

**RESOLUTION DISAPPROVING DENIAL OF IMPORT RELIEF  
TO THE DOMESTIC INDUSTRIAL FASTENER INDUSTRY**

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**HEARING**  
BEFORE THE  
**SUBCOMMITTEE ON INTERNATIONAL TRADE**  
OF THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**NINETY-FIFTH CONGRESS**

SECOND SESSION

ON

**S. Con. Res. 66**

DISAPPROVING A DETERMINATION OF THE PRESIDENT  
UNDER THE TRADE ACT OF 1974 DENYING IMPORT RELIEF TO  
DOMESTIC PRODUCERS OF NUTS, BOLTS, AND LARGE SCREWS

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APRIL 4, 1978



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# RESOLUTION DISAPPROVING DENIAL OF IMPORT RELIEF TO THE DOMESTIC INDUSTRIAL FASTENER INDUSTRY

TUESDAY, APRIL 4, 1978

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Roth, Jr., Hansen, and Danforth.

[The committee press release announcing this hearing and the resolution S. Con. Res. 66 follow:]

[Press release]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON RESOLUTION TO DISAPPROVE THE PRESIDENT'S DECISION NOT TO PROVIDE IMPORT RELIEF TO THE DOMESTIC INDUSTRY PRODUCING BOLTS, NUTS, AND SCREWS OF IRON OR STEEL

The Honorable Abraham Ribicoff (D., Conn.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that the Subcommittee will hold a hearing on Senate Concurrent Resolution 66. S. Con. Res. 66 would disapprove the President's determination transmitted to Congress on February 10, 1978, under section 203 of the Trade Act of 1974 not to provide restraints against imports of bolts, nuts, and screws of iron or steel as recommended by the U.S. International Trade Commission (I.T.C.). Disapproval by the House and Senate of the President's determination would result in the I.T.C.'s recommendation taking effect.

The hearing will be held at 10:00 A.M., Tuesday, April 4, 1978, in Room 2221 of the Dirksen Senate Office Building.

Chairman Ribicoff stated that the witnesses for this hearing will be:

1. The Honorable John Glenn, Senator from Ohio.
2. The Honorable John Anderson, Representative from Illinois.
3. The Honorable Mary Rose Oakar, Representative from Ohio.
4. Ambassador Alan Wm. Wolff, Deputy Special Representative for Trade Negotiations.
5. A panel representing the United States Fastener Manufacturing Group: David A. Spoehr, Vice President, Russell, Burdsall & Ward, accompanied by: Robert J. Blinks, Chairman of the Board and Chief Executive Officer, MITE Corp; Richard Clayton, Executive Vice President, Standard Pressed Steel Company; Peter Buck Feller, of McClure & Trotter; John S. Walker, of Jones, Day, Reavis & Pogue.
6. A panel representing importer and distributor interests: Herbert Liebman, President, A. L. Liebman & Sons; Frank Gerbig, President, U.S. Fastener Corporation; John B. Strong, Jr., President, Strong Nuts and Bolts Corporation.
7. Mr. John J. Sheahan, accompanied by Mr. John L. Oshinski, United Steelworkers of America.

*Legislative Reorganization Act.*—Chairman Ribicoff observed that the Legislative Reorganization Act of 1946 requires all witnesses appearing before the Com-

mittees of Congress to "file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument." He stated that in light of this statute, the number of witnesses who will appear before the Subcommittee, and the limited time available for the hearing, *all witnesses who are scheduled to testify must comply with the following rules:*

1. All witnesses must include with their written statements a *summary of the principal points included in the statement.*

2. The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted before the beginning of the hearing.

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

4. *No more than 10 minutes will be allowed for the oral summary of each witness, except that the panels scheduled to testify will be allowed a total of 20 minutes for the oral summary.*

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

*Written statements.*—Persons not scheduled to make an oral presentation who desire to present their views to the Subcommittee are urged to prepare a written statement for inclusion in the printed record of the hearing. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510, *not later than Wednesday, April 5, 1978.*

[S. Con. Res. 66, 95th Cong., 2d Sess.]

CONCURRENT RESOLUTION disapproving a determination of the President under the Trade Act of 1974 denying import relief to domestic producers of nuts, bolts, and large screws

*Resolved by the Senate (the House of Representatives concurring), That the Congress does not approve the action taken by, or the determination of, the President under section 203 of the Trade Act of 1974 transmitted to the Congress on February 10, 1978.*

Senator RIBICOFF. The subcommittee will be in order.

Today, the Subcommittee on International Trade will hear testimony on Senate Concurrent Resolution 66, to disapprove the President's decision to provide no import relief for the domestic industrial fastener industry.

When Congress passed the Trade Act of 1974, it provided an opportunity for congressional review of Presidential decisions on escape clause cases. I believe that this review is important for our constitutional authority over trade policy.

We look forward to hearing our witnesses today, and because of the large number of witnesses, we will be required to confine each witness to not more than 10 minutes for oral presentation. Your entire testimony will go into the record as if read in its entirety.

Our first witness is my esteemed colleague, for whom I have the highest respect, Senator John Glenn of Ohio.

#### STATEMENT OF HON. JOHN GLENN, A U.S. SENATOR FROM THE STATE OF OHIO

Senator GLENN. Thank you, Mr. Chairman.

At the outset, Mr. Chairman, I would like to express my personal appreciation for your holding these hearings. I know you've had an extremely busy schedule and you did work these hearings in and we appreciate it very, very much.

I am here today to address the trade problems of an industry that is vital both to the economy of the State of Ohio and, more importantly to the security of the United States. I am speaking of the

fasteners industry, producers of bolts and nuts, large screws of iron or steel.

On December 8, 1977, the U.S. International Trade Commission reported to the President that imports of nuts and bolts are causing serious injury to the fasteners industry of the United States. Its recommendation that import relief be granted to the fasteners industry was in response to the dramatic increase of imports of steel fasteners and the impact of those imports on American industry.

Whereas foreign imports held 21 percent of the domestic market in 1968, they now hold 45 percent of the domestic market. Employment in the fasteners industry has dropped 46 percent since 1969 and profits, of course, have dropped steadily since 1974.

In addition, Robert Strauss, the President's Special Trade Representative, recommended to the President that import relief in the form of a tariff quota system be provided for the fastener industry.

But, in spite of that recommendation, on Friday, February 10, the President decided that no relief at all was necessary.

Senator RIBICOFF. May I ask you, Senator Glenn, if the President had accepted the recommendation of Ambassador Strauss, would that have been satisfactory to you?

Senator GLENN. I think it probably would have, because the tariff quota system—I do not have details of the tariff quota system that he recommended here with me this morning—but I think that would have given enough relief that the industry would have been happy with that.

I introduced for myself and a total of 20 Senators a resolution disapproving the President's determination denying import relief to domestic producers of nuts, bolts and large screws. I took this action, No. 1, to provide needed relief to the American industrial fasteners industry which has been found to be experiencing serious injury from imports by the U.S. International Trade Commission and, No. 2, to affirm the intent of Congress with regard to the import relief provisions of the Trade Act of 1974 and, No. 3, and most importantly, to address the national security problems that our Nation's dependence on fasteners imports poses and No. 4, to communicate to foreign manufacturers that Congress is determined to insure that the interests of those sectors of the steel industry not covered by the reference price system are protected.

