against the free world.

This is part of the meaning of the need for a truly expanding trade expansion program for all under the leadership of the United States.

We can no more ignore the economic challenge of the Sino-Soviet bloc than we can their competition in nuclear bombs, in intercontinental ballistic missiles, and in the exploration of outer space.

Expanded trade is indivisible with military preparedness and defense in the cold war that is being waged between the two systems of living, with victory or defeat riding in the balance.

We are among those Americans who have faith that our country, as the leader of the free world, need not fear to do what is right in the best interests of our Nation and our allies and friends throughout the world.

Unquestionably, there will be many who will oppose the lowering of duties and the elimination of other restrictions to the freer flow of international trade and commerce.

Whether we like it or not, however, we are engaged in mortal combat on two fronts—in military preparedness and in trade. The enemy is the same: the Sino-Soviet combine. The price of defeat in either is the same—the end of our way of life and living.

In this grim context, even the loudest outcries of "protection" should become mere whispers, especially when the truth is known that true, two-way trade expansion will aid our economy and raise our standard of living.

In pursuing an expanded, liberal trade policy and practice, let us recall again that we have only one fear, and that is of fear itself.

After all, "Trade is civilization," as Vice President Lyndon Johnson so effectively summed it up in an address to the Coordinating Council of Organizations on International Trade Policy last May 2.

This statement would not be complete without passing reference to the recent resolution unanimously adopted at the annual convention of the American Cotton Manufacturers Institute, which will soon be changed to the American Textile Manufacturers Institute to more accurately reflect its real position and identity as the central trade organization of the American textile industry, whose members are responsible for some 80 percent of all the textile manufacturing of all fibers in this country.

The unprecedented resolution endorsed this specific trade expansion principle. And what is more, from what we have been given to understand, the ACMI was active during the House floor debate in rallying support for the administration's trade legislation.

Almost a century and a half ago, in 1816, duties on cotton and wool textiles were first raised to the "protective tariff" levels. Even since that historic date, and especially in the past decade, the domestic textile industry has been in the forefront of those advocating protective relief measures against textile imports.

Accordingly, we welcome the ACMI into the ranks of those who recognize the grim realities of the world in which we live, when trade by and between free nations is essential not only to economic growth but to national survival itself. We hope and trust that the ACMI and the domestic textile industry will carry on in their enlightened self-interest, which suggests the encouragement of textile imports in those lines that are uneconomic for America to produce and which appreciates that, after the current 5-year international cotton textile agreement has terminated, there should be free trade in textiles.

The CHAIRMAN. Thank you very much.

Any questions, Senator Douglas?

Senator DOUGLAS. Mr. Masaoka, I believe you are a member of the 441st Combat Battalion?

Mr. MASAOKA. 442d Regimental Combat Team.

Senator DOUGLAS. 442d Combat Battalion. That battalion consisted of Japanese-Americans.

Mr. MASAOKA. Yes, sir.

Senator DOUGLAS. And had more men killed and wounded in action proportionate to its numbers than any other American unit.

Mr. MASAOKA. That is correct, sir.

Senator DOUGLAS. That one has the Presidential Unit Citation more frequently than any other American unit.

Mr. MASAOKA. Yes, sir.

Senator DOUGLAS. And it had more men decorated for bravery than any other unit. We are all very proud of that. You never speak of this yourself; I believe you were wounded and decorated?

Mr. MASAOKA. I was one of five brothers who served in this volunteer combat unit at the same time and though it is not a Japanese-American trait particularly to brag about these things, I understand, Mr. Chairman, from military records that my family had more brothers in service in the line, in combat at the same time than any other American family. We are very proud of this. One brother was killed. Another was 100 percent disabled. Together we earned something like 30 decorations.

Incidentally, Colonel Dixon, from the great State of Illinois was one of our commanding officers, in the early stages of our training.

Senator DOUGLAS. He has spoken of the unit with great affection and it was a great tragedy in his life because of age he was not permitted to lead them into combat overseas, and I want you to know we are all very grateful to you and very proud of you.

Now, may I ask one or two questions.

The Chairman has mentioned the disparity in wages between Japan and the United States, and this is what worries a great many of us who try to even out differences within the United States by fixing minimum wages.

Do you see any real prospect that wages in Japan are going to go up?

Mr. MASAOKA. Senator Douglas, I believe that the postwar history of wages in Japan will show that wages in Japan have increased more percentagewise than they have here in the United States.

Now frankly——

Senator DOUGLAS. They started at a very low level.

Mr. MASAOKA. They started at a very low level and they have a long way to go.

Senator DOUGLAS. Yes.

Mr. MASAOKA. But nevertheless I think it is important for us to remember that they have increased so rapidly that even in Japan, they are facing a pinch.

For example, many people are leaving the textile industry to go to the higher paying aeronautical and other industries, the unions have been very effective in Japan and today there are more people in the textile industry that the chairman alluded to, who are unionized in Japan than in the United States, for instance.

Senator DOUGLAS. What is the average hourly wage in textiles?

Mr. MASAOKA. I believe the average hourly wage in Japan would run somewhat above the chairman's 28 cents.

You see in Japan, the export industries, and especially in cotton, I understand are among the largest and they would run substantially more than the 28 cents that the chairman alluded to, perhaps around 40 cents, but they would be much lower than ours.

I think the thing to remember, however, is that as low as Japanese wages are, they are nevertheless high enough to allow Japan to buy almost a billion dollars worth more per year from us than we are able to sell to Japan.

Senator DOUGLAS. The biggest purchase the Japanese make is cotton, is it not?

Mr. MASAOKA. Yes.

Senator DOUGLAS. Surplus cotton purchased from the United States?

Mr. MASAOKA. Surplus cotton purchased from the United States.

Senator DOUGLAS. If they are unable to ship textiles to us would they be able to buy cotton?

Mr. MASAOKA. The situation has been that Japan bought well over 1,700,00 bales of raw cotton and she sent back 113,000 bales because this is, this 113,000-bale limitation has enabled her to earn enough dollars to buy much of this, only 2 million bales of raw cotton.

We think any further restriction on Japan's ability to ship to this country will hurt the ability of Japan to buy this raw cotton, and we think it is important in terms of overall trade to remember that one item may be hurt but other items must be considered.

Perhaps the textile industry may claim injury, but what about the American farmer and the American taxpayer who are involved in this problem of surplus American cotton.

Senator DOUGLAS. Well, this is, in a peculiar sense a sectional issue, isn't it? The cotton mills are located in the South in the—cotton is grown not as exclusively as in the past but predominantly from the South.

So that though the Piedmont region might be hurt, the lowland cotton region would be helped, isn't that true?

Mr. MASAOKA. It is very true, Senator.

I think this is one of the difficult problems that confronts the Congress and the President. How one balances the national interest of one particular interest and that of another. We, of course, believe that the national interest is encouraged by helping Japan remain on the side of free nations and that is the reason for our difficulty today.

Senator DOUGLAS. Another point: Suppose we throw further impediments in the way of Japanese importations, will not this strengthen the movement inside Japan to seek a market in Red China?

Mr. MASAOKA. This is true. There is one of the great fears which we Japanese-Americans have. Knowing how implacable an enemy Japan was in World War II, we know how great and powerful she can be as an ally of ours. Nevertheless the economic realities are such that the mainland of Red China is very, very near. Before World War II this was a principal market both for raw materials and for an outlet for Japanese manufactured goods.

There is very definitely a movement among certain elements in Japan to seek a greater share of the China market, and we believe as you do, Senator, that any impediment on Japanese trade to the United States simply helps our enemies in Japan and elsewhere and not our friends.

Senator DOUGLAS. And if you started trade with Red China would not Red China impose as a condition of trade that Japan cease the alliance with the United States, and agree to put her foreign policy in greater conformity with their foreign policy?

Mr. MASAOKA. I think you are very great in your analysis. The enemy, the Communist combination uses trade as a weapon in the present cold war, and unfortunately, in a total cold war such as we are engaged in today, Red China will use every device to wean away Japan from the United Nations.

If we lose Japan I am afraid we lose a bulwark for our anchor for our Western defenses in the Pacific.

Senator DOUGLAS. You referred to the international agreement in Geneva.

Could you briefly summarize what that agreement was?

Mr. MASAOKA. Last year, under the invitation of the United States issued officially through GATT, some 17 cotton exporting and importing nations gathered in Geneva and adopted a short-term and a long-term international cotton textile agreement.

These provide for certain minimums allowing the importing country to impose if they feel that there is market disruption, unilateral ceilings upon the importation of cotton textiles.

This, in a sense, has been extended to the multilateral agreement. In the case of Japan, however, in terms of the single year short-term agreement, the United States and Japan have worked out a bilateral agreement.

In essence, at least the theory of this is to allow Japan and other countries to slowly expand their cotton textile trade throughout the world.

In actual fact, however, we fear this establishes a dangerous precedent whereby the United States and other importer countries may, if they wish, ignore the free trade aspirations and goals and establish international agreements to control trade and international commerce on various articles.

Senator DOUGLAS. Is this rate of growth in Japanese textile exports somewhat less than the past rate of growth, economic rate of growth in the free world?

Mr. NASAOKA. I didn't understand your question, Senator.

Senator DOUGLAS. Well, you say Japan was to be allowed to expand slightly its percentage of the non-Japanese market in textiles. Therefore, given a rate of growth, I wanted to ask if this rate of growth was less than the expected or past rate of growth of the present world?

Mr. MASAOKA. It would be very much less, a very small percentage.

Senator DOUGLAS. So that while Japan would get a larger absolute volume of exports, it would have a smaller proportionate volume of world production, is that right?

Mr. MASAOKA. That is correct.

Senator DOUGLAS. What about the United States as compared with Europe?

Mr. MASAOKA. There is no question that the United States allows greater importation of Japanese cotton textiles than European countries.

However, it should be remembered that even with the total of Japanese textile imports into the United States constitutes less than 2 percent of American domestic production and when weighed against the great purchases by Japan of all American export products, this is really as nothing.

Senator DOUGLAS. Thank you.

Senator SMATHERS. Do we have in the record a list of all of the countries that export textiles into the United States and the amount of that, Mr. Chairman?

Do we have it in the record?

Why don't we get that for the record, to be published in line with the testimony of what countries we allow to import textiles and the amounts.

He says Japan only has 2 percent which is a very revealing figure.

The CHAIRMAN. It will be put into the record.

(The following was later received for the record:)

Cotton cloths (pars. 904 and 905).—U.S. imports for consumption, by countries, 1961 [1]

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	70,042,802	254,703,488	$58,795,030	100.0	100.0	100.0
Japan	17,984,335	89,563,104	21,188,401	25.7	35.2	36.1
Hong Kong	25,312,242	69,387,343	11,663,128	36.1	27.3	19.8
West Germany	2,071,762	5,623,764	3,572,836	3.0	2.2	6.1
France	3,279,496	17,137,217	2,763,617	4.7	6.7	4.7
Netherlands	1,462,811	4,169,800	2,638,342	2.1	1.6	4.5
United Kingdom	[2] 711,487	[2] 3,377,485	[2] 2,417,068	[2] 1.0	[2] 1.3	[2] 4.1
India	2,978,543	10,378,316	2,001,361	4.3	4.1	3.4
Portugal	1,886,060	8,179,693	1,718,350	2.7	3.2	2.9
Taiwan	3,015,016	10,951,902	1,438,915	4.3	4.3	2.5
Switzerland	435,143	3,184,355	1,357,635	.6	1.2	2.3
Spain	1,970,769	6,482,688	1,349,333	2.8	2.7	2.3
Italy	453,873	1,601,945	1,285,361	.7	.6	2.2
Pakistan	2,743,781	7,893,824	1,055,170	3.9	3.1	1.8
Egypt	1,340,217	5,004,118	1,047,181	1.9	2.0	1.8
Austria	464,512	2,055,693	1,011,590	.7	.8	1.7
Korea, Republic of	2,313,135	4,966,121	961,561	3.3	1.9	1.6
Belgium and Luxembourg	685,232	1,606,470	671,480	1.0	.6	1.2
Mexico	361,877	903,460	168,053	.5	.4	.3
Canada [3]	180,599	707,230	146,307	.3	.3	.3
Trinidad and Tobago	80,698	501,271	71,440	.1	.2	.1
Brazil	59,213	293,567	53,023	.1	.1	.1
Yugoslavia	147,795	430,460	50,585	.2	.2	.1
Denmark	12,045	48,527	32,526	(4)	(4)	.1
Israel	17,169	73,019	28,841	(4)	(4)	(4)
Haiti	8,653	8,550	27,157	(4)	(4)	(4)
Norway	16,264	28,688	24,527	(4)	(4)	(4)
Syria	13,408	49,067	13,399	(4)	(4)	(4)
Sweden	5,771	14,097	11,457	(4)	(4)	(4)
Poland and Danzig	9,685	52,191	7,565	(4)	(4)	(4)
Finland	3,073	8,635	7,038	(4)	(4)	(4)
East Germany	6,895	27,861	6,494	(4)	(4)	(4)
Australia	5,176	15,927	5,365	(4)	(4)	(4)
Colombia	5,842	10,736	2,662	(4)	(4)	(4)
Turkey	242	1,075	914	(4)	(4)	(4)
Greece	108	200	422	(4)	(4)	(4)
Malta, Gozo, and Cyprus	165	275	388	(4)	(4)	(4)
Bahamas	125	652	366	(4)	(4)	(4)
Gibraltar	65	172	172	(4)	(4)	(4)

[1] Preliminary.
[2] Includes 5,936 pounds, 27,662 square yards, valued at $13,497, of average yarn No. 50, dutiable at the reduced rate.
[3] Includes Newfoundland and Labrador.
[4] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption, by countries, 1960 [1]