In his report to the Congress, the President states that import relief for the fasteners industry is not in the national economic interest. In my view, the statements contained in this report do not accurately reflect the conditions of the domestic industry.

I have outlined my differences with the President's report to Congress in the written statement that I have submitted to the committee.

Recognizing the committee's time limitations, I will not review these arguments in my oral presentation. I would, however, like to briefly address the national security problems posed by the decline of the fasteners industry and highlight the unintended negative effects of the reference price system for those sectors of the steel industry, such as the fasteners industry, not included in that pricing system.

As a result of the decline of the fasteners industry, our Nation's mobilization base for fasteners has become more and more dependent on imports—45 percent dependent, to be exact. This dependence poses serious national security problems that the Federal Preparedness Agency, acting at the request of the Department of Defense has documented in its recent study of the fasteners industry.

I might add, Mr. Chairman, that people who think of the fasteners industry as being hairpins and some screws at the hardware store, or something, underestimate this industry. To make an automobile, for instance, requires about 3,500 fasteners. The average machine tool that we manufacture in this country has about 1,700 fasteners.

A C5-A requires 2,800,000 fasteners and a 747, that most of us have flown on at one time or another, has 1/2-million fasteners of one type or another. So it points up the importance of this industry from a defense base.

In a letter to Robert Strauss, the President's Special Trade Representative, dated February 3, the Acting Director of the Federal Preparedness Agency advises that, "I do not feel it prudent for national policy to allow such import dependency to continue."

On this point, I agree with Representative Robert Giaimo of your home State of Connecticut, Mr. Chairman, who, before the House Trade Subcommittee on January 25, observed that the fasteners industry is representative of those industries which must be maintained at a base adequate enough and resilient enough to rise swiftly to the demands of mobilization in the demands of wartime emergency.

I believe Mr. Giaimo, at that time, pointed out that there were some 20 fasteners plants in the State of Connecticut.

Because the steel fasteners industry is not protected by the reference price system, it is especially vulnerable to import pressures. Experience has shown that when we cut basic steel imports we stimulate import problems in other sectors of the steel industry. In other words, they finish the product and export it to us rather than exporting to us the raw material.

Particularly from a national security standpoint, as well as an economic perspective, I am concerned that the fabricated steel industry will suffer additional injury as a result of the President's decision not to stem the flow of fabricated steel imports into the domestic markets.

First, the reference price system will increase the costs of imported steel which the fasteners producers consume to produce their product. Secondly, the reference price system does not apply to fasteners, although a vast majority of the imports of fasteners are fabricated from carbon steel.

Since reference prices will not apply to this form of steel imports, it is reasonable to assume that the domestic market will suffer further increases of fastener imports which will serve to aggravate the economic injury the domestic industry is currently suffering and further jeopardize our national security position.

It was not the intent of Congress, Mr. Chairman, that import relief serve as a protectionist device. I certainly do not consider myself a protectionist. The rationale for import relief is based upon the intent of Congress to protect, not inhibit, free trade. It is aimed at providing temporary relief for industries suffering from serious injury

caused by imports so that these industries will have sufficient time to adjust to freer international competition.

I might add, Mr. Chairman, that the GATT agreements provide for such safeguards. They allow Nations to provide needed temporary relief to impacted industries.

It is not the purpose of import relief to protect industries that seek to avoid international competition. And, just as it is not the purpose of the International Trade Commission to harbor such fugitives from the hurly-burly of the marketplace, neither is it the intent of Congress that the work of the ITC be reduced to the parceling out of pyrrhic victories to American industries in need of relief.

Too often in the last few years have American industries petitioned our Government seeking relief from unfair trade practices and injury caused by imports only to be rewarded with ruinous victory.

I hope our efforts here today and during the coming weeks to establish a fair and a reasonable trade policy will be more successful. If not, we may find ourselves in a pyrrhic predicament; surveying the injuries done to our domestic industries we will find our economic vitality and national security are undone.

The level of imports is approaching 50 percent, Mr. Chairman. I feel this industry needs protection, not only from a business standpoint in this country, but, most importantly, from a national security standpoint.

Senator Bayh asked if I would submit this statement for the record.

Senator Ribicoff. Without objection, it will go into the record as if read.

[The materials to be furnished follow:]

#### STATEMENT OF SENATOR BIRCH BARR

Mr. Chairman, I want to thank you for permitting me this opportunity to submit testimony here today in support of Senate Concurrent Resolution 66. This resolution would disapprove President Carter's determination on February 10 not to provide to the domestic fastener industry the relief proposed by the United States International Trade Commission. I believe that your Subcommittee's favorable consideration of this resolution sponsored by Senator Glenn and cosponsored by myself and several of our colleagues is important if we are to demonstrate that Congress intends to play a meaningful and constructive role in the formulation of trade policy. It is also essential if we are to send the Administration a message that continuing disregard of the USITC findings will only result in stronger support for future resolutions of disapproval of negative Presidential determinations for the relief of import-impacted industries. In the case of the domestic fastener industry the reluctance of the Administration to provide at least some form of effective import relief is especially disappointing.

#### THE PLIGHT OF THE U.S. FASTENER INDUSTRY

The plight of the manufacturers of large screws, nuts and bolts in this country has already been well documented by the United States International Trade Commission after its six month investigation. The United States Fastener Manufacturing Group also highlighted those difficulties on March 7 in its evaluation of President Carter's decision not to grant the industry relief in its testimony before the House Ways and Means Subcommittee on Trade. Importantly, the USFMB stated that producer shipments in the second half of 1977 declined by an estimated 10% to 15% from the first half. Total import penetration of all sectors of the fastener industry for 1977 has been put at 46%. This means that almost half of the demand for fasteners in this country is supplied from abroad. In the specific category of all hex and square nuts used in the U.S., imports now account for 80%. In 1968 foreign imports held 21 percent of the domestic market.

Employment has also declined dramatically—by 36% since 1969 and profits have dropped steadily since 1974. It is estimated that the USITC's proposals calling for increased tariffs over a five year period could mean the restoration of 2,500 jobs. It could also help break the vicious circle in which producers of domestic fasteners find themselves. Presently, continued import levels mean reductions in domestic manufacturing rates. This situation finds rising unit costs forcing additional substitution of imported products at lower prices.

Mr. Chairman, if our past experience with imported radios, color television, footwear and other products is any indication of future price behavior for fasteners, it is difficult for me to believe that the deterioration of the domestic fastener industry will result in anything other than higher costs for the users of imported industrial fasteners in this country. In this connection the Administration judgment appears to be seriously flawed when President Carter stated that:

"Provision of import relief would have significantly increased costs of fasteners for U.S. manufacturers who use fasteners to produce cars, machinery, equipment, and construction items."

I am informed that instances of price gouging for fastener imports did occur in the industry in 1974. This evidence seems to confirm the trend so common in other industries after imports came to dominate the market. It serves also to raise further questions about the Administration's estimate of the inflationary impact of import relief for the fastener industry.

A strong economic case has been made for import relief from the standpoints of denying a foreign source the power to set prices of certain fastener items and restoring jobs in the industry lost as the result of fastener imports.

In addition to these concerns, the question of national security has also been raised by a study recently completed by the Federal Preparedness Agency. Also, the implementation of the trigger price mechanism by the Department of the Treasury to monitor basic steel and steel product imports—itsself a well-conceived and imaginative plan to deal with basic steel imports being sold in this country at less than fair market value—presents the possibility that the fastener industry will become a "setting duck" for foreign steel imports fabricated into other forms.

Mr. Chairman, the recovery of the fastener industry can only improve our efforts in the overall fight against inflation and unemployment. It can also stimulate support for liberal trade policies that do not result in simply the export of another nation's unemployment to our country. For the workers of the domestic fastener industry such as those who held jobs at Bethlehem Steel's Lanham Bolt Division in East Chicago, our efforts to see that the principles of fair trade are fairly applied are a true test of our ability to formulate good trade policy. Congress acted wisely in providing the "escape clause" provision of the 1974 Trade Act in pursuit of this goal. We must not now shrink from the options provided to us by law. Only in this way can we avoid fast growing pressures for generalized import restraints which could seriously threaten the development of export markets for products manufactured in this country as well as agricultural commodities. Providing effective import relief for the domestic fastener industry through favorable action on S. Con. Res. 66 will help us avoid the pitfalls of protectionism and fulfill the promise of meaningful relief for industries threatened with extinction in cases of serious import dislocation.

In order that the views of my constituents so vitally concerned about this issue be made known to the Committee, I respectfully request that the accompanying copies of correspondence from Indiana fastener manufacturers be included in this hearing record.

GRIPCO FASTENER DIVISION/MITE CORPORATION,  
South Whitley, Ind., December 23, 1977.

Senator BIRCH E. BAYH, Jr.  
Senate Office Building, Washington, D.C.

DEAR SENATOR BAYH: On December 6, the International Trade Commission determined that the U.S. fastener industry has been seriously impacted by imports.

On December 8, it recommended to President Carter that a five-year program of tariffs be imposed, i.e. 30% the first two years, 25% the third year, and 20% the fourth and fifth years. Rather than offer a long dissertation on the evidence that led to this recommendation, I am attaching a sheet listing the facts which evidence the seriousness of the problem faced in our domestic fastener industry.

Although in your letter to Mr. Cowin on September 22, you recommended letters from our employees, we recognized heavy demands on your staff and instead have presented you with a petition signed by our Gripco employees at both our South

Whitley and Montpelier plants. We urgently solicit your cooperation in supporting the I.T.C.'s recommendation by either writing, wiring or phoning Ambassador Strauss requesting his favorable recommendation to President Carter.

While we are delighted that the I.T.C. has taken recognition of the problems in our industry, we will point out that while the recommendation is a positive step in the right direction, the remedy suggested falls short of closing the gap between import prices and the cost of domestic production.

As one of the Senate's most influential leaders, your support of our industry's position is vitally important, and actions taken on behalf of our industry will be prominently displayed on our employee's positional action bulletin board (picture enclosed).

Many thanks, Senator Bayh, for taking the time to review this information and offering our position your strongest support.

Very truly yours,

RICHARD R. SWANSON.

Enclosures.

**FACT SHEET—UNITED STATES FASTENER MANUFACTURING GROUP ON IMPORT RELIEF,  
RECOMMENDED BY THE INTERNATIONAL TRADE COMMISSION**

The International Trade Commission (ITC) has reported to the White House that imports of bolts, nuts and large screws are causing or threatening *serious injury* to the domestic fastener industry. The Commission recommended that an *ad valorem* duty of 30% be imposed on imports for two years, with a decrease to 25% for the third year and to 20% for the final two years.

President Carter must act on the Commission's findings and recommendations by February 14.

The United States Fastener Manufacturing Group (USFMG) believes the recommended relief is the minimum level of relief that could have a positive effect on the domestic fastener industry. We urge you to contact the President's Special Trade Representative, Robert S. Strauss, to register your support for effective import relief for this beleaguered industry. The following facts dramatize the ruinous effect of imports on this industry:

Between 1968 and 1976 imports rose by 395 million pounds—a whopping 127% increase.

Imports in 1977 will be the highest in history.

Imports have now captured about 45% of the U.S. market—as against 21% in 1969.

Imports now account for 80% of all hex and square nuts used in the United States.

Over 7,300 American jobs have been lost since 1969, representing a 36% decrease in employment. Since 1974 alone, employment has dropped by 26%.

The fastener industry is operating at about 50% of its capacity versus 80% for the U.S. industry in general.

GRIPCO FASTENER DIVISION/MITE CORPORATION,  
South Whitley, Ind., December 23, 1977.

Senator BIRCH E. BAYH, Jr.,  
Senate Office Building, Washington, D.C.

DEAR SENATOR BAYH: We, the undersigned Gripco employees of Mite Corporation at South Whitley and Montpelier, Indiana, are deeply concerned about the uncontrolled flood of imported fasteners bringing a dangerous threat to the future health of the U. S. fastener industry and the thousands of our jobs that are dependent upon the industry's stability.

We ask for your help and support in bringing about a solution to this problem.

We urge you to recommend to Ambassador Strauss that import relief be granted our industry.

Sincerely,

(A list of 26 signatures.)

Senator GLENN. I have another addition to my statement, Mr. Chairman. This information came to light just last night. A number of people have opposed the resolutions of disapproval on the grounds that the ITC data for the first half of 1977 indicated that the domestic industry's position was improving and that it was no longer necessary to provide relief.

As the President stated in his message denying relief, "domestic producers' shipments had increased in 1976 and the first half of 1977."

Last night, the ITC, in response to a request from the Ways and Means Subcommittee, provided data for the full calendar year of 1977, thus updating the major tables in the ITC's December report. This full year of data clearly indicates further deterioration of the domestic industry's position.

Between the first half of 1977 and the second half, domestic production in the fasteners industry declined further by 18.4 percent. The imports declined by much less than that, by only 7.2 percent over the same period, with the result that it increased the import penetration level from 43 percent in the first half of 1977 to 44 percent in the full year.

The industry's utilization of productive facilities remained at 51 percent for the full year.

Finally, employment continued to decline. Average employment for the first half of the year was 12,908 and the second half was down to 12,585—

Senator RIBICOFF. Would you like that document to go into the record?

Senator GLENN. Thank you, Mr. Chairman.

Senator RIBICOFF. Without objection, the entire document will go into the record as an exhibit.

Senator GLENN. Thank you, Mr. Chairman.