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	113,894,050	454,898,113	$83,544,583	100.0	100.0	100.0
Japan	18,527,962	89,486,029	21,215,785	16.3	19.7	25.4
Hong Kong	24,436,398	81,716,471	11,672,550	21.5	18.0	14.0
India	13,218,739	49,530,208	8,257,333	11.6	10.9	9.9
Spain	9,785,976	44,275,905	5,931,793	8.6	9.7	7.1
Egypt	12,233,798	44,714,485	5,923,356	10.[illegible]	9.8	7.1
Portugal	6,355,783	30,373,900	4,930,435	5.6	6.7	5.9
France	6,578,010	32,661,914	4,292,585	5.8	7.2	5.1
United Kingdom	971,803	5,329,455	3,298,991	.9	1.2	3.9
West Germany	1,767,918	7,247,023	2,887,950	1.6	1.6	3.5
Taiwan	4,384,174	17,347,111	2,384,090	3.8	3.8	2.9
Switzerland	838,868	6,177,743	2,375,554	.7	1.3	2.8
Korea, Republic of	5,703,592	13,685,144	2,312,745	5.0	3.0	2.8
Pakistan	4,471,358	15,980,313	1,970,006	3.9	3.5	2.4
Italy	532,581	1,823,048	1,499,752	.5	.4	1.8
Netherlands	569,157	2,242,793	1,145,612	.5	.5	1.4
Belgium and Luxembourg	1,110,495	3,165,707	1,115,031	1.0	.7	1.3
Austria	539,250	2,224,575	1,070,643	.5	.5	1.3
Brazil	598,638	2,790,320	453,499	.5	.6	.5
Mexico	709,905	1,778,836	291,398	.6	.4	.3
Canada [2]	106,614	384,724	109,636	.1	.1	.1
Syria	189,369	741,904	102,278	.2	.2	.1
Trinidad and Tobaco	126,828	572,027	80,840	.1	.1	.1
Denmark	33,478	123,754	63,105	(3)	(3)	.1
Poland and Danzig	61,272	330,435	43,551	(3)	.1	.1
Israel	27,453	79,100	42,218	(3)	(3)	.1
Sweden	20,647	47,608	37,214	(3)	(3)	(3)
Haiti	5,272	5,169	16,827	(3)	(3)	(3)
Australia	5,149	23,105	13,365	(3)	(3)	(3)
Yugoslavia	560	2,003	2,188	(3)	(3)	(3)
Cuba	1,915	29,181	1,732	(3)	(3)	(3)
Jamaica	613	3,237	1,294	(3)	(3)	(3)
Malta, Gozo, and Cyprus	324	1,231	720	(3)	(3)	(3)
French Pacific islands	60	322	325	(3)	(3)	(3)
Thailand	91	273	182	(3)	(3)	(3)

[1] Preliminary.
[2] Includes Newfoundland and Labrador.
[3] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption, by principal sources, 1959 [1]

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	56,959,824	240,322,420	$51,179,066	100.0	100.0	100.0
Japan	21,442,229	99,671,389	20,753,985	37.6	41.5	40.5
United Kingdom	1,351,107	7,359,447	4,306,299	2.4	3.1	8.4
India	6,096,925	26,126,416	4,016,282	10.7	10.9	7.8
Hong Kong	8,573,049	30,741,808	3,725,805	15.0	12.8	7.3
West Germany	1,411,758	5,598,644	2,338,028	2.5	2.3	4.6
Belgium and Luxembourg	2,043,935	6,482,969	2,061,818	3.6	2.7	4.0
France	2,270,031	11,900,726	1,894,589	4.0	5.0	3.7
Switzerland	590,824	4,153,935	1,871,752	1.0	1.7	3.6
Italy	505,726	1,882,319	1,665,371	1.0	.8	3.2
Netherlands	717,177	2,988,097	1,426,204	1.2	1.2	2.8
Korea, Republic of	3,359,337	8,289,491	1,314,204	5.9	3.4	2.6
Taiwan	1,972,107	8,294,093	1,159,562	3.5	3.4	2.3
Spain	1,901,997	9,416,825	1,035,809	3.3	3.9	2.0
Pakistan	2,237,607	8,114,352	987,761	3.9	3.4	1.9
Portugal	912,901	4,111,183	924,134	1.6	1.7	1.8
Austria	505,153	2,085,705	918,073	.9	.9	1.8
Egypt	190,472	845,334	325,094	.3	.3	.6
Mexico	664,815	1,601,031	229,351	1.2	.6	.4
Denmark	35,072	152,313	91,026	.1	.1	.2
Cuba	40,759	458,513	42,190	.1	.2	.1
Canada [2]	10,566	42,248	29,721	(3)	(3)	.1
Czechoslovakia	14,404	49,219	18,238	(3)	(3)	(3)
Brazil	6,911	22,128	11,822	(3)	(3)	(3)
Sweden	6,296	15,284	11,300	(3)	(3)	(3)
Haiti	4,128	3,970	11,142	(3)	(3)	(3)
Israel	1,985	6,505	2,186	(3)	(3)	(3)
Ireland	546	2,210	2,175	(3)	(3)	(3)
Finland	833	2,213	2,026	(3)	(3)	(3)
Yugoslavia	812	2,457	1,236	(3)	(3)	(3)
Peru	198	659	1,196	(3)	(3)	(3)
Malta, Gozo, and Cyprus	90	225	318	(3)	(3)	(3)
Leeward and Windward Islands	24	192	230	(3)	(3)	(3)
Guatemala	50	520	139	(3)	(3)	(3)

[1] Preliminary.
[2] Includes Newfoundland and Labrador.
[3] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption, by principal sources, 1958 [1]

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	31,262,016	140,996,438	$38,125,660	100.0	100.0	100.0
Japan	21,032,051	103,506,671	21,564,475	67.3	73.4	56.6
United Kingdom	1,362,935	7,022,379	4,398,107	4.4	5.0	11.5
Belgium and Luxembourg	1,735,619	5,217,412	1,859,176	5.6	3.7	4.9
Switzerland	459,667	2,739,296	1,579,065	1.5	1.9	4.1
West Germany	899,405	3,291,191	1,570,196	2.9	2.3	4.1
Netherlands	794,920	3,152,844	1,526,127	2.5	2.2	4.0
Italy	450,358	1,539,439	1,483,398	1.4	1.1	3.9
Austria	482,775	2,024,367	926,904	1.5	1.4	2.4
Korea, Republic of	1,867,799	4,792,428	732,880	6.0	3.4	1.9
France	270,741	576,984	661,440	.9	.4	1.7
India	318,341	1,328,999	438,244	1.0	1.0	1.2
Hong Kong	692,171	2,219,728	408,188	2.2	1.6	1.1
Egypt	120,983	583,813	284,457	.4	.4	.8
Portugal	185,194	1,004,444	197,509	.6	.7	.5
Denmark	107,791	526,681	187,062	.3	.4	.5
Mexico	377,026	1,120,987	140,699	1.2	.8	.4
All other	104,140	348,775	167,733	.3	.3	.4

[1] Preliminary.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption, by principal sources, 1957

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	27,066,081	122,444,342	$35,216,831	100.0	100.0	100.0
Japan	17,718,510	86,522,352	18,231,138	65.5	70.7	51.8
United Kingdom	1,454,013	7,796,901	4,785,736	5.4	6.4	13.6
Belgium and Luxembourg	2,992,186	8,899,676	3,243,095	11.1	7.3	9.2
West Germany	912,106	3,425,748	1,608,438	3.4	2.8	4.6
Switzerland	433,298	2,760,067	1,517,405	1.6	2.2	4.3
Italy	465,308	1,487,887	1,344,945	1.7	1.2	3.8
Netherlands	732,990	2,953,830	1,320,935	2.7	2.4	3.8
Austria	491,610	1,939,890	886,017	1.8	1.6	2.5
France	247,610	604,579	609,045	.9	.5	1.7
Egypt	226,527	984,136	467,900	.8	.8	1.3
Hong Kong	856,981	2,969,240	423,193	3.2	2.4	1.2
India	257,735	1,098,280	319,261	.9	.9	.9
Denmark	135,966	570,670	259,424	.5	.5	.7
All other	141,241	431,086	200,299	.5	.3	.6

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904-905).—U.S. imports for consumption, by principal sources, 1956

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	39,618,882	188,247,932	$51,507,741	100.0	100.0	100.0
Japan	28,740,449	142,942,683	30,429,406	72.5	75.9	59.1
United Kingdom	2,135,715	11,689,941	6,802,007	5.4	6.2	13.2
Belgium and Luxembourg	2,593,509	7,292,860	2,799,832	6.5	3.9	5.4
Switzerland	701,178	4,834,272	2,407,805	1.8	2.6	4.7
West Germany	1,257,311	4,973,921	2,306,893	3.2	2.6	4.5
Netherlands	964,396	4,164,096	1,762,315	2.4	2.2	3.4
Italy	546,821	1,689,276	1,472,275	1.4	.9	2.9
Austria	559,610	2,355,828	1,037,716	1.4	1.3	2.0
India	1,378,328	5,702,907	830,900	3.5	3.0	1.7
France	351,211	998,810	837,749	.9	.5	1.6
Egypt	172,027	823,349	369,700	.4	.4	.7
Denmark	74,741	348,[illegible]	172,932	.2	.2	.3
Canada [1]	36,962	142,983	83,121	.1	.1	.2
All other	106,614	288,011	145,180	.3	.2	.3

[1] Includes Newfoundland and Labrador.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904-905).—U.S. imports for consumption, by principal sources, 1955 [1]

Country	Quantity		Foreign value	Ratio to totals—		
				Quantity		Foreign value
	Pounds	Square yards		Pounds	Square yards	
				Percent	*Percent*	*Percent*
Total, all countries	28,802,127	133,142,487	$36,082,588	100.0	100.0	100.0
Japan	21,111,695	99,533,708	19,142,511	73.3	74.8	53.1
United Kingdom	1,713,359	9,282,248	5,835,311	6.0	7.0	16.2
Switzerland	738,263	5,439,681	2,553,124	2.6	4.1	7.1
Belgium and Luxembourg	1,971,924	5,479,806	2,053,061	6.8	4.1	5.7
Italy	517,191	1,564,985	1,490,455	1.8	1.2	4.1
West Germany	841,751	3,292,954	1,418,432	2.9	2.5	3.9
Netherlands	615,990	3,274,040	1,274,525	2.1	2.5	3.5
France	455,928	1,669,234	989,676	1.6	1.2	2.8
Austria	318,654	1,471,380	595,385	1.1	1.1	1.7
Denmark	91,018	423,304	193,010	.3	.3	.5
India	247,766	988,262	191,963	.9	.7	.5
Egypt	59,643	255,577	154,820	.2	.2	.4
Canada [2]	32,844	172,956	75,636	.1	.1	.2
Sweden	23,528	87,555	41,608	.1	.1	.1
Mexico	57,962	140,250	38,244	.1	.1	.1
Spain	14,102	41,814	15,305	.1	[3]	[3]
All other countries	10,509	24,943	19,522	[3]	[3]	.1

[1] Beginning in 1954, individual importations for immediate consumption that do not amount to more than $250 under a statistical classification are not included in the data in this table.
[2] Includes Newfoundland and Labrador.
[3] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption, by principal sources, 1954 [1]

Country	Quantity: Pounds	Quantity: Square yards	Foreign value	Ratio to totals—Quantity: Pounds	Ratio to totals—Quantity: Square yards	Ratio to totals—Foreign value
				Percent	*Percent*	*Percent*
Total, all countries	16,561,316	73,500,462	$22,417,683	100.0	100.0	100.0
Japan	10,801,949	47,835,418	9,025,878	65.2	65.1	40.3
United Kingdom	1,481,050	7,845,644	4,850,467	8.9	10.7	21.6
Switzerland	698,629	5,086,332	2,400,172	4.2	6.9	10.7
Belgium and Luxembourg	1,405,469	4,225,240	1,484,730	8.5	5.7	6.6
Italy	403,060	1,660,856	1,415,631	2.4	2.3	6.3
West Germany	558,057	2,170,630	929,578	3.4	3.0	4.1
France	366,407	1,189,106	856,371	2.2	1.6	3.8
Netherlands	467,314	2,015,808	837,373	2.8	2.7	3.7
Austria	161,788	656,676	280,248	1.0	.9	1.3
India	106,605	362,276	101,695	.7	.5	.5
Denmark	34,175	158,854	65,808	.2	.2	.3
Egypt	26,286	118,203	65,485	.2	.2	.3
Canada [2]	14,843	64,543	35,683	.1	.1	.2
Spain	17,137	61,109	29,184	.1	.1	.1
All other countries	18,517	49,767	39,380	.1	(3)	.2

[1] Beginning in 1954, individual importations for immediate consumption that do not amount to more than $250 under a statistical classification are not included in the data in this table.
[2] Includes Newfoundland and Labrador.
[3] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Countable cotton cloths (pars. 904–905).—U.S. imports for consumption by principal sources, 1953

Country	Quantity: Pounds	Quantity: Square yards	Foreign value	Ratio to totals—Quantity: Pounds	Ratio to totals—Quantity: Square yards	Ratio to totals—Foreign
				Percent	*Percent*	*Percent*
Total, all countries	13,656,819	64,293,277	$20,764,514	100.0	100.0	100.0
United Kingdom	1,692,355	8,848,347	5,596,759	12.4	13.8	27.0
Japan	6,085,062	30,665,689	5,167,859	44.6	47.7	24.9
Switzerland	963,161	7,558,305	3,285,555	7.1	11.8	15.8
Belgium and Luxembourg	1,741,496	5,240,854	1,846,109	12.7	8.1	8.9
Netherlands	707,894	2,955,047	1,129,403	5.2	4.6	5.4
Italy	344,203	1,240,844	955,984	2.5	1.9	4.6
West Germany	468,414	1,965,258	807,656	3.4	3.1	3.9
France	338,855	1,213,236	731,407	2.5	1.9	3.5
India	760,788	2,429,818	444,658	5.6	3.8	2.1
Austria	225,380	909,648	369,174	1.6	1.4	1.8
Denmark	169,260	586,326	241,373	1.2	.9	1.2
Mexico	124,940	548,184	110,717	.9	.8	.5
Egypt	15,958	62,967	31,747	.1	.1	.2
Canada [1]	10,154	41,664	20,476	.1	.1	.1
All other countries	8,899	27,090	25,637	.1	(2)	.1

[1] Includes Newfoundland and Labrador.
[2] Less than 0.05 percent.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Senator SMATHERS. Which will give us a total in relation to what we manufacture.

Mr. MASAOKA. Japan imports only 2 percent.

Senator SMATHERS. Two percent.

Mr. MASAOKA. That is correct, sir, approximately 2 percent.

The CHAIRMAN. Thank you very much.

The committee will adjourn until 10 o'clock tomorrow morning.

(By direction of the chairman, the following is made a part of the record:)

MARRINER & CO., INC.,
Lawrence, Mass., July 27, 1962.

Re trade expansion bill, H.R. 11970.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee, Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: Our company, Marriner & Co., Inc., are wool top makers in Lawrence, Mass. We have made a study of the European Common Market, which included several visits to Europe by the writer, and we are convinced that people working in the best managed companies are as intelligent, hard working, and as efficient as we in America. Therefore, how can we hope, without compensating tariff protection, to compete when their wages are one-third or less than ours?

Those favoring free trade stress the need for increasing exports to create more jobs, whereas little is said about the loss of jobs due to greatly increased imports, which could easily put 10 times as many Americans out of work as new jobs are created from exports. Many industries are meeting this foreign competition by establishing plants in the Common Market resulting in a net loss of jobs and capital to our country.