[The prepared statement and attachments of Senator Glenn follow:]

**STATEMENT BY SENATOR JOHN GLENN**

I want to thank you Mr. Chairman, and members of the subcommittee, for your faithful attention to the very serious trade problems confronting our nation. These problems are among the most sensitive and critical that we face and your contributions to this solution are greatly appreciated. I am here today to address the trade problems of an industry that is vital both to the economy of the State of Ohio and to the security of the United States. I am speaking of the fasteners industry, producers of bolts, nuts, and large screws of iron or steel.

On December 8, 1977, the U.S. International Trade Commission reported to the President that imports of nuts and bolts are causing serious injury to the fasteners industry of the United States. Its recommendation that import relief be granted to the fasteners industry was in response to the dramatic increase in imports of steel fasteners and the impact of those imports on American industry. Whereas foreign imports held 21% of the domestic market in 1968, they now hold 45% of the domestic market. Employment in the fasteners industry has dropped 36% since 1969 and profits have dropped steadily since 1974. In addition, Robert Strauss, the President's Special Trade Representative, recommended to the President that import relief, in the form of a tariff-quota system, be provided for the fasteners industry. On Friday, February 10, the President decided that no relief at all was necessary.

On February 21, for myself and Senators Allen, Anderson, Bayh, Bentsen, Bumpers, Danforth, Eagleton, Ford, Griffin, Heins, Helms, Hollings, Lugar, Metzenbaum, Randolph, Riegle, Schweiker, Sparkman, and Stevenson, I introduced a resolution disapproving the President's determination denying import relief to domestic producers of nuts, bolts, and large screws. I took this action to: (1) provide needed relief to the American industrial fasteners industry, which has been found to be experiencing serious injury from imports by the U.S. International Trade Commission, (2) affirm the intent of the Congress with regard to the import relief provisions of the Trade Act of 1974, (3) address the national security problems that our nation's dependence on fasteners imports poses, and (4) communicate to foreign manufacturers that Congress is determined to insure that the interests of those sectors of the steel industry not covered by the reference price system are protected.

In his report to the Congress, the President stated that import relief for the fasteners industry is not in the national economic interest. The report outlines this

departure from the recommendations of the U.S. International Trade Commission and the Office of the Special Trade Representative along the following six points:

"1. The USITC reported that domestic producers' shipments and exports had increased in 1976 and the first half of 1977. It also indicated that domestic producers' rates of return on sales were above the corresponding ratios for producers of all fabricated metal products and for all manufacturing corporations. Furthermore, domestic producers or their wholly owned subsidiaries imported or purchased 20-25 percent of total 1976 shipments of imported fasteners in the United States. The domestic industry, particularly firms specializing in the production of automotive fasteners, has and should continue to benefit from increased U.S. consumption of fasteners.

"2. Provision of import relief would have significantly increased costs of fasteners for U.S. manufacturers who use fasteners to produce cars, machinery, equipment, and construction items. The inflationary impact of providing relief could cause unemployment in other U.S. industries, offsetting gains in fastener employment if import relief had been imposed.

"3. The Department of Labor has stated that reemployment prospects for unemployed fastener workers are fair since many of these workers are located in areas with unemployment rates below the national average.

"4. Provision of import relief would subject U.S. jobs in other industries to possible foreign retaliation against U.S. exports or compensation by the United States by lessening U.S. import restrictions on other products.

"5. Import relief would adversely affect U.S. international economic interests, particularly in light of U.S. efforts to reduce trade barriers in the multilateral trade negotiations.

"6. The appreciation of the yen during 1977 will alleviate competitive pressures from Japanese fastener exports to the United States. Imports from Japan have comprised about three-fourths of total U.S. fastener imports in recent years."

In my view the statements contained in these reasons do not accurately reflect the condition of the domestic industry. With regard to the first point, that "domestic producers' shipments and exports had increased in 1976 and the first half of 1977," it should be noted that the increase in domestic producers' shipments is in relation to data regarding 1975, a year in which the U.S. experienced its worst economic setback since the Great Depression. Therefore, although shipments increased from 1976 to 1978, that increase really is only relieving a bad situation; it does not indicate a healthy industry. In relation to all other years since 1969, producers' shipments were at their lowest in 1975, 1976, and 1977. It should also be noted that exports are increasing while domestic shipments have remained at record lows during 1975 to 1977. This demonstrates that imports are definitely keeping the domestic industry from supplying its own market, which is the largest fastener market in the world, generating the most revenue for those selling in it. Moreover, increasing U.S. exports cannot compensate for the major loss of market share that the domestic producers are suffering at the hands of imports. The import-to-consumption ratio has gone up every year since 1968, culminating in 1976 with a 44% share of the U.S. market.

The argument in point #1 continues. The President states that, "It is also indicated that domestic producers' rates of return on sales were above the corresponding ratios for producers of all fabricated metal products and for all manufacturing corporations."—this statement implies that an industry with a higher return on sales is more profitable than an industry with a lower return on sales. This is not always the case.

*Forbes Magazine*, in its annual analysis of U.S. industry, uses two measures to assess the profitability of American industries: (1) after tax rate of return on capital, and (2) after tax profits as a percent of stockholders equity. These measures give a more accurate picture of the profitability of an industry than the ITC's figures on the pre-tax rate of return on sales used in the President's report to Congress. I have compared the figures compiled by *Forbes* in its 20th Annual Report on Industry, released in January 1978, with figures on the fasteners industry prepared in a private study submitted to the Office of the Special Trade Representative. These figures reveal that the profitability of the domestic fasteners industry is lower than the average profitability of "all other" industry. The figures also reveal that the profitability of the automotive fasteners sector of the fasteners industry, which accounts for about a third of all fasteners sales, is considerably higher than that of the rest of the fasteners industry. Isolating the profitability of these two distinct sectors gives a truer picture of the profitability of the fasteners industry.

TABLE 1.—After tax rate of return on capital—1977

	Percent
Entire fasteners industry.....	7.7
Automotive fasteners.....	13.0
Non-Automotive fasteners.....	6.0
All other industry.....	10.2
Heavy construction.....	12.4
Electrical.....	14.3
Construction material and handling equipment.....	11.1
Vehicles.....	10.8
Appliances.....	10.7

TABLE 2.—After tax rate of return on stockholders' equity

	Percent
Entire fasteners industry.....	9.6
Automotive fasteners.....	18.3
Non-Automotive fasteners.....	7.0
All other industry.....	13.9
Heavy construction.....	18.9
Electrical.....	19.0
Construction material and handling equipment.....	15.4
Vehicles.....	15.7
Appliances.....	16.5

It should also be highlighted that the industry's profit picture is only one indicator of its health. The import relief provisions of the Trade Act of 1974 are also concerned with employment which, in the fastener industry, is suffering. Every year since 1973 the employment levels of the industry have fallen. Over 4,400 jobs have been lost since 1974. Four plants closed during the last half of 1977.

Point #1 of the President's Report continues, "Furthermore, domestic producers or their wholly owned subsidiaries imported or purchased 20-25% of total 1976 shipments of imported fasteners in the United States."—it is reasonable to assume that domestic producers are importing because imports are underselling domestic products to such a great degree. In this instance, it is likely that the domestic producers are importing in order to stay in the market because domestically produced items cannot be sold at the low prices at which the imports are offered. However, although the business entity may remain viable through this practice, there is a consequent loss of U.S. jobs, revenues related to U.S. production of the fasteners, tax revenues, etc.

Point #1 concludes that "The domestic industry, particularly firms specializing in the production of automotive fasteners, has and should continue to benefit from increased U.S. consumption of fasteners."—I would argue that this is a questionable projection. Auto analysts in the United States are now predicting that automobile production will decrease in 1978. Furthermore, higher gas mileage requirements demand smaller and lighter automobiles, which obviously will be using fewer fasteners. The already realized benefits of increased consumption cited in the President's report are also dubious. U.S. consumption (in terms of quantity rather than value) has been increasing from 1975 to 1977 but, taken in perspective, it is only a return to normal levels. Apparent consumption had been higher than the 1976 level in every year since 1969 except one: 1971. While consumption rates are now approaching earlier levels, the U.S. industry is supplying less and the importers supplying more of the product consumed. For example, in 1971 consumption was 1.539 billion pounds of which domestic producers supplied 1.243 billion pounds. In 1976, consumption was 1.608 billion pounds, but domestic producers supplied only 1.100 billion pounds. Thus, despite the increased consumption from 1975 to 1976, the domestic producers shipped 143 million pounds less to the U.S. market in 1976 than they did in 1971. Making the same comparison for imports, importers supplied 325 million pounds more in 1976 than in 1971.

With regard to point #2 in the President's report, regarding inflationary impact of providing relief to the fasteners industry, it should be noted that, in general, the cost of fasteners constitute significantly less than one-tenth of one percent of the cost of production of automobiles, machinery and equipment. Therefore, a 100, 200, or even 500 percent increase in the price of industrial fasteners would have a *de minimis* effect on the total cost of the above-mentioned durable goods.

In response to this point and to the third point, that "reemployment prospects for unemployed fasteners workers are fair," I would call attention to the congressional intent of sections 201-203 of the Trade Act of 1973, as outlined in Senate Report (Finance Committee) No. 93-1298. The report reads: "With regard to the effect of relief on consumers, the Committee feels that the goals of the Employment Act of 1946 should be paramount. Unemployed persons are not happy consumers. If the choice is between (1) allowing an industry to collapse and thereby creating greater unemployment, larger Federal or state unemployment compensation payments, reduced tax revenues, and all the other costs to the economy associated with high unemployment, or (2) temporarily protecting that industry from excessive imports at some marginal costs to the consumer, then the Committee feels that the President should adopt the latter course and protect the industry and the jobs associated with that industry." The relief recommended by the ITC reflects the Committee's intent.

In points #4 and #5 it is suggested that import relief might trigger foreign retaliation and adversely affect U.S. interests in multilateral trade negotiations. With regard to retaliation, it is only possible and its impact may be minimal. In contrast to the known impacts on our domestic economy of our present import policy, the retaliatory effects on our economy associated with the provision of import relief are highly speculative. Moreover, the impact of retaliation, should it occur, would probably be spread out over a number of product sectors, which would reduce its adverse effects, if any. I do recognize that U.S. interests in multilateral trade negotiations merit consideration. However, it is hard to see, given the smallness of global trade in steel fasteners and the broad range of non-tariff barriers to U.S. trade abroad, how the International Trade Commission's recommended course of action would jeopardize our trade relations.

The sixth and final point of the President's report, states that "the appreciation of the yen during 1977 will alleviate competitive pressures from Japanese fastener exports to the United States." Yet despite the appreciation of the yen in 1977, information gathered by the International Trade Commission indicated that imports were underselling domestic products by margins of up to 70 percent. In fashioning its recommendation, the Commission was aware of the appreciation of the yen, but in light of the pricing practices within the U.S. fastener market, it determined that a 30 percent ad valorem tariff was needed to remedy the present serious injury being suffered by the domestic industry.

Apart from the specific statements in the President's report to the Congress, it is important to respond to the implication, inherent in that report, that provision of import relief for the steel fasteners industry is at odds with a policy of free and fair trade. The sections of the Trade Act of 1974 that deal with import relief are intended to serve as instruments for the orderly adjustment of our domestic economy to free international trade. The rationale for import relief, or the "escape clause," as it is referred to in the Senate Finance Committee's report on the Trade Act of 1974, is based on the intent of Congress to protect, not inhibit, free trade. According to this report, "The escape clause is aimed at providing temporary relief for an industry suffering from serious injury, or the threat thereof, so that the industry will have sufficient time to adjust to the freer international competition." It is not the purpose of this portion of the Trade Act of 1974, nor is it the intention of this resolution, to protect industries that seek to avoid international competition. As the Committee stated: "The escape clause is not intended to protect industries which fail to help themselves become more competitive through reasonable research and investment efforts, steps to improve productivity and other measures that competitive industries must continually undertake." The granting of import relief to the fasteners industry is consistent both with the purpose of the "escape clause" and with the free and fair trade principles to which our country is justifiably committed.

Finally, and perhaps the most important point to be made, it is significant to mention the national security problems posed by the decline of the fasteners industry. As a result of that decline, our nation's mobilization base for fasteners has become more and more dependent on imports—45% dependent to be exact. This dependence poses serious national security problems that the Federal Preparedness Agency, acting at the request of the Department of Defense, has documented in its recent study of the fastener industry. In a letter to Robert Strauss, the President's Special Trade Representative, dated February 3, 1978, the Acting Director of the

Federal Preparedness Agency advises that, "I do not feel it prudent for national policy to allow such import dependency to continue."

Because the steel fasteners industry is not protected by the reference price system, it is especially vulnerable to import pressures. Experience has shown that when we cut basic steel imports we stimulate import problems in other sectors of the steel industry. Particularly from a national security standpoint, as well as an economic perspective, I am concerned that the fabricated steel industry will suffer additional injury as a result of the President's decision not to stem the flow of fabricated steel imports into the domestic market. First, the reference price system will increase the costs of imported steel which the fasteners producers consume to produce their product. Secondly, the reference price system does not apply to fasteners, although, a vast majority of the imports of fasteners are fabricated from carbon steel. Since reference prices will not apply to this form of steel import, it is reasonable to assume that the domestic market will suffer further increases of fastener imports, which will serve to aggravate the economic injury the domestic industry is currently suffering and further jeopardize our national security position.

A number of people have opposed the Resolutions of disapproval on the grounds that the ITC data for the first half of 1977 indicated, perhaps, that the domestic industry's position was improving and that it was no longer necessary to provide relief. As the President stated in his message denying relief, "domestic producers' shipments . . . had increased in 1976 and the first half of 1977 \* \* \*."

Last night, the ITC, in response to a request from the Ways and Means Trade Subcommittee, provided data for the full calendar year 1977, thus up-dating the major tables in the ITC's December report.

This full year data clearly indicates further deterioration of the domestic industry's position:

Between the first half of 1977 and the second half, domestic production declined by 13.4%; imports declined only 7.2% over the same period—thus increasing the import penetration level from 43% in the first half of 1977 to 44% for the full year.