U.S. business is the lifeblood of our Nation. We must be sure of adequate protection against low-wage foreign competition. Also at this critical time we need from our Government more emphasis on the encouragement of U.S. business.

I respectfully request that you include this letter in the record of the hearings being conducted by your committee on H.R. 11970.

Respectfully yours,

KENNETH W. MARRINER, *President.*

STATEMENT SUBMITTED BY C. T. NISSEN, EXECUTIVE DIRECTOR, BUILDERS HARDWARE MANUFACTURERS ASSOCIATION, NEW YORK, N.Y.

PURPOSE OF STATEMENT

1. It is the purpose of this statement to present viewpoints of the builders' hardware manufacturing industry relative to proposed bill, H.R. 11970, Trade Expansion Act of 1962.

In general, the builders' hardware manufacturing industry favors the broad purposes contained in section 102 of the proposed legislation. It is believed that the interests of the American economy and of American industry can be advanced through legislation of this type provided that proper safeguards to prevent unwarranted damage to industry are also enacted.

2. We urge that the basic objectives outlined in the proposed legislation be accomplished without serious and needless injury to American industry. Such damage can, we believe, be kept to a minimum through retention of adequate safeguards and the clarification and strengthening of congressional powers and control.

In addition to proposed reductions in tariff rates as contained in the bill, consideration should be given to proper reciprocal removal of foreign restrictions on American products, such as licenses, use taxes, quotas, exchange requirements, and others. Also, means should be devised whereby industry representations can be had, together with Government agencies, on the negotiation committees that treat with foreign governments relative to the reduction of import duties for particular industries.

During the last few years the export market for the builders' hardware industry has fallen off approximately 10 percent, and a further decline is in prospect.

A mere reduction in foreign tariff rates will not reverse this trend. Removal of other impediments, such as those noted above, is required.

BACKGROUND OF INDUSTRY

Nature of product

The builders' hardware manufacturing industry predates the forming of this Republic. Since 1789, this industry has served the American public at consistently low cost to users, in contrast to the high-priced inflation of many consumer products. According to the Government-published "Survey of Current Business," the wholesale price index for metals and metal products has risen by 53 percent since 1947. In the builders' hardware industry, over the same period, the average increase was only 40 percent.

Builders' hardware items are precision-made products composed of numerous raw materials put through many manufacturing operations to complete an end product for commercial or home use. The industry is a substantial contributor, relative to its size, to the import trade through its foreign purchases of raw materials and semifinished products.

Makeup of industry

The builders' hardware manufacturing industry is a comparatively small industry. The approximately 200 manufacturers (see exhibit A) who account for the entire production range in size from firms employing less than 25 persons to those having more than 2,500 employees. In total, the industry employed more than 30,000 persons as of January 1, 1962.

In order to better understand the problems of the industry, it should be noted that its principal products are divided into nine sections, as follows: (*a*) butts, hinges and related items; (*b*) cabinet hardware, including cabinet hinges and locks; (*c*) door closers, including checking floor hinges and overhead concealed closers; (*d*) hangers, track and related items, including overhead types; (*e*) rim night latches, dead locks, padlocks and key blanks; (*f*) locks and lock trim, including cylindrical and tubular locks; (*g*) panic bolts; (*h*) residential and commercial sliding and folding door hardware; (*j*) miscellaneous hardware and locking devices.

Also, it should be noted that manufacturers of builders' hardware are important local employers in many areas of the United States. For example, in Massachusetts, Connecticut, New York, Pennsylvania, Ohio, Illinois, South Carolina; Missouri, Washington, and California, there are local communities heavily depedent upon this industry for economic survival (see exhibit B).

CURRENT INDUSTRY CONDITIONS

Competitive industry

The builders' hardware manufacturing industry is a highly competitive, somewhat low-profit industry. It is today almost wholly dependent upon the domestic market, since it is effectively shut out of many export markets. In addition, domestic manufacturers find it extremely difficult to compete, pricewise, in the remaining export markets open to them, because of the substantial cost advantages enjoyed by foreign producers.

Rising costs

Industry costs for both material and wages have continued to rise through the years. Cost increases from 1933 to the present time have far exceeded the 1933 tariff rates on imported items of builders' hardware. This industry has managed to survive by constant improvement of its processes and through maximum efficient use of its equipment.

Exports and imports

The decline of industry exports in recent years has been a serious blow to the builders' hardware manufacturing industry. Some of the industry's most important export markets have been lost to foreign manufacturers following the latters postwar rehabilitation. Domestic manufacturers are frequently unable to compete in export markets because of exchange restrictions and import prohibitions.

This industry is now more than ever vulnerable to foreign competition in both export and domestic markets. Because of the industry's difficulties, the result of keen competition, low price levels, overproduction, and the fact that exports have been reduced, many sections of the industry are at the "peril point" or below under present tariff rates. Even under present import rates, foreign manufacturers continue to increase their share of the American market for builders' hardware. Foreign manufacturers do not need lower tariff rates to be effectively competitive in a normal peacetime economy.

The reasons for this are clear: The products of domestic builders' hardware manufacturers have no important differences in appearance or obvious performance characteristics to shield them from being displaced by a closely competitive import. Foreign manufacturers are mechanized and have equivalent productive skill; their production per man-hour is equal to ours. However, according to official Government figures, the hourly earnings with fringe benefits for individual workers in the United States are $2.84, while in Japan they are 33 cents and in Germany 82 cents, and this substantial wage gap will probably increase as higher wage rates come into effect. The effect of this tremendous disparity in wage rates can be judged by the fact that payroll represents a major percentage of the industry's dollar volume.

CONCLUSIONS

The builders' hardware manufacturing industry of the United States currently enjoys no effective protection against low-priced foreign imports. It seeks legislation under which it can continue to grow and serve the American public with fine quality hardware products at economical prices. In pursuit of this goal, the industry is confronted with these hard facts:

(1) The import duty on all important classifications of builders' hardware has already been reduced more than 60 percent under the Reciprocal Trade Agreement Acts and their extensions. (In addition, it should be recalled that the effectiveness of the remaining specific duties have been greatly weakened through years of monetary inflation.)

(2) The industry's products are articles of prime essentiality and of strategic necessity. The industry, because of its primary product and its manufacturing versatility, is essential to the national welfare in times of war and peace.

(3) Since the industry faces serious difficulties due to rising costs, loss of export markets, excess manufacturing capacity, and intense domestic competition, a large influx of foreign builders' hardware, which would follow a further reduction in import duties, could be fatally damaging to American manufacturers.

(4) The American builders' hardware manufacturing industry cannot readily convert its main productive facilities into the manufacture of other products.

For these reasons, the builders' hardware manufacturing industry respectfully recommends that (a) adequate safeguards for American industry be included in any proposed legislation which involves a further reduction of import duties; and (b) provision be made in any new trade legislation to require appropriate Government agencies to hear representatives of affected industries before and/or during negotiations with foreign governments concerning the import duty rates of industry products.

EXHIBIT A

BUILDERS' HARDWARE MANUFACTURERS IN THE UNITED STATES

Accurate Manufacturing Co., Chicago, Ill.
Acme Appliance Manufacturing Co., Monrovia, Calif.
Acme Metal Products, Wilkes-Barre, Pa.
Acorn Manufacturing Co., Mansfield, Mass.
Adams Rite Manufacturing Co., Glendale, Calif.
Ajax Hardware Corp., City of Industry, Calif.
Albany Hardware Specialty Manufacturing Co., Albany, Wis.
David Allison Co., Inc., Roosevelt, Long Island, N.Y.
Allith Prouty, Inc., Danville, Ill.
American Hardware Corp., New Britain, Conn.
American Screen Products Corp., Chatsworth, Ill.
Amerock Corp., Rockford, Ill.
Amundson Products Co., East Superior, Wis.
Arco Manufacturing & Supply Co., Houston, Tex.
Arrow Lock Corp., Brooklyn, N.Y.
Arrowsmith Tool & Die Co., Los Angeles, Calif.
Aubrey Hardware Manufacturing Co., Union, Ill.
Auth Electric Co., Inc., Long Island City, N.Y.
Automatic Saf-T-Lock Corp., Chicago, Ill.

Baldwin Hardware Manufacturing Corp., Reading, Pa.
Barber Colman Co., Rockford, Ill.
Best Universal Lock Co., Indianapolis, Ind.
Better-Bilt Door Co., Egg Harbor City, N.J.
Bommer Spring Hinge Co., Inc., Landrum, S.C.
Brainerd Manufacturing Co., East Rochester, N.Y.
Homer D. Bronson Co., Beacon Falls, Conn.
Brookline Manufacturing Co., Chicago, Ill.
Builders Brass Works Corp., Los Angeles, Calif.
Calder Manufacturing Co., Inc., Lancaster, Pa.
Caldwell Manufacturing Co., Rochester, N.Y.
Cambridge Tool & Manufacturing Co., Somerville, Mass.
Casement Hardware Co., Chicago, Ill.
Challenger Lock Co., Anaheim, Calif.
A. Chesler Co., Inc., Woodmere, Long Island, N.Y.
Chicago Lock Co., Chicago, Ill.
Chicago Spring Hinge Co., Chicago, Ill.
Cipco Corp., St. Louis, Mo.
H. Elmer Clark & Bros., Rochester, N.Y.
Clarke Hardware Manufacturing Co., Inc., Jersey City, N.J.
Clayton & Lambert Manufacturing Co., Louisville, Ky.
Commander Door, Inc., Holmes, Pa.
Corbin Cabinet Lock Division, AHC, New Britain, Conn.
P. & F. Corbin Division, AHC, New Britain, Conn.
Cramer & Co., Gardner, Kans.
Crawford Door Co., Detroit, Mich.
Detroit Hardware Manufacturing Co., Detroit, Mich.
Dexter Industries, Inc., Grand Rapids, Mich.
Dor-O-Matic Division, Republic Industries, Chicago, Ill.
E–Z Roll Hardware Manufacturing Co., Westbury, N.Y.
Eagle Lock Co., Terryville, Conn.
Earle Hardware Manufacturing Co., Pittston, Pa.
Engineered Products Co., Flint, Mich.
Erco Manufacturing Co., Chicago, Ill.
Excelsior Hardware Co., Stamford, Conn.
Fanarco Manufacturing Co., Whittier, Calif.
Farley & Loetscher, Dubuque, Iowa.
Flexi, Inc., Newport Beach, Calif.
Franklin Lock & Pulley Manfuacturing Corp., Brooklyn, N.Y.
Frantz Manufacturing Co., Sterling, Ill.
Gardner-Vail, Inc., Chicago, Ill.
H. S. Getty & Co., Inc., Philadelphia, Pa.
Glynn-Johnson Corp., Chicago, Ill.
Graham Manufacturing Co., Cleveland, Ohio.
Grand Rapids Hardware Co., Grand Rapids, Mich.
Grant Specialities Co., Chicago, Ill.
Grant Pulley & Hardware Co., Wes Nyack, N.Y.
G. G. Greene Manufacturing Corp., Warren, Pa.
Gries Reproducer Corp., New Rochelle, N.Y.
Griffin Manufacturing Co., Erie, Pa.
Herbert A. Guyer, Wilmington, Del.
C. Hager & Sons Hinge Manufacturing Co., St. Louis, Mo.
Hall Enterprises, Casco, Wis.
Joseph Hall Co., Philadelphia, Pa.
Handy Things Manufacturing Co., Ludington, Mich.
Hardware Products, Inc., Reading, Pa.
Harloc Products Corp., West Haven, Conn.
Ernst Henry Manufacturing Co., Chicago, Ill.
Geo. B. Henne & Co., Inc., Philadelphia, Pa.
Hiawatha Metalcraft, Inc., Minneapolis, Minn.
Hurd Lock & Manufacturing Co., Almont, Mich.
Hyer Hardware Manufacturing Co., Fullerton, Calif.
Ideal Brass Works, Inc., St. Paul, Minn.
Illinois Lock Co., Wheeling, Ill.
Independent Lock Co., Fitchburg, Mass.
International Steel Co., Evansville, Ind.
H. B. Ives Co., New Haven, Conn.

Jackson Exit Device Corp., Los Angeles, Calif.
James Manufacturing Co., Fort Atkinson, Wis.
Jaybee Manufacturing Corp., Los Angeles, Calif.
Jay-Way Co., Dearfield Beach, Fla.
Kaywood Co., Benton Harbor, Mich.
F. D. Kees Manufacturing Co., Beatrice, Nebr.
Keil Lock Co., Charleston, N.H.
Kelly Klozer Co., Canoga Park, Calif.
Kennatrack Corp., Elkhart, Ind.
Keystone Alloy Co., Derry, Pa.
Knape & Vogt Manufacturing Co., Grand Rapids, Mich.
Morris Kurtzon, Inc., Chicago, Ill.
Kwikset Division, AHC, Anaheim, Calif.
LCN Closers, Inc., Princeton, Ill.
Labrie Manufacturing Co., Miami, Fla.
Lawrence Bros., Inc., Sterling, Ill.
Liberty Hardware Manufacturing Corp., Long Island City, N.Y.
Lincoln Hardware Manufacturing Co., St. Clair Shores, Mich.
Lockwood Hardware Manufacturing Co., Fitchburg, Mass.
Louden Manufacturing Co., Fairfield, Iowa.
Loxem Manufacturing Co., New Rochelle, N.Y.
Ludwig Manufacturing Co., Racine, Wis.
Macklanberg-Duncan Co., Oklahoma City, Okla.
Master Lock Co., Milwaukee, Wis.
McKee Door Co., Aurora, Ill.
McKinney Manufacturing Co., Pittsburgh, Pa.
Meyer Industries, Inc., Leominster, Mass.
Milwaukee Stamping Co., Milwaukee, Wis.
Monarch Hardware Manufacturing Co., La Grange, Ky.
Morrison Steel Products, Buffalo, N.Y.
National Brass Co., Grand Rapids, Mich.
National Hardware Co., Ozone Park, N.Y.
National Lock Co., Rockford, Ill.
National Manufacturing Co., Sterling, Ill.
New Britain Tool & Manufacturing Co., New Britain, Conn.
Newell Manufacturing Co., Lowell, Mich.
New England Lock & Hardware Co., South Norwalk, Conn.
Norton Door Closer Co., Bensonville, Ill.
Norwalk Door Closer Inc., Terryville, Conn.
Overhead Door Corp., Hartford City, Ind.
Overmyer-Perram Glass Co., Tulsa, Okla.
Paramount Hardware Manufacturing Co., Indianapolis, Ind.
Parker Hardware Manufacturing Co., New York, N.Y.
Payson Manufacturing Co., Chicago, Ill.
Penn-Akron Corp., New York, N.Y.
Penn Hardware Manufacturing Co., Philadelphia, Pa.
H. Pfanstiel Hardware Co., Pearl River, N.Y.
Phoenix Lock Co., Inc., Newark, N.J.
Phoenix Manufacturing Co., Inc., Milwaukee, Wis.
Pocono Metal Products Co., East Stroudsburg, Pa.
Polly Co., Tecumseh, Mich.
S. H. Pomeroy Co., Stamford, Conn.
G. E. Porter Co., Ottawa, Ill.
Precision Hardware, Inc., Detroit, Mich.
Precision Lock Manufacturing Co., Brooklyn, N.Y.
Quality Hardware Manufacturing Co., Los Angeles, Calif.
Raynor Manufacturing Co., Dixon, Ill.
Reflecto Letters Co., New York, N.Y.
Rembrandt Hardware Manufacturing Co., Kenilworth, N.J.
Richards-Wilcox Manufacturing Co., Aurora, Ill.
Oscar C. Rixson Co., Chicago, Ill.
Roach & Musser Co., Muscatine, Iowa.
Rockwood Manufacturing Co., Rockwood, Pa.
Rolls-Rite Hardware Manufacturing Co., Brooklyn, N.Y.
Rowe Manufacturing Co., Galesburg, Ill.
Russell & Erwin Manufacturing Division, AHC, New Britain, Conn.
F. C. Russell Co., Columbiana, Ohio.
S-B Manufacturing Co., Milwaukee, Wis.

Safe Padlock & Hardware Co., Lancaster, Pa.
Harry Sall & Co., Inc., Philadelphia, Pa.
Sargent & Co., New Haven, Conn.
Sargent & Greenleaf, Inc., Rochester, N.Y.
Schlage Lock Co., San Francisco, Calif.
Secure Lock Corp., New York, N.Y.
Security Hardware Manufacturing Co., Brooklyn, N.Y.
Shelby Metal Products Co., Shelby, Ohio.
Shelby Spring Hinge Co., Shelby, Ohio.
Slaymaker Lock Co., Lancaster, Pa.
Sliding Door Equipment Corp., Newburgh, N.Y.
Henry Soss & Co., Los Angeles, Calif.
Standard Bronze Co., Bayonne, N.J.
Standard-Keil Hardware Manufacturing Co., Brooklyn, N.Y.
Stanley Works, New Britain, Conn.
Star Metal Products Co., Brooklyn, N.Y.
Starline Inc., Harvard, Ill.
Steffens-Amberg Co., Newark, N.J.
John Sterling Corp., Richmond, Ill.
Strato-Track, Inc., Elkhart, Ind.
Sultan Bros., Inc., Brooklyn, N.Y.
Sun Metal Products Co., Chicago, Ill.
Tassell Hardware Co., Grand Rapids, Mich.
Tavart Co., Paramount, Calif.
Taylor Lock Co., Philadelphia, Pa.
Triangle Brass Manufacturing Co., Los Angeles, Calif.
Truscon Steel Co., Youngstown, Ohio.
Truson Corp., Mineola, Long Island, N.Y.
United Overhead Door Corp., Yonkers, N.Y.
Vonnegut Hardware Co., Indianapolis, Ind.
Wagner Manufacturing Co., Cedar Falls, Iowa.
Wahlfeld Manufacturing Co., Peoria, Ill.
Wallace Metal Products Co., New Haven, Conn.
Washington Steel Products, Inc., Tacoma, Wash.
Wartian Lock Co., St. Clair Shores, Mich.
Waterbury Lock & Specialty Co., Milford, Conn.
Weather Products, Inc., Hialeah, Fla.
Weiser Co., South Gate, Calif.
Welch, Inc., Waukegan, Ill.
Wessel Hardware Corp., Philadelphia, Pa.
Western Lock Manufacturing Co., Huntington Park, Calif.
Western Products, Inc., New Castle, Ind.
Vincent Whitney Co., Sausalito, Calif.
Winchel Manufacturing Co., Brea, Calif.
Witten Metal Products Co., Gastonia, N.C.
Woodall Industries, Inc., Detroit, Mich.
Wright Products, Inc., Rice Lake, Wis.
Yale & Towne Manufacturing Co., New York, N.Y.
Yoder Manufacturing Co., Little Rock, Ark.

EXHIBIT B

Plant locations and employment, builders hardware manufacturing industry in the United States

	Plants	Employees
New England area	76	7,575
Middle Atlantic area	39	3,900
East North Central area	120	12,025
West North Central area	13	1,300
South Atlantic and East South Central areas	19	1,950
Mountain and West South Central areas	3	825
Pacific area	55	5,525
Total	325	32,600

Policy Statement of Aluminum Wares Association on Trade Legislation

BACKGROUND

The first cooking utensil made of the metal aluminum was a teakettle back in 1892. By 1903 this new industry was on its way, as at that time other commonly used cooking utensils were being made out of this relatively new commercial metal.

The Aluminum Wares Association, founded in June 1922, is the organization representing the industry of aluminum cooking utensil manufacturers.

Today this industry has annual sales of over $125 million.

TARIFF HISTORY OF ALUMINUM COOKING UTENSIL INDUSTRY

The tariff rates on aluminum cooking utensils prior to 1948 were 8.5 cents per pound, plus 40 percent ad valorem. Under the Trade Agreements Act in effect at that time the rates were reduced 50 percent to 4.25 cents per pound, plus 20 percent ad valorem. Then when the aforesaid act was amended and extended in 1956 the rates were further reduced by 5 percent a year for 3 years making the rate now 3.5 cents per pound, plus 17 percent ad valorem. To date this represents a reduction of almost 60 percent in the tariff rates on aluminum cooking utensils since 1958.

When the 85th Congress passed the Trade Agreements Extension Act in August 1958 it authorized the President, within a 4-year period, to reduce existing tariffs up to 20 percent. Apparently the injury already imposed upon this industry was recognized as the authorization was not exercised by further reducing the tariff rates covering aluminum cooking utensils.

IMPORT HISTORY

Following is a summary of total imports for the past 8 years and their relationship to domestic shipments made by members of the Aluminum Wares Association.

Year	Value	Percent of domestic shipments	Year	Value	Percent of domestic shipments
1954	$2,908,513	3.7	1958	$3,874,125	4.6
1955	4,266,911	4.7	1959	4,535,994	5.1
1956	3,969,914	4.3	1960	4,752,566	5.2
1957	3,495,053	4.0	1961	5,837,958	6.8

Further information to add to the above is the summary of imports for the first 4 months of 1962 and the relationship to domestic shipments as set forth herewith:

First 4 months 1962: January, February, March, and April.
Import value: $1,625,008.
Percent of domestic shipments: 5.38.

The import values listed above are based on reports furnished by the U.S. Bureau of Census. For the purpose of computing "Percent of domestic shipments," we used the reported value of shipments of members of the Aluminum Wares Association.

It is interesting to note that import values have increased every year without exception since 1957, along with the percentage factor of domestic shipments. Of particular significance is the fact that the increases recorded during the past 4 years and the first 4 months of 1962 coincide with the program of reduced tariffs under the Trade Agreements Act during this same period of time. We must, therefore, conclude there is a definite cause and effect relationship between the tariff reductions of recent years and the marked increase of imports.

The import value for the above 4 months compared with the import data for the same period of 1961, namely $1,306,284, represents an increase of $318,724 or a percentage increase of 24.11 percent.

A definite pattern of increasing imports of aluminum cookware has been established as evidenced by actual import figures for the past 4 years. The year to year increase was not too alarming, however, until last year when imports increased by $1,084,492 or 23 percent. The percentage to domestic shipments for 1961, i.e., 6.8, is also a statistic that cannot be taken lightly.

It is of particular importance to note that the Bureau of Census definition of "valuation," with respect to import dollar value, means the market value in the foreign country, thereby excluding U.S. import duties, ocean freight and marine insurance.

On this basis it is accurate to assume the actual market value in this country would be higher than the value shown on the monthly reports as issued by the Bureau of Census.

Therefore the above "percentage" comparison is not a true reflection of the actual situation as some conversion factor embodying all of the "costs" would have to be used to convert the reported value of imports to the actual market value in this country before a valid comparison with domestic values could be made.

In reality the imports for 1961 reported as $5,837,058 and 6.8 percent of domestic shipments would have a much higher market value in this country and would represent considerably more than 6.8 percent of domestic shipments. We can only speculate as to what the true figures should be.

BALANCE OF TRADE IN ALUMINUM COOKING UTENSIL INDUSTRY

Much has been said about a balance of trade that has been, for the most part, favorable to the United States in recent years. However, the balance of trade that exists in our own industry is of paramount importance to the members of our industry. For the calendar year 1961 we have the following comparison based on reports from the Bureau of Census:

	Pounds	Value
Imports	6,381,612	$5,837,058
Exports	1,600,075	2,132,854
Excess imports over exports	4,781,537	3,704,204

The following data will emphasize the continuing trend of our balance-of-trade deterioration.

Exports of the products of this industry for the first 3 months of 1962 amounted to 360,801 pounds with a value of $458,033, while the imports for the same period amounted to 1,522,054 pounds with a value of $1,228,162.

Comparing the export experience for the first 3 months of 1961 with the same period for 1962 the Bureau of Census data shows that exports for the first quarter of 1962 were, 84,123 pounds with a value of $124,523, less than for the same period of 1961.

What are the prospects of improving the balance of trade in our industry in the future? With production capacity steadily increasing in low-cost foreign countries such as Italy and Japan, and our own costs of production increasing without abatement, the prospects appear very dim indeed.

IMPACT ON EMPLOYMENT

The total employment in our industry is estimated at 15,000 men and women at the present time. Using the 6.8 percentage factor referred to earlier it is conceivable that employment could be provided for an additional 1,020 persons if it were not for the impact of imports. It would, therefore, follow that the same number of American workers are being deprived of employment opportunities in our industry and are currently among the numerous unemployed in the United States. As imports continue to increase it is certain that the job loss will become more serious.

ANALYSIS OF H.R. 11970—TRADE EXPANSION ACT OF 1962

Tremendous power is placed in the hands of the executive branch of the Government under this proposed legislation. Title II grants the President 5-year authority to eliminate any tariff of 5 percent or less, and to cut to a maximum of 50 percent any other tariff in agreements negotiated with any foreign country. In addition, special authority is granted to eliminate tariffs altogether when it is determined that the United States and the EEC together account for 80 percent of "aggregated world export value." Since it is our best estimate that this situation may prevail at the present time, our industry would be vulnerable to complete elimination of tariffs under this provision.

Such a situation would put the domestic aluminum cooking utensil industry at the competitive mercy of every foreign nation that manufactures and exports such products to this country. The products of such countries are presently selling at retail prices lower than similar items produced domestically.

Title III authorizes the President to determine whether "adjustment assistance" should be furnished to firms or workers adversely affected by the workings of the trade expansion program and also in what form such assistance should be granted.

Such provisions, as now written in the bill, are not only undesirable, under the "American way of life," but inadequate in that any applicant would be out of business before such "assistance" could be granted.

This is also an extremely dangerous provision since it would project the Federal Government into a completely new field of operations with all the attendant perils of too much Government interference. It would inevitably lead to further centralization and bureaucracy, Government involvement in business and expenditures which could well rival those committed to our agricultural fiasco.

The provisions of H.R. 11970 which permit persons who become unemployed because of foreign competition to receive more unemployment compensation than those who lose their jobs for other reasons should be completely eliminated.

Such assistance to workers would signal the beginning of a federally administered unemployment compensation system which would be in direct conflict with existing State-administered plans. It is also discriminatory in nature considering higher benefits offered to workers who lose their jobs due to foreign imports versus those who are thrown out of work due to other circumstances.

By the same token the provisions which offer employers some vague assistance of questionable value is not considered desirable. Such a plan would be almost impossible to administer and would inevitably lead to politics and favoritism. Who is to decide which plants and workers, for that matter, have lost out as a direct result of imports.

There is also inherent in this legislation the very real possibility that "world politics" would override our own national interests and the interests of the American economy and the American worker.

It is more than difficult to understand why this additional Presidential power is being requested in view of authorization granted him in the Trade Agreement Extension Act of 1958 and the agreement reached on January 16, 1962, with EEC to reduce tariffs up to 20 percent. Many European tariffs are already higher than U.S. tariffs and any reduction in U.S. rates of duty will only accentuate this tariff gap, placing us at a further disadvantage.

RECOMMENDED FOREIGN TRADE POLICY

Free trade throughout the world is, of course, a desirable objective and the day may come when this ultimate goal will be achieved. It is likely to be a long, slow process, however, since every country, in the interests of self-preservation, must, of course, look out for their own national interests. During the evolutionary period we will have to operate within a framework that will provide certain safeguards to American industry and the American workers. Any new trade legislation should therefore embody the following points.

(1) Any legislation should only be predicated on providing the ability for domestic industry to compete with foreign-made products here and abroad.

(2) Such legislation should provide for negotiations on the basis of external tariffs and other import restrictions of the European Common Market members and associate the countries, as such nations will be enjoying among themselves lower tariff rates which could produce an adverse effect on any effort to improve our export position.

(3) For legislation to permit negotiation on broad categories of products rather than on specific items, as in the past, will cause many industries to be negotiated out of business.

Unless adequate safeguards are provided it could bring about the demise of our 70-year-old industry. Over 85 percent of the homes in this country have one or more aluminum cooking utensils.

(4) Any legislation should make it mandatory that the Tariff Commission be required to conduct an investigation of an individual industry, in order to determine the impact on said industry and its employment, before any negotiations are instituted for the purpose of reciprocal tariff reductions. This is particularly imperative to industries in which tariffs could be entirely eliminated. Such studies could prevent the destruction of a given industry.

(5) Strengthen the "escape clause" procedure to provide fast and effective relief before an industry is "traded" out of existence.

(6) Follow the principle of "tariff parity" in establishing any new tariff structure.

(7) Establish definite limits on percentage of domestic market captured by foreign products and resulting unemployment in any given industry and provide prompt relief to that industry when either of these limits are exceeded.

(8) Promote U.S. exports by insisting on equal treatment, not only on tariffs, but also exchange controls, import license restrictions, quotas, patent protection, etc.

(9) Amend the antidumping law to provide for a penalty system when any product is sold in the United States below the foreign market selling price.

(10) Even though many pages of H.R. 11970 are devoted to "adjustment assistance" it is our candid opinion that such time-consuming procedures will not provide an adequate solution for those industries severely injured by low-priced imports. Such "assistance" would be unnecessary if adequate safeguards are provided to our domestic industry.

(11) As long as foreign countries have an economic advantage coupled with existing trade restrictions the opportunity to expand our exports is practically impossible.

(12) No self-respecting domestic firm or industry wants to be forced to abandon the principles of "free enterprise" and live on a government subsidy regardless of how it is handed out.