The industry's utilization of productive facilities remained at 51% for the full year.

While the use of net operating profit to net sales is a very poor way to measure profits in this capital intensive industry, the full year data indicates a sharp decline in such profits. The profit for the first half of the year was 10.4%—but for the full year it was 7.6%, reflecting a decline in sales of 21% and a decline in net operating profit between the first half and the second half of 1977 of 69%.

Finally, employment continued to decline. Average employment in the first half of the year was 12,903 and in the second half was 12,535.

U.S. INTERNATIONAL TRADE COMMISSION,  
Washington, D.C., April 3, 1978.

HON. CHARLES A. VANIK,  
Committee on Ways and Means, Subcommittee on Trade, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your request of March 1, 1978, I am pleased to forward herewith statistics on capacity utilization, domestic production, producers' shipments, domestic employment, and profit/loss data for bolts, nuts, and large screws of iron or steel for the year 1977. For convenience of comparison, we have updated the statistical tables presented in our published report on investigation No. TA-201-27, *Bolts, Nuts, and Large Screws of Iron or Steel*.

Please continue to call on us whenever we can be of assistance to you.

I hope you have a nice day.

Yours sincerely,

DANIEL MINCHEW, *Chairman*.

Enclosures.

TABLE 1.—BOLTS, NUTS, AND LARGE SCREWS OF IRON OR STEEL: U.S. PRODUCERS' SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, BY TYPES, 1969-77  
[Quantity in thousands of pounds; value in thousands of dollars]

Item and period	Producer's shipments	Imports <sup>1</sup>	Exports <sup>2</sup>	Apparent consumption	Ratio (percent) of imports to—	
					Shipments	Apparent consumption
Quantity						
<b>Bolts and large screws:</b>						
1969.....	1,141,000	206,363	61,914	1,266,249	18	16
1970.....	1,069,401	224,629	77,457	1,216,573	21	19
1971.....	978,961	215,833	71,657	1,129,117	22	19
1972.....	1,112,776	276,282	64,855	1,307,803	25	21
1973.....	1,190,653	329,038	102,665	1,417,026	28	23
1974.....	1,217,178	474,829	127,350	1,564,702	39	30
1975.....	828,898	329,758	129,006	1,029,650	40	32
1976.....	881,236	474,084	150,078	1,205,242	54	39
1977.....	898,120	481,140	166,203	1,223,066	55	40
<b>Nuts:</b>						
1969.....	340,307	165,661	13,134	492,834	49	34
1970.....	298,284	176,062	11,691	462,655	59	38
1971.....	263,535	163,415	11,560	415,390	62	39
1972.....	303,080	194,842	17,690	480,211	64	41
1973.....	309,074	215,625	21,730	532,859	70	43
1974.....	312,173	301,613	31,802	581,984	97	52
1975.....	194,172	205,038	43,480	366,730	106	58
1976.....	219,145	230,390	47,191	402,344	105	57
1977.....	214,784	225,776	52,062	388,498	105	58
<b>Total:</b>						
1969.....	1,482,107	372,024	95,048	1,759,033	25	21
1970.....	1,367,686	400,694	99,148	1,679,228	29	24
1971.....	1,242,486	379,248	83,227	1,538,507	31	25
1972.....	1,415,866	474,194	102,045	1,788,014	34	27
1973.....	1,499,727	544,563	124,395	1,919,885	36	28
1974.....	1,529,361	776,442	159,107	2,146,686	51	36
1975.....	1,023,070	534,796	172,486	1,386,380	62	39
1976.....	1,100,381	704,474	197,269	1,607,586	64	44
1977.....	1,112,913	716,916	218,265	1,611,554	64	44
Value						
<b>Bolts and large screws:</b>						
1969.....	541,660	35,629	36,856	340,433	7	7
1970.....	498,575	44,289	26,682	566,172	9	9
1971.....	491,058	43,839	35,317	499,590	9	9
1972.....	585,839	62,191	40,114	587,916	11	11
1973.....	658,249	91,160	61,429	687,870	14	13
1974.....	834,260	202,576	73,196	963,640	21	21
1975.....	686,790	127,869	77,830	715,478	19	18
1976.....	686,810	161,697	83,126	744,462	24	22
1977.....	713,509	156,925	87,100	783,334	22	20
<b>Nuts:</b>						
1969.....	191,737	33,569	9,647	215,659	18	16
1970.....	172,028	41,611	6,684	204,965	24	20
1971.....	169,876	38,608	8,874	198,092	23	19
1972.....	202,825	51,255	11,322	242,758	25	21
1973.....	247,729	75,198	14,619	306,308	30	24
1974.....	332,617	146,846	22,536	496,627	56	37
1975.....	268,142	99,459	23,321	334,280	39	30
1976.....	280,487	98,093	23,930	354,650	35	28
1977.....	298,222	100,214	27,152	371,284	34	27
<b>Total:</b>						
1969.....	733,397	69,198	46,503	756,092	9	9
1970.....	670,603	85,900	45,376	711,127	13	12
1971.....	660,934	82,339	44,691	698,582	13	12
1972.....	768,664	113,466	61,436	830,674	15	14
1973.....	905,972	166,348	66,042	1,006,278	18	17
1974.....	1,167,777	388,222	95,732	1,460,267	33	27
1975.....	923,881	227,128	101,251	1,049,759	25	22
1976.....	946,397	259,790	107,055	1,099,132	28	24
1977.....	1,011,731	257,139	114,252	1,154,618	25	22

<sup>1</sup> Quantity does not include bolts, nuts, and screws imported free of duty from Canada under the Automotive Products Trade Act (APTA); quantity of such articles is not reported in the official statistics of the U.S. Department of Commerce. Value of imports includes bolts, nuts, and screws imported free of duty from Canada (APTA).

<sup>2</sup> In official import statistics of the U.S. Department of Commerce, the TSUS items containing screws were reported in gross pieces during 1969-74; for these years, the staff converted the gross pieces into pounds.

<sup>3</sup> Includes bolts, threaded rods and studs, and nuts if nuts and bolts are in the same shipment. It is estimated by the staff of the U.S. International Trade Commission that bolts of iron or steel accounted for approximately 90 pct of total exports.

<sup>4</sup> Includes screws, rivets, washers, and similar articles. It is estimated by the staff of the U.S. International Trade Commission that large screws of iron or steel accounted for approximately 60 pct of total exports, by quantity and about 45 pct, by value, of total exports.

Source: U.S. producers' shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports and exports compiled from official statistics of the U.S. Department of Commerce.