SUMMARY

The strength of the U.S. economy is basic to our national security and that of the free world. This should be uppermost in our minds in the drafting of any new trade legislation.

Recognizing that the "die has been cast" as far as the Trade Agreements Act of 1958 is concerned, we should draw up new legislation that will provide adequate safeguards for American industry. Government subsidies to "bankrupt" industries and impoverished workers are not the solution to this problem.

The adoption of H.R. 11970 in its present form will result in irreparable damage to the aluminum cooking utensil industry that could be permanent with no adequate provisions to actually undo the damage.

At the present tariff rate of 3.5 cents per pound, plus 17 percent ad valorem imports are being sold in some instances at retail prices below the costs of producing similar items domestically. A further reduction in tariffs would only result in the loss of a greater portion of our domestic market to low-cost imports. We should be realistic and recognize that we cannot compete pricewise on comparable items produced in foreign countries without adequate tariff protection, nor can we expand our exports to any appreciable extent as long as the disparity in production costs exists. The excesses of the wage-price spiral during the past decade have placed us in a position where we can no longer effectively compete for world markets.

We are also placed at a disadvantage by other "cost increasing" factors. This would include, among other things, our unrealistic depreciation allowance and our tax structure, both direct and indirect, at the Federal, State and local level.

It is our considered opinion that before any legislation is adopted giving any President such broad and dictatorial powers as proposed in H.R. 11970 an industry by industry (product by product) survey should be conducted. The purpose of this survey would be to determine what, if any, adverse effect a reduction or elimination of present tariff protection would have on the industry involved.

The purpose, as expressed, in this proposed legislation is not in the best overall interest of our national economy. Any benefits derived will be insignificant when compared to the injuries segments of our industries and employment will receive as a result of an inevitable global sales war.

This "war" is already in an active state as many nations are taking or planning various steps to cut their imports.

The import-limiting schemes by exporting nations will bring about situations requiring quicker action than presently set forth in the House approved bill whereby Congress will have the power to revoke a Presidential decision reversing a Tariff Commission ruling that imports are harming an industry. By the time the process of going through the House and the Senate and their respective committees was accomplished the industry would be bankrupt and out of business.

It is recommended that the requested legislation as set forth in H.R. 11970 be defeated unless it is amended to overcome the many deficiencies in its present form.

Respectfully submitted.

STUART J. SWENSSON, *Secretary-Treasurer.*

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
August 2, 1962.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR: I should like to submit this statement for inclusion in the record of committee hearings on H.R. 11970, the proposed Trade Expansion Act of 1962.

In past years I have consistently supported a progressive trade policy which included adequate safeguards for our domestic industries. Today, the emergence of a powerful and rapidly growing European Common Market poses problems of a new dimension for U.S. trade policy. In developing new trade legislation to meet this challenge and opportunity, I am particularly concerned that all tariff reductions be made with discretion and that proper safeguards be taken in order not to affect adversely our national economy or general welfare.

Massachusetts has retained its place as a leading center of manufacturing since the beginning of the industrial revolution in this country. Today it is among the pioneers in the new technological revolution that is typified by the electronics industry. However, while many of its industries stand to gain from expanded foreign markets, others which specialize in the production of standardized, nonfashion items are particularly vulnerable to increased foreign imports due in large part to lower labor and raw material costs. It is not practical for me to discuss the situation in each of these industries. They include wool textiles, shoes and other footwear, firearms, flatwear, chemicals, chocolates, jewelry, locks and a variety of standardized products. Two industries, however, which are among the principal sources of manufacturing employment in the Commonwealth of Massachusetts deserve added comment: wool textiles and footwear.

The economy of Massachusetts is deeply affected by the health of the domestic wool textile industry. Woolen and worsted combing, spinning, weaving and finishing plants provided employment for 14,000 men and women in the Commonwealth. Massachusetts has retained its position as the leading wool manufacturing State in the Nation with 19 percent of the looms, 18 percent of the woolen spinning spindles and 33 percent of the combs. There are some 150 plants in the State engaged in various kinds of wool processing.

Since 1947 the U.S. wool textile industry has been seriously affected by the sharp increase in imports of foreign wool products. Over the period 1947–61 imports of tops have increased by 1188 percent, yarns by 1309 percent, woven cloths by 668 percent, and woven apparel by 1423 percent. These imports have generally displaced American products. Over the same period some 300 U.S. wool textile establishments have gone out of business and employment in the industry has dropped from 167,000 to less than 65,000 employees.

In May of last year the President announced a "program of assistance to the U.S. textile industry, designed to meet a wide range of the problems it faces as a result of rapid technological change, shifts in consumer preference, and increasing international competition." The program was developed by the Cabinet Textile Committee appointed by the President on February 16, 1961, under the chairmanship of Secretary of Commerce Luther H. Hodges. Such assistance as has already been given to the textile industry, through the regulation of imports of cotton textiles (H.R. 10788) and the administration's coordinated program, is to be welcomed. However I urge that further review be given to the condition of our cotton textile industry and that the reforms proposed in the administration's program be implemented more rapidly. I am also particularly concerned that the wool textile industry should receive comparable assistance. Under the President's program of May 1961, the only action taken that has directly affected wool textiles is the change in textile machinery depreciation for tax purposes.

The President, when serving in the Senate, wrote the Boston Wool Trade Association that "country quotas, whatever their disadvantages, have the merit of contributing to stable and orderly trade in the wool industry and, depending on the renegotiation (of the Geneva Reservation), may well be required." However, the President considered the recent negotiations regarding cotton textile quotas too complex to permit the inclusion of woolens. To indicate continuing interest in the industry, the Commerce Department announced the formation of a Wool Textile Advisory Committee on November 9, 1961. Later that month the Advisory Committee met and recommended "a comprehensive system of limitations on imports of wool textile manufacturers into the United States from all sources." No action has been taken on the recommendation to date. The wool textile industry has continued to urge the augmentation of existing tariffs by quantitative limitations on imports by category of products, allocated by country of origin.

Massachusetts is also the leading shoe-producing State in the Nation with a total production of 102 million pairs valued at $432 million (f.o.b. plant) in 1961. This represents 17 percent of domestic shoe production. The shoe industry is the second largest manufacturing employer in Massachusetts—39,000 are employed in the actual manufacturing of shoes (excepting rubber) and an additional 17,800 are employed in related tanning, leather and leather products industries.

In the 6-year period (1955–61) imports of leather-type nonrubber shoes have risen from 7.8 to 36.8 million pairs—an increase of 471 percent. U.S. shoe production for the same period grew from 585 to 600 million pairs—an increase of 2.5 percent. Imports of all types of foreign leather footwear set a new record high of 33.4 million pairs in the first half of 1962. This represents more than 10 percent of domestic production and an increase of 105 percent over the comparable period of 1961.

But the most serious threat to the domestic shoe industry has been in the area of rubber, sneaker-type footwear. Imports, especially from Japan, rose from 2.3 million pairs in 1956 to a peak of 112 million pairs in 1960—about half of our domestic market for this footwear. Imports in 1961 fell to 66 million pairs but our rubber—canvas top—footwear industry is still in a critical position.

The shoe industry is highly labor intensive. There are over 200 operations in the production of the average pair of shoes. The National Shoe Manufacture's Association estimates that for every 10 million pairs of nonrubber footwear produced in the United States, there are jobs for 4,100 workers in shoe manufacturing and for another 1,400 in the supplying trades, or a total of 5,500. If imports of leather footwear continue to grow at the present rate, it would cost the domestic industry an estimated 30,000 jobs by 1965.

The American shoe industry has remained highly competitive, but it is seriously endangered by the mass importation of stock styles of footwear—produced by countries with wage levels far below ours. The total labor costs per hour, including wages and fringe benefits, in the leather footwear industries of our chief competitors range from $0.32 per hour in Japan and $0.45 per hour in Italy to $0.94 per hour in France and $0.97 per hour in the United Kingdom. Our total labor costs are more than twice those of our highest cost competitor—$1.95 per hour.

The House Committee on Ways and Means has added three amendments to the Trade Expansion Act that should provide greater safeguards to such industries as shoe manufacturing: Tariff Commission advice based upon mandatory public hearings, the designation of an agency or interagency committee to hold further public hearings, and the authority vested in the President to increase any duty or impose any other import restriction he determines to be necessary to prevent or remedy serious injury to an industry. In regard to the last provision, the shoe industry has requested the institution of an orderly marketing arrangement similar to the quota system approved for cotton textiles.

I trust that the Finance Committee will consider the particular situation of these and similar labor intensive industries as it studies and amends the provisions of H.R. 11970.

Sincerely,

LEVERETT SALTONSTALL,
U.S. Senator.

STRASSER, SPIEGELBERG, KAMPELMAN & MCLAUGHLIN,
Washington, D.C. July 27, 1962.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: This letter is written on behalf of our client, the Tapioca Importers Association, in connection with your committee's consideration of the Trade Expansion Act of 1962 (H.R. 11970) as a statement to the committee, in lieu of oral testimony, and we hope that it will be considered by the committee and incorporated, together with the charts and tables attached hereto, in the published hearings on this legislation.

The Tapioca Importers Association is in agreement with the objectives of H.R. 11970 and urges its enactment.

The statement is submitted primarily because the tentative list of witnesses to be heard by the Committee on the Trade Expansion Act of 1962 includes the name of Mr. David W. Kendall, a spokesman for the Corn Starch Industry Committee. Although we are not certain as to the nature of the testimony which the corn starch industry proposes to offer before the committee, we surmise, based on past experience, that the testimony will be similar in nature to that presented to the Ways and Means Committee of the House of Representatives on March 23, 1962, by representatives of the Corn Starch Industry Committee. In view of the fact that the deadline for submission of written statements to the committee has been set on August 1, it is necessary for us to submit this statement, in response to what we expect Mr. Kendall will tell the committee in his testimony, before such testimony is actually given.

We anticipate that the persons testifying on behalf of the Corn Starch Industry Committee will tell the committee that tapioca starch is being imported into the United States in very great quantity, and that these imports of tapioca (allegedly produced in tremendous quantities at very low cost in tropical countries) are making substantial inroads into the markets for domestic corn starch and potato starch and creating grave hardships for these domestic industries.

These are not new issues. They are nothing more than a rehash of contentions advanced before and fully considered by the Tariff Commission in 1960, and before then at periodic intervals ever since 1883. It is our desire to bring to the attention of this committee certain facts which will place the contentions of the domestic producers in proper perspective.

Tapioca flour has been imported into the United States free of duty since 1883. Since that time, American manufacturers of corn starch, and more recently manufacturers of potato starch, have made numerous efforts to persuade the Government that imports of tapioca are detrimental to the domestic starch industry, and therefore should be subject to discriminatory action.

In 1908, 1913, 1922, and 1929, the corn starch industry attempted unsuccessfully to persuade Congress to impose a tariff on tapioca. In 1933, they attempted to induce the Secretary of Agriculture to fix a compensatory tax on the first domestic processing of tapioca. In 1935, they filed a complaint under section 3(e) of the National Recovery Act, and in addition sought to remove tapioca from the free list in relation to the Netherlands. In 1946, they laid their case before the Committee for Reciprocity in Foreign Trade.

In each of the cases, the efforts of the domestic starch producers were based on vague and unsupportable allegations that tapioca imports were in some way injurious to the domestic starch industry. But all of these efforts came to naught because the domestic producers could not demonstrate that imported tapioca was, in fact, competitive with domestic starches to any significant extent.

Again, in 1960, the corn starch and potato starch producers were instrumental in bringing about a full-fledged investigation of the starch industry—squarely aimed at tapioca—by the Tariff Commission, pursuant to a resolution of the Senate Finance Committee under section 332 of the Tariff Act of 1930. The Tariff Commission conducted an extensive investigation and comprehensive hearings in the course of which the corn starch and potato starch producers made a full presentation of their case. Following the investigation and hearing, the Tariff Commission in March 1960, published a comprehensive "Report on the Starch Industry." This report once more clearly established that tapioca imports are in no way detrimental to the domestic starch industry.

It will be noted, Mr. Chairman, that since March 1960, spokesmen for the Corn Starch Industry Committee, when they have appeared before various congressional committees continuing to press their discredited contentions, have studiously avoided any reference to the Tariff Commission's report, except for a few oblique references out of context. The reason for this is obvious: the report contains all data relevant to their contentions, and simply does not support their position. We believe this committee will find the Tariff Commission's report to be a more accurate source of information than the testimony of the corn starch producers' representatives.

The cornerstone of the domestic producers' case is their contention that tapioca starch is interchangeable with domestic starches in most industrial applications so that tapioca imports automatically displace domestic starches in these applications.

This is clearly and demonstrably not the case. On page 36 of the Tariff Commission's report, it is pointed out that almost one-half of the total U.S. consumption of all starches goes into the manufacture of sirup and sugar, and that in this use, corn starch is virtually the only kind used. It is pointed out also that there is little or no interchangeability among the various starches for use in laundry starch, and food products. Thus, for the bulk of starch consumption in the United States, there is no conceivable competition or interchangeability between tapioca starch and domestic starches. Moreover, even in those areas of industry in which industrial consumers of starch buy corn starch, potato starch, and tapioca starch, the three starches are interchangeable to only a limited extent. For example, all three starches are used in the papermaking industry, the textile industry, and in the manufacture of adhesives and dextrines. But, as the Tariff Commission points out, there are many uses of starch in these industries in which the various starches are not interchangeable. For example, potato starch is totally unsuitale for use in corrugating box paper. To a very substantial extent, therefore, industrial consumers of starch make their decision as to whether to use tapioca starch, potato starch, or corn starch on the basis of the varying technical characteristics of each for the precise application in question, and the decision in this respect seldom turns upon considerations of price.

Similarly, it is alleged that tapioca is replacing domestic starches in the paper, paper box, and textile industries. The domestic producers' concern in this respect is not supported by statistical evidence. It is true that tapioca imports have been increasing in recent years but it is not true that the increasing imports of tapioca have been displacing or replacing domestic starches in industrial applications. Rather, tapioca starch, based upon consumer preference for its characteristics in certain applications, has been sharing in the expanding demand for all kinds of starches.

I am including as part of this statement a set of charts and tables which were included in the brief which we filed with the Tariff Commission on behalf of the Tapioca Importers Association in 1960. I believe this material will enable the committee to draw its own conclusions with respect to these matters. It will be noted in figure 3 that the proportion of total domestic consumption of starches and dextrines represented by tapioca was considerably less in 1958 than it was in 1940, and has remained relatively constant since 1950, despite considerable increases in imports of tapioca. Figure 6 shows the relative proportions of tapioca and corn starch used in various industrial applications, and it is clear from this chart that tapioca has not made any particular inroads on the markets for corn starch in these industries in recent years, despite increasing imports of tapioca. Regrettably, the information presently available extends only through 1958; it is our understanding and belief, however, that were the data incorporated in these charts and tables extended through the present date, there would be no significant difference in the conclusions to be drawn from them.

Although the corn starch producers contend that their plants are operating at only 75 percent of capacity, the plain fact of the matter is that their markets for corn starch are steadily expanding and not contracting, their 1961 shipments were substantially above 1960, and, despite a recent price cut, their sales and earnings are at a record high. Complaint is also made that tapioca is being imported via the St. Lawrence Seaway "into the very backyard of midwestern corn producers." The facts of the matter are, Mr. Chairman, that almost all of the tapioca that has entered through the Great Lakes has been used in only two plants. In one of these, tapioca has always been used and no other starch is at all suitable for the particular application. In the other case, tapioca was used in lieu of potato starch, which was previously used, because potato starch was unavailable. Tapioca is no longer used in this plant; corn starch is now being used.

The domestic potato starch industry has problems of its own which are in no way attributable to tapioca. Historically, producers of potato starch have been able without difficulty to sell every pound of starch they have been able to produce. There is only one factor which has limited their sales, and that is the unavailability of potatoes. Indeed, in recent years, a large part of the tapioca imported through New England ports has been consigned to potato starch plants for the processing of modified products which are not competitive with potato base materials, and it has been the availability of tapioca to these plants which has permitted them to continue in operation during periods in which potatoes were not available.

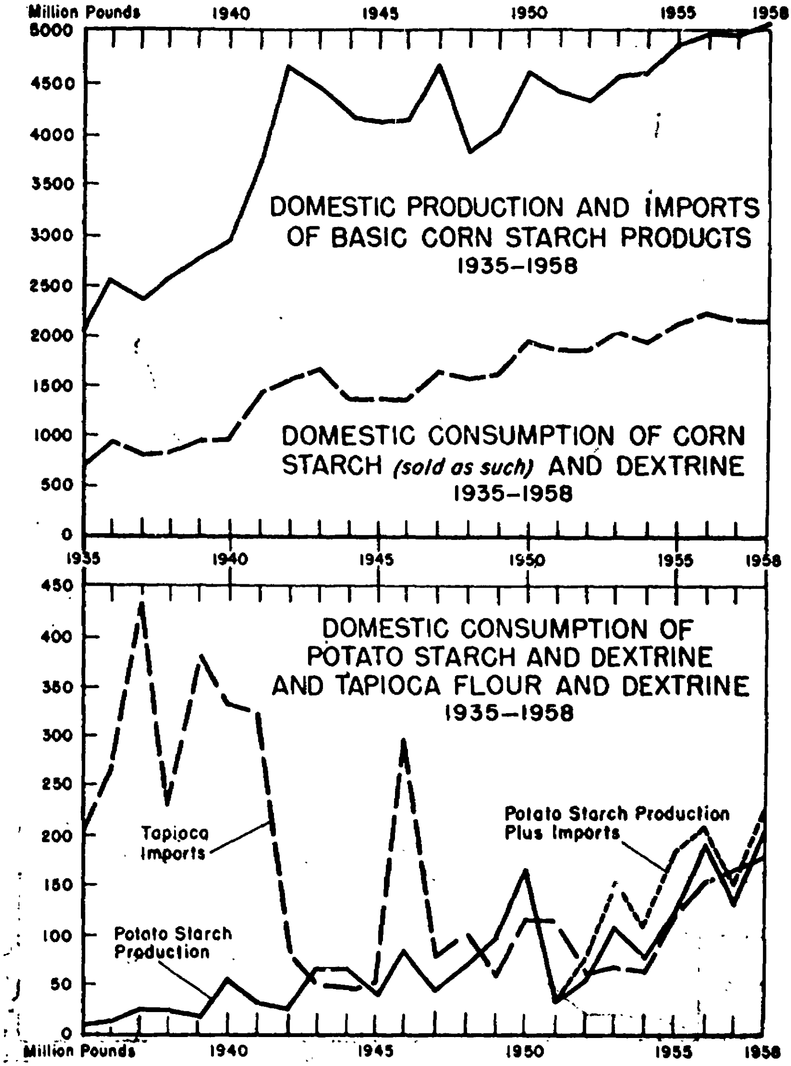
It is true that this problem did not exist in 1961 when there was a very large fall potato crop and the Department of Agriculture made funds available to divert large quantities of potatoes from the usual market channels to potato starch plants. It is true, also, that despite the availability of potatoes, some marginal potato starch plants were forced to remain inoperative because of inability to market their products at competitive prices. But tapioca imports had little to do with this situation. It will be noted that tapioca starch represents considerably less than 10 percent of total starch consumption in the United States, whereas corn starch amounts to over 80 percent of this consumption. Accordingly, to the extent that there is in fact direct competition among the various starches, tapioca is competitive with potato starch to only an insignificant extent as compared with corn starch. The real problem of the marginal potato starch producers is that they cannot produce starch for sale at prices competitive with the prices of corn starch products.

Finally, we would like to comment on the usual contention of the domestic producers that "much larger supplies of tapioca are in the making and are certain to break upon the U.S. market in the near future." In support of this contention, they point to the fact that the dominant producing country, Thailand, is rapidly increasing her production of cassava, the plant from which tapioca is produced. While this may be true, it is also true that almost all of the cassava production of Thailand which is not used for food is now going into production of manioc meal which produces higher returns than tapioca. As a result of this, several tapioca producers in Thailand have defaulted on their obligations to American tapioca importers, and at the present time tapioca is virtually unobtainable in Thailand. The domestic producers also point to the prospect of vast imports of tapioca from Indonesia. This is sheer unsupportable speculation. As the Tariff Commission report pointed out, most of Indonesia's tapioca plants were destroyed in World War II and have not been rebuilt. Also, the shortage of food in Indonesia is so acute that almost all cassava production is virtually needed as a food staple. For these reasons, it is almost inconceivable that there will be any significant Indonesian exports of tapioca at any time in the foreseeable future.

Sincerely yours,

HAROLD P. GREEN.

FIGURE 1



See Tables 1, 2, 3 and 6

FIGURE 2

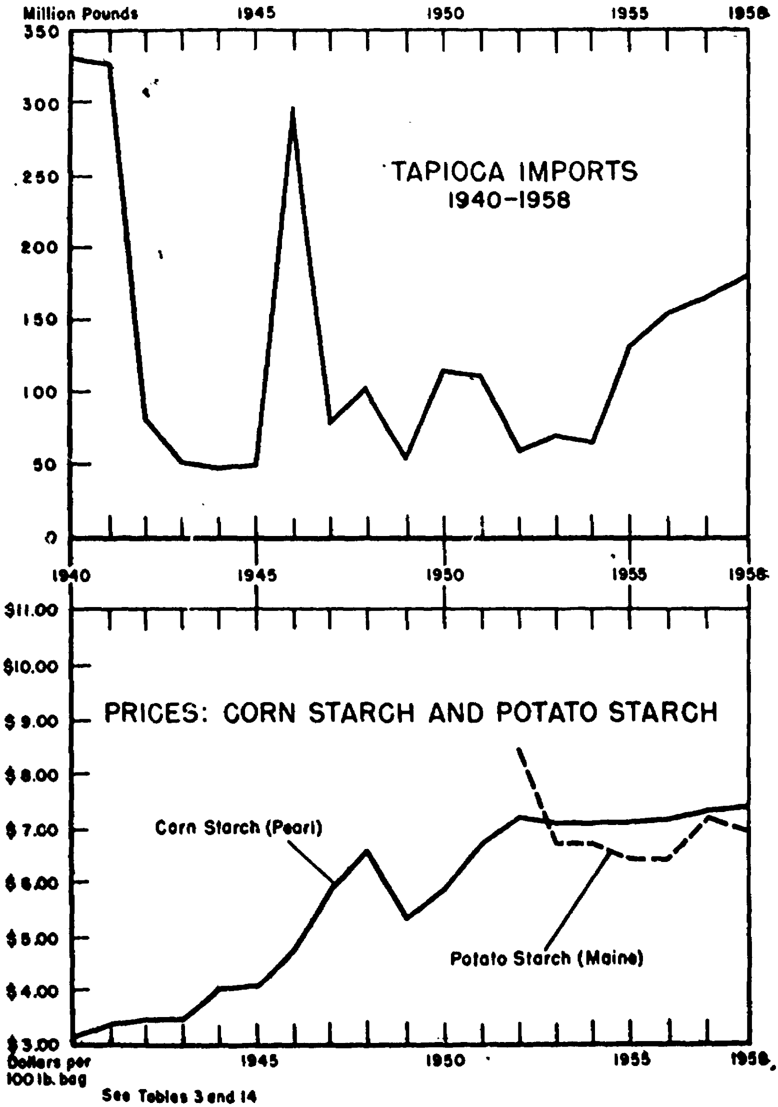
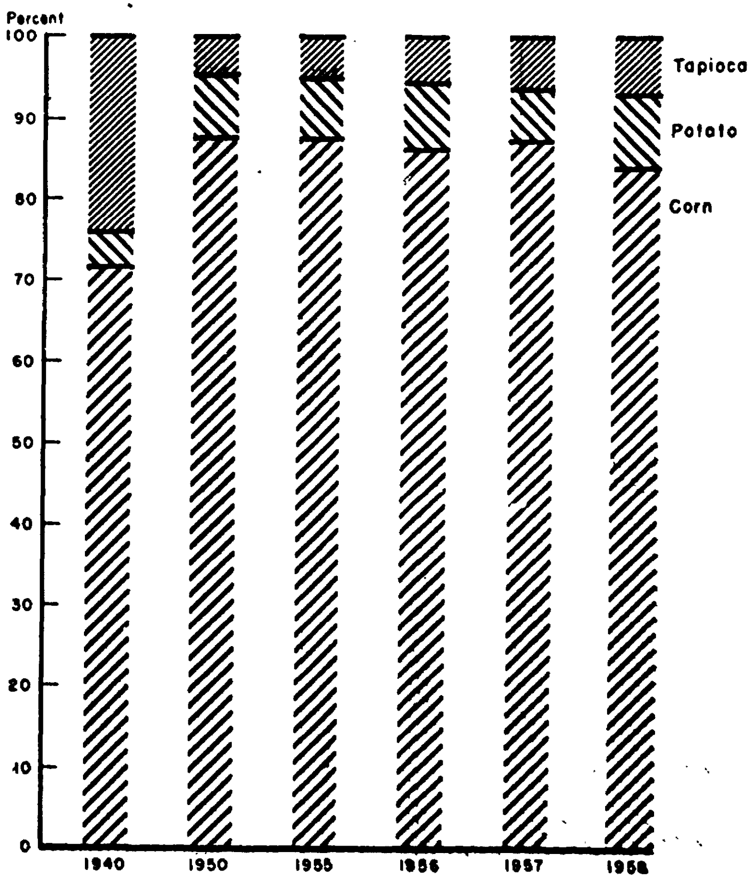

Million Pounds
1945
1950
1955
1958
350
300
250
200
150
100
50
0
TAPIOCA IMPORTS
1940–1958
1940
1945
1950
1955
1958
$11.00
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
PRICES: CORN STARCH AND POTATO STARCH
Corn Starch (Pearl)
Potato Starch (Maine)
Dollars per
100 lb. bag
1945
1950
1955
1958
See Tables 3 and 14