TABLE 2.—BOLTS, NUTS AND LARGE SCREWS: U.S. PRODUCTION AND PRODUCERS' CAPACITY: 1972-77

Item	1972	1973	1974	1975	1976	1977
<b>Bolts and large screws:</b>						
Production.....million pounds...	1, 107	1, 140	1, 216	241	879	887
Capacity.....do.....	1, 569	1, 481	1, 545	1, 553	1, 651	1, 598
Ratio of production to capacity percent...	71	77	79	54	53	56
<b>Nuts:</b>						
Production.....million pounds...	312	280	317	201	211	208
Capacity.....do.....	442	427	475	513	538	533
Ratio of production to capacity percent...	71	66	67	39	39	39
<b>Total:</b>						
Production.....million pounds...	1, 419	1, 419	1, 533	1, 042	1, 091	1, 095
Capacity.....do.....	2, 011	1, 910	2, 020	2, 066	2, 189	2, 131
Ratio of production to capacity percent...	71	74	76	50	50	51

<sup>1</sup> Capacity is defined as the normal sustained production that can be achieved on an annual basis and is based upon a firm's average product mix during 1974-76 with allowance made for anticipated maintenance down time.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

TABLE 3.—PROFIT-AND-LOSS EXPERIENCE OF 41 U.S. PRODUCERS ON THEIR BOLT, NUT, AND LARGE SCREW OPERATIONS, 1972-77

Item	1972	1973	1974	1975	1976	1977 <sup>1</sup>
<b>Bolts, nuts, and large screws:</b>						
Net sales...thousands of dollars...	499, 674	634, 653	852, 613	680, 151	692, 694	694, 280
Cost of goods sold.....do.....	405, 449	499, 332	611, 822	494, 344	524, 326	552, 879
Gross profit.....do.....	94, 225	135, 321	240, 791	185, 807	168, 368	141, 401
Selling and administrative expenses.....do.....	67, 117	75, 952	94, 607	85, 653	89, 708	88, 548
Net operating profit.....do.....	27, 108	59, 369	146, 184	100, 154	78, 660	52, 853
Other income or (expenses) do.....	(1, 775)	(392)	515	(210)	145	(411)
Net profit before income taxes.....do.....	25, 333	58, 977	146, 699	99, 944	78, 805	52, 442
Ratio of net operating profit to net sales.....percent...	5.4	9.4	17.1	14.7	11.4	7.6

<sup>1</sup> Profit-and-loss data were submitted by 37 producers. These producers are representative of the industry.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

NOTE.—Owing to a different sampling of U.S. producers, data reported above for the years 1972-74 may differ from data published in USITC Publication 747, Bolts, Nuts, and Screws of Iron or Steel.

TABLE 4.—AVERAGE NUMBER OF PERSONS EMPLOYED IN U.S. ESTABLISHMENTS IN WHICH BOLTS, NUTS, AND LARGE SCREWS WERE PRODUCED, TOTAL AND PRODUCTION AND RELATED WORKERS ENGAGED IN THE PRODUCTION OF ALL PRODUCTS AND OF BOLTS, NUTS, AND LARGE SCREWS, 1969-77

Period	Total, all employees	Production and related workers engaged in the production of—			Total
		All products	Bolts, and large screws	Nuts	
1969.....	43, 457	34, 154	( <sup>1</sup> )	( <sup>1</sup> )	20, 232
1970.....	40, 639	32, 541	( <sup>1</sup> )	( <sup>1</sup> )	18, 746
1971.....	38, 624	30, 744	( <sup>1</sup> )	( <sup>1</sup> )	17, 210
1972.....	40, 073	32, 262	( <sup>1</sup> )	( <sup>1</sup> )	16, 858
1973.....	42, 092	33, 791	( <sup>1</sup> )	( <sup>1</sup> )	17, 536
1974.....	42, 342	34, 497	13, 006	4, 342	17, 390
1975.....	35, 101	28, 977	10, 016	3, 357	13, 373
1976.....	34, 339	27, 080	8, 690	3, 387	13, 077
1977.....	35, 031	26, 313	8, 187	3, 557	12, 744

<sup>1</sup> Not available.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Senator RIBICOFF. Thank you very much, Senator Glenn. Congressman John Anderson, please.

**STATEMENT OF HON. JOHN ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS**

Representative ANDERSON. Thank you, Mr. Chairman. I appreciate very much the opportunity that you have given us this morning to appear before this distinguished subcommittee to testify with respect to the domestic fastener industry. I think there is probably a little friendly rivalry between your State and my own State and perhaps the State of Ohio, so ably represented by the witness who preceded me, Senator Glenn—a little friendly rivalry as to which of these States figures most importantly in this tremendously important and very basic fasteners industry.

I think it is fair to say that each of us do represent States that are more significantly impacted by this problem than other States. I think it is significant that we are considering this question in the context of the news in the past few days of a record trade deficit of \$4.8 billion for February 1978.

Like the gentleman who has just testified, the distinguished Senator from Ohio, Senator Glenn, I have never taken the role of an arch-protectionist. As a matter of fact, in the almost 18 years that I have been a Member of the House of Representatives, I have normally voted for liberal trade policies on the part of our Government.

Despite that record, I make no apology for appearing this morning to plead the case of the fastener industry and to make that plea in the name of the national security of our country. I think there is a very valid national defense argument that can be made on behalf of temporary and limited tariff relief, as the International Trade Commission recommended.

I was just informed by some of the officials of our own intelligence service that the Soviet Union, for example, is one of those countries that is totally independent as far as the manufacture of nuts, bolts, and screws are concerned. They are not dependent on other countries for those very important items. As Senator Glenn has just testified, it is important to note that 500,000 fasteners go into one single 747 and the average machine tool uses about 1,700 fasteners—items that are basic to the defense and the security of our country.

I shall not repeat all of the figures that you, Mr. Chairman, have just heard about the extent to which imports have penetrated the American market. Instead, I would like permission to submit the entire statement in the hearing record.

Senator RIBICOFF. Your entire statement will appear in the record as if read.

Representative ANDERSON. While I do not want to be parochial, I would like to cite some examples in my own State of Illinois, both with respect to production cutbacks and plant closings due to the fastener import problem.

The Universal Screw, the John Deere facilities, the smaller ARCO products factory, are cases in point. In Rock Falls, which is not in my own congressional district but employs many of my constituents,

the R.B. & W. factory has reduced employment by one-third since 1974.

On February 25, I received a letter from Mr. William B. Cigliano, who is the vice president and the general manager of that particular company, which reads as follows:

Dear Mr. Anderson, I have just performed the unpleasant task of authorizing the layoff of over 100 of our employees, some of whom reside in the district that you represent. Our estimates indicate that for every wage-earner we must lay off, five others will be affected. Some of these five derive their income in industries that furnish us steel supplies and services, some others are in industries and businesses dependent on our employees for income.

Quoting further from his letter:

These layoffs are a direct result of the President's decision not to provide tariff relief to our industry. This decision will have disastrous results, not only in the fastener industry, but in support industries such as steelmaking, machinery, building and toolmaking. Contingent effects will be felt in many consumer industries when domestic income is reduced.

Economic considerations aside, let me focus once again on the national security aspects of a continued reliance on imports. I am sure the chairman is aware of the study of the domestic fastener industry conducted by the Federal Preparedness Agency, the agency responsible for insuring that our industrial base is adequate to meet essential needs in the event of mobilization for war.