FIGURE 3

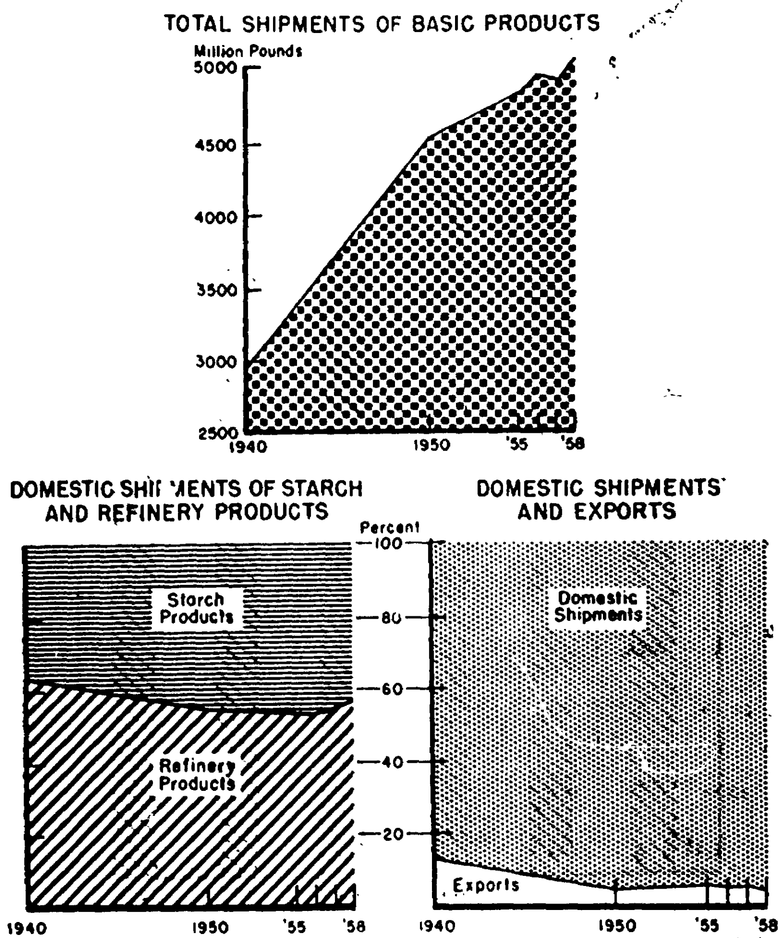
DOMESTIC CONSUMPTION OF STARCHES AND DEXTRINES
CORN, POTATO AND TAPIOCA



See Table 15

FIGURE 4

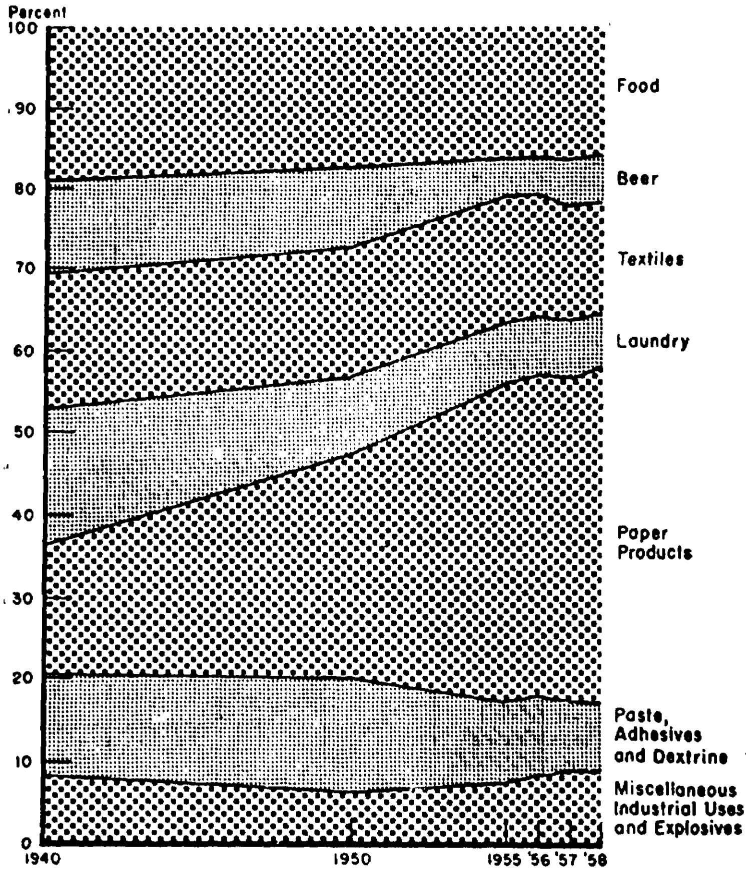
WET MILLING INDUSTRY SALES OF BASIC CORN PRODUCTS
1940, 1950 AND 1955–58



See Tables I and 5

FIGURE 5

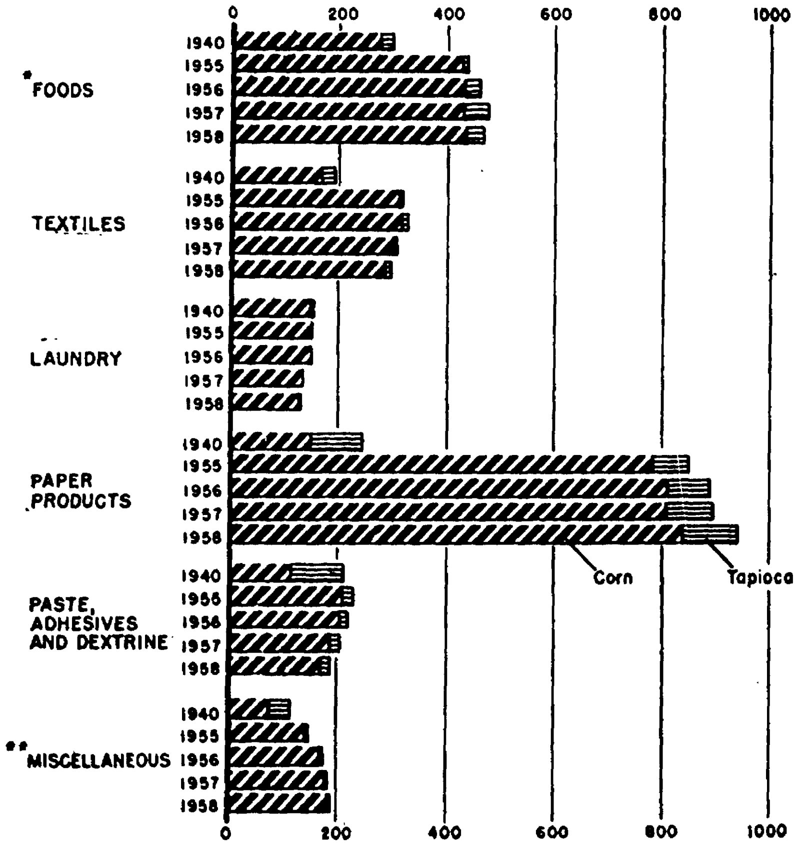
DOMESTIC CONSUMPTION OF CORN STARCH *(sold as such)*
AND CORN DEXTRINE
DISTRIBUTION BY PRINCIPAL USES



See Table 4

FIGURE 6

COMBINED SALES OF CORN STARCH *(sold as such)* AND DEXTRINE AND TAPIOCA FLOUR AND DEXTRINE
RELATIVE SHARE OF EACH BY SPECIFIED END USE
IN MILLIONS OF POUNDS



*All food uses, plus beer
**Total miscellaneous, plus asbestos, gypsum and mineral board products, and explosives
See Table 9

TABLE 1.—*Domestic production and imports of basic corn starch products, 1935–58*

[In millions of pounds]

Year	Shipments of wet milling industry [1]	Imports	Total	Year	Shipments of wet million industry [1]	Imports	Total
1935	2,048.0	(2)	2,048.0	1947	4,659.8		4,659.8
1936	2,574.7	(2)	2,574.7	1948	3,764.6		3,764.6
1937	2,330.2	(2)	2,330.2	1949	3,993.1		3,993.1
1938	2,540.6	(2)	2,540.6	1950	4,585.2		4,585.2
1939	2,783.6	(2)	2,783.6	1951	4,397.0		4,397.0
1940	2,934.5	(2)	2,934.5	1952	4,306.8	0.2	4,307.0
1941	3,734.7	(2)	3,734.7	1953	4,563.9	.7	4,564.6
1942	4,688.5	(2)	4,688.5	1954	4,585.8	.7	4,586.5
1943	4,485.4	0.5	4,485.9	1955	4,839.0	2.2	4,841.2
1944	4,146.3	.5	4,146.8	1956	4,966.5	6.6	4,973.1
1945	4,111.7		4,111.7	1957	4,919.3	6.5	4,925.8
1946	4,117.9	2.2	4,120.1	1958	5,047.8	11.4	5,059.2

[1] Production data not available. Shipments of the wet milling industry assumed to be equivalent to production. Includes all basic corn products manufactured by the industry—sirup (unmixed), starch (sold as such), dextrine, sugar, and miscellaneous starch and refinery products.
[2] Imports negligible.

Source: Shipments of wet milling industry: data prior to September 1946, Corn Refiners Statistical Bureau, Chicago, Ill.; after August 1946, Price Waterhouse & Co., New York, N.Y. Import data, Bureau of the Census, U.S. Department of Commerce.

TABLE 2.—*Domestic consumption of potato starch and potato dextrine, 1935–58*

[In millions of pounds]

Year	Domestic starch production [1]	Imports			Total production and imports
		Starch	Dextrine	Total	
1935	10.6				10.6
1936	13.2				13.2
1937	26.5				26.5
1938	21.1	6.7	0.8	7.5	28.6
1939	18.9	11.0	1.0	12.0	30.9
1940	56.0	1.7	.4	2.1	58.1
1941	33.8				33.8
1942	26.1				26.1
1943	48.4				68.4
1944	68.0				68.0
1945	44.0				44.0
1946	84.4	2.2	4.2	6.4	90.8
1947	46.0	.8	.5	1.3	47.3
1948	70.0	3.2	1.4	4.6	74.6
1949	95.0	3.0	1.0	4.0	99.0
1950	162.6	6.3	1.8	8.1	170.8
1951	34.0	2.3	2.9	5.2	39.2
1952	57.3	33.0	4.8	37.8	95.1
1953	108.1	38.2	8.0	46.2	154.3
1954	79.1	20.0	11.0	31.0	110.1
1955	137.0	33.0	11.2	44.2	181.2
1956	191.5	7.1	10.9	18.0	209.5
1957	134.9	6.0	11.3	17.3	152.2
1958	208.0	6.6	11.9	18.5	226.5

[1] Potato dextrine not produced domestically.

Source: Production data, on crop year basis, from the National Potato Council, Washington, D.C. Import data, on calendar year basis, from Bureau of the Census, U.S. Department of Commerce.

TABLE 3.—*Tapioca imports, 1935–58*

Year	Thousands of pounds	Year	Thousands of pounds
1935	202,112	1947	80,674
1936	269,504	1948	101,457
1937	432,858	1949	54,344
1938	230,879	1950	112,451
1939	382,803	1951	109,981
1940	333,926	1952	60,761
1941	326,083	1953	67,200
1942	81,830	1954	62,302
1943	50,284	1955	130,344
1944	48,403	1956	152,015
1945	50,526	1957	163,458
1946	297,878	1958	178,654

Source: Bureau of the Census, U.S. Department of Commerce.

TABLE 4.—*Corn consumption: Distribution according to basic products and exports*

[In millions of bushels]

Distribution	1940	1950	1955	1956	1957	1958
Total disappearance	2,501.4	3,180.6	3,100.2	3,202.0	3,373.4	3,743.6
Wet process products	100.8	133.2	141.1	139.8	142.4	151.9
Dry process products	90.0	90.5	84.4	96.0	95.5	96.2
Alcohol and distilled spirits	25.7	45.2	27.1	28.8	27.5	33.7
Seed	12.7	11.6	12.0	11.4	11.5	13.1
Livestock feed	2,257.8	2,792.9	2,727.2	2,761.4	2,914.1	3,236.7
Exports	14.6	107.2	108.4	164.7	182.5	212.9
PERCENTAGE DISTRIBUTION						
Total disappearance	100.0	100.0	100.0	100.0	100.0	100.0
Wet process products	4.0	4.2	4.6	4.3	4.2	4.1
Dry process products	3.6	2.8	2.7	3.0	2.8	2.5
Alcohol and distilled spirits	1.0	1.4	.9	.9	.8	.9
Seed	.5	.4	.4	.4	.3	.3
Livestock feed	90.2	87.8	88.0	86.2	86.4	86.5
Exports	.6	3.4	3.5	5.1	5.4	5.7

Source: "Grain and Feed Statistics," Agricultural Marketing Service, U.S. Department of Agriculture.

TABLE 5.—*Sales of the wet milling industry: Distribution of domestic shipments and exports according to starch and refinery products*

[In millions of pounds]

Distribution	1940	1950	1955	1956	1957	1958
Domestic shipments:						
Starch products [1]	983.4	1,991.3	2,122.3	2,202.5	2,153.2	2,132.5
Refinery products [2]	1,579.3	2,409.8	2,439.3	2,516.5	2,508.0	2,734.7
Total	2,562.7	4,401.1	4,561.6	4,719.0	4,661.2	4,867.2
Exports:						
Starch products [1]	263.8	117.9	205.1	176.3	187.1	115.4
Refinery products [2]	108.0	66.3	72.3	71.1	71.0	65.2
Total	371.8	184.2	277.4	247.4	258.1	180.6
Grand total	2,934.5	4,585.3	4,839.0	4,966.4	4,919.3	5,047.8

PERCENTAGE DISTRIBUTION

Distribution	1940	1950	1955	1956	1957	1958
Domestic shipments	100.0	100.0	100.0	100.0	100.0	100.0
Starch products	38.4	45.2	46.5	46.7	46.2	43.8
Refinery products	61.6	54.8	53.5	53.3	53.8	56.1
Exports	100.0	100.0	100.0	100.0	100.0	100.0
Starch products	71.0	64.0	73.9	71.3	72.5	63.9
Refinery products	29.0	36.0	26.1	28.7	27.5	36.1
Grand total	100.0	100.0	100.0	100.0	100.0	100.0
Total domestic shipments	87.3	96.4	94.3	95.0	94.8	96.4
Total exports	12.7	4.0	5.7	5.0	5.2	3.6

[1] Includes starch sold as such, dextrine, and miscellaneous starch products.
[2] Includes sirup, sugar, and miscellaneous refinery products.

Source: Same as for table 1.

TABLE 6.—*Domestic consumption of corn starch (sold as such) and corn dextrine, 1935–58*

[In millions of pounds]

Year	Shipments of wet milling industry			Imports of starch	Total
	Starch (sold as such)	Miscellaneous starch products	Dextrine		
1935	592.1	31.4	70.8	....	694.3
1936	801.0	43.7	92.3	....	937.0
1937	684.8	49.6	82.5	....	816.9
1938	726.5	34.9	78.2	....	839.6
1939	821.0	46.5	87.3	....	954.8
1940	838.8	53.8	90.8	....	983.4
1941	1,228.2	80.7	140.1	....	1,449.0
1942	1,314.8	93.7	133.7	....	1,542.2
1943	1,351.1	111.2	187.9	0.3	1,650.5
1944	1,108.2	104.3	168.7	.5	1,381.7
1945	1,142.4	96.0	147.8	....	1,386.2
1946	1,161.6	81.7	139.6	2.2	1,385.1
1947	1,381.1	96.8	161.2	....	1,639.1
1948	1,318.8	100.0	155.6	....	1,574.4
1949	1,401.1	78.6	157.6	....	1,637.3
1950	1,674.4	110.4	206.5	....	1,991.3
1951	1,560.3	117.3	188.1	....	1,865.7
1952	1,606.3	92.3	169.0	.2	1,867.8
1953	1,740.0	93.4	181.6	.7	2,015.7
1954	1,729.0	74.0	168.7	.7	1,972.4
1955	1,841.3	93.6	187.4	2.2	2,124.5
1956	1,896.1	125.7	186.7	6.6	2,209.1
1957	1,862.5	116.5	174.2	6.5	2,159.7
1958	1,883.1	91.6	157.8	11.4	2,143.9

Sources: Same as for table 1.

TABLE 7.—*Domestic sales of cornstarch (sold as such) and corn dextrine: Distribution by principal use*

[In millions of pounds]

Use	1940	1950	1955	1956	1957	1958
Foods [1]	170.2	332.2	331.0	329.9	315.8	310.2
Beer	107.5	175.8	94.5	96.7	110.3	111.2
Textiles	164.2	298.9	314.2	317.8	300.5	286.9
Laundry [2]	150.3	174.2	151.6	148.1	137.0	135.4
Paper products [3]	149.0	521.9	785.1	812.1	805.4	835.7
Paste, adhesives, and dextrine [4]	114.4	262.0	207.6	202.3	187.8	170.3
Asbestos, gypsum and mineral board	....	37.0	42.0	39.4	39.5	44.8
Explosives	9.9	8.4	8.7	9.8	8.8	9.7
Miscellaneous	[5] 64.1	70.2	93.8	120.6	131.6	127.5
Total	929.6	1,880.6	2,028.5	2,076.7	2,036.7	2,040.7
PERCENTAGE DISTRIBUTION						
All uses	100.0	100.0	100.0	100.0	100.0	100.0
Foods	18.3	17.7	16.3	15.9	15.5	15.6
Beer	11.6	9.3	4.7	4.6	5.4	5.4
Textiles	17.7	15.9	15.5	15.2	14.7	14.0
Laundry	16.2	9.3	7.5	7.1	6.7	6.6
Paper products	16.0	27.7	38.7	39.1	39.5	40.9
Paste, adhesives, and dextrine	12.3	13.9	10.3	9.8	9.3	8.4
Asbestos, gypsum and mineral board	....	2.0	2.1	1.9	2.0	2.2
Explosives	1.1	.4	.4	.4	.4	.5
Miscellaneous	6.9	3.7	4.6	5.8	6.5	6.2

[1] Includes distribution to bakers and bakery supply houses, baking powder manufacturers, confectioners and chewing gum manufacturers, and miscellaneous food industries. Also included are estimated shares of annual shipments to dealers and jobbers and chain stores and other retail outlets representing food starches, based on the following approximations: for 1940, 20 percent of the shipments to dealers and jobbers and 30 percent of the shipments to retail outlets; for 1950 and subsequent years, 40 percent and 50 percent, respectively. The balance in each case was assumed to be laundry starch.

[2] Includes distribution to commercial laundries as given in the source data, plus approximate shares of shipments to dealers and jobbers and retail outlets. (See footnote (1) above.)

[3] Includes distribution to paper mills and paper box manufacturers and for laminating and corrugating.

[4] Includes sales of cornstarch to manufacturers of paste, adhesives and dextrine and direct shipments of dextrine by the wet milling industry.

[5] Total food and industrial miscellaneous starches. Breakdown not available prior to 1944.

Source: Same as for table 1.

TABLE 8.—*Domestic sales of tapioca flour and dextrine: Distribution by principal use* [1]

[In millions of pounds]

Use	1940	1955	1956	1957	1958
Foods [2]	20.8	10.2	26.4	42.5	36.4
Textiles	26.8	4.1	8.6	4.9	7.9
Laundry	3.0				.3
Paper products	93.6	58.2	79.4	90.6	107.9
Paste, adhesives, and dextrine [3]	95.6	24.3	16.1	15.4	16.0
Explosives	[4] 8.0	.2	.3	.2	.4
Miscellaneous	[5] 34.6	2.7	3.1	2.0	3.7
Total	282.4	99.7	133.9	155.6	172.6

PERCENTAGE DISTRIBUTION

Use	1940	1955	1956	1957	1958
All uses	100.0	100.0	100.0	100.0	100.0
Foods [2]	7.4	10.2	19.7	27.3	21.1
Textiles	9.4	4.1	6.4	3.1	4.6
Laundry	1.1				.2
Paper products	33.1	58.4	59.3	58.2	62.5
Paste, adhesives, and dextrine [3]	33.9	24.4	12.0	9.9	9.3
Explosives	[4] 2.8	.2	.2	.1	.2
Miscellaneous	[5] 12.3	2.7	2.3	1.3	2.1

[1] Sales of members of Tapioca Importers Association, estimated at about 90 percent of total sales.
[2] Includes sales to food manufacturers and distributors and dealers. For the years 1956, 1957, and 1958 includes tapioca imported directly and distributed by food manufacturers (not members of Tapioca Importers Association).
[3] Includes sales to manufacturers of paste, adhesives, and wood products.
[4] Classified in 1940 as sales to manufacturers of drugs, paints, and chemicals.
[5] Includes sales of 5,213,000 pounds of tapioca flour and dextrine separately classified in 1940 under carpet and felt manufacturers.

Sources: Same as for table 13.

TABLE 9.—*Combined sales of cornstarch (sold as such) and dextrine and tapioca flour and dextrine—Relative share of each by specified end use*

[In millions of pounds]

	1940	1955	1956	1957	1958
Foods [1]	298.5	435.7	453.0	468.6	466.8
Corn	277.7	425.5	426.6	426.1	430.4
Tapioca [2]	20.8	10.2	26.4	42.5	36.4
Textiles	191.0	318.3	326.4	305.4	294.8
Corn	164.2	314.2	317.8	300.5	286.9
Tapioca	26.8	4.1	8.6	4.9	7.9
Laundry	153.3	151.6	148.1	137.0	135.7
Corn	150.3	151.6	148.1	137.0	135.4
Tapioca	3.0				.3
Paper products	242.6	843.3	891.5	896.0	943.6
Corn	149.0	785.1	812.1	805.4	835.7
Tapioca	93.6	58.2	79.4	90.6	107.9
Paste, adhesives, and dextrine	210.0	231.9	218.4	203.2	186.3
Corn	114.4	207.6	202.3	187.8	170.3
Tapioca	95.6	24.3	16.1	15.4	16.0
Miscellaneous [3]	116.6	147.4	173.2	182.1	186.1
Corn	74.0	144.5	169.8	179.9	182.0
Tapioca	42.6	2.9	3.4	2.2	4.1

[1] All food uses, plus beer.
[2] For the years 1956, 1957, and 1958 includes tapioca imported directly and distributed by food manufacturers (not members of Tapioca Importers Association).
[3] Total miscellaneous, plus asbestos, gypsum and mineral board products, and explosives.

Sources: For cornstarch data same as for table 1. For tapioca data same as for table 13.

TABLE 10.—*Textile industry consumption of cotton, cornstarch, and tapioca*

	1940	1955	1956	1957	1958
Cotton consumption [1] (in millions of bales)	8,248.0	9,130.0	9,088.7	8,459.1	8,056.0
Corn starch:					
Total (in millions of pounds)	164.2	314.2	317.8	300.5	286.9
Pounds per bale of cotton	19.9	34.4	35.0	35.5	35.6
Tapioca:					
Total (in millions of pounds)	20.0	[2] 4.1	8.6	4.9	7.9
Pounds per bale of cotton	2.4	[2] .5	.9	.6	1.0

[1] Represents conversion to bales of annual consumption in pounds at the rate of 480 pounds net per bale.
[2] This level of consumption is not representative, since tapioca imports in the preceding 3 years were extremely low compared to annual volumes since 1955.

Sources: Statistics on cotton and related data, Agricultural Marketing Service, U.S. Department of Agriculture. Cornstarch data from same source as table 1. Tapioca data from same source as table 13.

TABLE 11.—*Utilization of cornstarch and tapioca in paper and paperboard production*

	1940	1955	1956	1957	1958
Total production [1] (in 1,000 tons)	14,484	30,153.6	31,428.2	30,700.0	30,774.8
Corn starch utilization:					
Total (in 1,000 pounds)	149,000	785,100	812,100	805,400	835,700
Pounds per ton	10.2	26.0	25.8	27.2	27.1
Tapioca utilization:					
Total (in 1,000 pounds)	93,600	[2] 58,200	79,400	90,600	107,900
Pounds per ton	6.5	[2] 1.9	2.5	2.9	3.5

[1] All products: paper, paperboard, wet machine board, and construction paper and board.
[2] This level of consumption is not representative, since tapioca imports in the preceding 3 years were extremely low compared to annual volumes since 1955.

Sources: Paper and paperboard, Bureau of the Census, U.S. Department of Commerce. Cornstarch data, same source as table 1. Tapioca data, same source as table 13.

TABLE 12.—*Domestic sales of cornstarch (sold as such) and corn dextrine: Distribution according to end users*

[In millions of pounds]

Users	1940	1950	1955	1956	1957	1958
Distributors and dealers	39.0	105.9	62.1	68.3	60.9	59.5
Chainstores and other retail outlets	147.3	170.4	159.8	104.3	155.0	153.1
Paper and paper box manufacturers [1]	149.0	521.9	785.1	812.1	805.4	835.7
Textile manufacturers	164.2	298.9	314.2	317.8	300.5	286.9
Food manufacturers [2]	118.1	[3] 204.6	[3] 226.3	[4] 220.4	[4] 213.9	[4] 218.7
Brewers	107.5	175.8	94.5	96.7	110.3	111.2
Asbestos, gypsum, and mineral board manufacturers	----------	37.0	42.0	39.4	39.5	44.8
Commercial laundries	16.0	25.5	34.4	24.9	23.0	23.3
Paste, adhesives, and dextrine manufacturers and direct sales of dextrine	114.4	262.0	207.6	202.3	187.8	170.3
Explosives manufacturers	9.9	8.4	8.7	9.8	8.8	9.7
Miscellaneous industries	[5] 64.1	70.2	93.8	[6] 120.6	[6] 131.6	[6] 127.5
Total	929.5	1,880.6	2,028.5	2,076.6	2,036.7	2,040.7

[1] Includes annual totals shown by source under "Laminating and corrugating" and "Paper mills and paper box manufacturers."
[2] Includes sales to bakers and bakery supply houses, baking powder manufacturers, and confectioners and chewing gum manufacturers.
[3] Includes annual totals shown by source under "Food" and "Miscellaneous food."
[4] Includes annual totals shown in the source data under the classifications "Food" and "Miscellaneous food," plus an estimated 20 percent of the following volumes included in the 1956, 1957, and 1958 overall totals but not reflected in any of the classifications: 108,700,000, 121,600,000, and 113,600,000 pounds.
[5] Represents total miscellaneous shipments; separate data for food and industrial not available prior to July 1944.
[6] Includes annual totals shown by source under "Miscellaneous industrial" plus 80 percent of unclassified shipments noted in footnote (4) above.

Source: Same as for table 1.

TABLE 13.—*Domestic sales of tapioca flour and dextrine: Distribution by end users* [1]

[In millions of pounds]

End users	1940	1955	1956	1957	1958
Distributors and dealers		2.8	2.2	.4	.5
Chain stores and other retail outlets					
Paper and paper box manufacturers	93.6	58.2	79.4	90.6	107.9
Textile manufacturers	26.8	4.1	8.6	4.9	7.9
Food manufacturers	20.8	7.4	13.7	21.0	19.0
Brewers					
Manufacturers of asbestos and gypsum products and mineral board					
Commercial laundries	3.0				.3
Manufacturers of paste, adhesives and dextrine	57.9	23.9	15.9	15.0	15.8
Wood manufacturers (including plywood)	37.7	.4	.2	.4	.2
Explosives	[2] 8.0	.2	.3	.2	.4
Miscellaneous	[3] 34.6	2.7	3.1	2.0	3.7
Total	282.4	99.7	123.4	134.5	155.7

[1] Represent sales of members of Tapioca Importers Association, estimated at about 90 percent of total sales.
[2] Classified in 1940 as sales to manufacturers of drugs, paints, and chemicals.
[3] Includes sales of 5,213,000 pounds of tapioca flour and dextrine separately classified in 1940 under carpet and felt manufacturers.

Sources: Data for 1940 from brief submitted to the Committee for Reciprocity on behalf of the Tapioca Institute of America, representing over 90 percent of the manufacturers of and dealers in tapioca and tapioca products, January 1947. Data for 1955–58 compiled by the Tapioca Importers Association, representing an estimated 90 percent of the manufacturers of and dealers in tapioca and tapioca products.

TABLE 14.—*Prices, cornstarch and potato starch, 1940–58*

Year	Cornstarch, pearl [1]	Potato starch, Maine [2]	Year	Cornstarch, pearl [1]	Potato starch, Maine [2]
1940	$3.14	(3)	1950	$5.83	(3)
1941	3.89	(3)	1951	6.74	(3)
1942	3.47	(3)	1952	7.20	$8.41
1943	3.47	(3)	1953	7.14	6.66
1944	4.02	(3)	1954	7.14	6.66
1945	4.08	(3)	1955	7.15	6.41
1946	4.74	(3)	1956	7.20	6.41
1947	5.86	(3)	1957	7.33	7.16
1948	6.63	(3)	1958	7.38	6.91
1949	5.35	(3)			

[1] Annual average New York wholesale price per 100-pound bag in carload lots.
[2] Wholesale price per 100-pound bag, ex-warehouse (low annual quotation), plus 91 cents per bag estimated Maine-New York freight charges. This charge was included to make potato starch prices comparable to cornstarch which is quoted at New York.
[3] Not available.

Source: Bureau of Agricultural Economics, Division of Statistical and Historical Research, U.S. Department of Agriculture; compiled from the Oil, Paint, and Drug Reporter.

TABLE 15.—*Domestic consumption of starches and dextrines, corn, potato, and tapioca*

[In millions of pounds]

Type of starch and dextrine	1940	1950	1955	1956	1957	1958
Corn [1]	983.4	1,991.3	2,122.3	2,202.5	2,153.2	2,132.5
Potato [2]	58.1	170.8	181.2	209.5	152.2	226.5
Tapioca [3]	333.9	112.5	130.3	152.0	163.5	178.7
Total	1,375.4	2,274.6	2,433.8	2,564.0	2,468.9	2,537.7
PERCENTAGE DISTRIBUTION						
Total products	100.0	100.0	100.0	100.0	100.0	100.0
Corn	71.5	87.5	87.3	86.0	87.2	84.0
Potato	4.2	7.5	7.4	8.1	6.1	8.9
Tapioca	24.2	4.9	5.4	6.0	6.6	7.0

[1] Includes shipments by the wet milling industry of corn starch (sold as such), corn dextrine and miscellaneous starch products, plus imports of cornstarch.
[2] Includes domestic production of potato starch (crop-year basis), plus imports of potato starch and potato dextrine (calendar-year basis).
[3] Imports.

Sources: Cornstarch and corn dextrine from domestic sources: 1940 data compiled by Corn Refiners Statistical Bureau, Chicago, Ill.; 1950 and subsequent years, Price Waterhouse & Co., New York, N.Y.; potato starch from domestic sources, data compiled by the National Potato Council, Washington, D.C.; imports of tapioca, cornstarch, and potato starch and potato dextrine, data from Bureau of the Census, U.S. Department of Commerce.

TABLE 16.—*Cornstarch production: Shipments by the wet milling industry according to principal products manufactured from cornstarch* [1]

[In millions of pounds]

Product	1940	1950	1955	1956	1957	1958
Cornstarch (sold as such) [2]	1,148,240	1,902,370	2,139,400	2,191,410	2,165,360	2,088,760
Dextrine	98,940	206,820	187,930	187,470	174,850	159,170
Corn sirup and sugar [3]	1,687,310	2,476,020	2,511,670	2,587,540	2,579,020	2,799,900
Total	2,934,490	4,585,210	4,839,000	4,966,420	4,919,230	5,047,830
PERCENTAGE DISTRIBUTION						
Total, all products	100.0	100.0	100.0	100.0	100.0	100.0
Cornstarch (sold as such)	39.1	41.5	44.2	44.1	44.0	41.4
Dextrine	3.4	4.5	3.9	3.8	3.6	3.2
Corn sirup and sugar	57.5	54.0	51.9	52.1	52.4	55.5

[1] Production data not available. Shipments assumed as equivalent to production.
[2] Includes miscellaneous starch products.
[3] Includes miscellaneous refinery products.

Source: 1940 data compiled by Corn Refinery Statistical Bureau, Chicago, Ill.; 1950 and subsequent years, by Price Waterhouse & Co., New York, N.Y.

(Whereupon, at 11:55 a.m., the committee stood in recess, to reconvene at 10 a.m. Tuesday, August 7, 1962.)

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