In a letter to our U.S. Trade Representative Robert Strauss, the acting director of that agency, Mr. Royal, stated, and I quote:

Our study concludes that, because of deteriorating domestic capability, a largely increased level of imports would be required in the event of a conventional war. I do not feel it prudent for national policy to allow such import dependency.

Mr. Chairman, in conclusion, members of the subcommittee, I would respectfully urge that you take the action that it is within your power to take to stop the further deterioration of the domestic fastener industry at the hands of a floodtide of imports.

I am happy that Senator Glean, in his concluding testimony just a few minutes ago, referred to the fact that an update on 1977 statistics prepared by the U.S. International Trade Commission do show that when you examine the data for the entire year that further deterioration in the position of this very important, basic industry did occur.

While the Trade Act does encourage "free trade," certainly it does not do so, and was not intended to do so, at the expense of the health of the very basic domestic industry that is vital to our national security.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much.

Do you have any questions, Senator Roth or Senator Hansen?

Senator HANSEN. I have just one question. I am sorry I was not here when you began your statement, Mr. Anderson. What is the percent of these fasteners presently imported?

Representative ANDERSON. About 45 percent of the domestic market is now the result of imports.

Senator HANSEN. We have a very similar situation in the oil industry.

I have no further questions.

Senator ROTH. If I might just ask one quick question: 45 percent, how does that compare with the last 2 years? What's been the trend? I know it has been up in the past.

Representative ANDERSON. The trend has been to increase. It has increased dramatically in the last 2 years.

Senator ROTH. Well, as I recall from the figures—

Representative ANDERSON. Particularly with respect to the Japanese, for example, I think that of the \$8 billion deficit that we have with them on our trade account, about \$250 million or \$300 million of that, as I recall, is because of the imports of Japanese fasteners.

Senator ROTH. When you say 45 percent for importing, you mean 45 percent of present consumption, is that correct?

Representative ANDERSON. Yes.

Senator ROTH. That is for 1977?

Representative ANDERSON. Yes. That is current figures.

Senator ROTH. And what would 1976 be?

Representative ANDERSON. We imported 43 percent of our fasteners in 1976.

Senator ROTH. I see. Thank you, Congressman Anderson.

Senator RIBICOFF. Thank you very much.

[The prepared statement of Mr. Anderson follows:]

#### STATEMENT OF THE HONORABLE JOHN B. ANDERSON

Mr. Chairman, distinguished members of this Committee, I welcome this opportunity to appear before you in support of a resolution to override the President's decision to deny import relief to the domestic fastener industry.

I think anyone who knows my record in the Congress over the last 17 years knows that I am not an arch-protectionist, that I have usually voted for liberal trade policies on the part of the U.S. Government. And yet, in this particular instance, I make no apology for appearing before you to plead the cause of this industry in the name of national security. There is a valid national defense argument that can be made in support of at least temporary and limited tariff relief, as the ITC has recommended.

Let me begin by saying that I am firmly convinced that if the President's decision is allowed to stand, it can only mean the continued serious decline and further deterioration of this basic industry. It lies at the very backbone of the American economy since everything is held together by some kind of fastener. You have undoubtedly heard these figures before, but let me repeat them because their importance cannot be overlooked. An automobile uses 3,500 fasteners, Boeing 747's use 500,000, and a machine tool uses about 1700. Unfortunately, such a vital industry has been badly hurt by the surge of imports in recent years. Since 1968, imports of nuts have risen by 138%, bolts by 85%, and cap screws by 380%. Last year, imports accounted for \$300 million in sales, almost 50% of domestic consumption. The imports are priced about 30% below the American-made products. If these trends continue, we could be almost totally reliant on foreign sources within a few years.

As a direct consequence of such imports, in Illinois we have seen both production cut-backs and plant closings such as those at the large Universal Screw and John Deere facilities and the smaller Arco Products factory. In Rock Falls, the R. B. & W. factory has reduced employment by one-third since 1974. A while ago, I received a letter from Mr. William B. Cigliano, Vice President and General Manager of that particular company, which reads as follows:

"Dear Mr. Anderson: I have just performed the unpleasant task of authorizing the layoff of over 100 of our employees, some of whom reside in the district you represent. Our estimates indicate that for every wage earner we must lay off, five others will be affected. Some of these five derive their income in industries which furnish us steel, supplies, and services. Some others are in industries and businesses dependent on our employees for their income.

"These layoffs are a direct result of President Carter's decision not to provide tariff relief to our industry. This decision will have disastrous results not only in the fastener industry, but in support industries such as steel making, machinery building, and tool making. The contingent affect will also be felt in many consumer industries where domestic income is reduced \* \* \*.

I think this letter is concrete evidence that the President's decision to reject the ITC recommendations was a drastic mistake. We must override this decision. I have heard figures indicating that if the relief recommended by the ITC were granted, imports would be reduced by some 200 million pounds and 3,300 employees would be back at their jobs.

If this industry does fail, the nation as a whole will suffer. Our imports from Japan figure prominently at one-quarter of our nation's overall trade deficit. We cannot allow this to continue.

These economic considerations aside, I would now like to focus on the national security aspects of a continued reliance on imports. I would like to bring to your attention the study of the domestic fastener industry conducted by the Federal Preparedness Agency. This agency is responsible for ensuring that the U.S. industrial base is adequate to meet essential needs in the event of mobilization or war. It is also responsible for preventing a dangerous dependence on foreign sources of supply during national emergencies. I think it highly significant that the FPA selected the fastener industry as its first subject of study—because of its importance in terms of national security.

According to this study, an assured supply of fasteners is essential to a viable, efficiently functioning peacetime or wartime economy. An unchecked continuation of the trend of increasing imports as a percentage of consumption, the study notes, could lead to 60% of U.S. fastener consumption being met by imports in 1985. In its scenarios of a wartime economy, the FPA concedes that it is difficult to project what the emergency requirements of fasteners will be or the reliability of supplies during a war. However, since current domestic production has failed to keep pace with the peacetime U.S. economy, a continuation of current trends will make it less and less likely that domestic industry can meet essential emergency requirements.

In a letter to U.S. Trade Representative Robert Strauss, FPA Acting Director Ronald Royal states, "Our study concludes that because of deteriorating domestic capabilities, a largely increased level of imports would be required in the event of a conventional war. I do not feel it prudent for national policy to allow such import dependency."

In conclusion, I urge this Committee to act to stop the further deterioration of the domestic fastener industry at the hands of imports. While the Trade Act of 1974 encourages "free trade" it does not do so at the expense of the health of domestic industries. Where free trade injures a domestic industry, the Escape Clause in the Trade Act specifically provides for limited abridgment of "free trade." If the injury is not soon treated, it is sure to result in the death of this crucial industry and a resulting loss of thousands of jobs. I urge this Committee to act to save the fastener manufacturers from extinction by using the statutory tool which Congress has provided for this very purpose.

Senator RIBICOFF. Congresswoman Oakar.

#### **STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Representative OAKAR. Thank you, Mr. Chairman, and members of this distinguished Subcommittee on International Trade of the Committee on Finance. I am very grateful for the opportunity to testify before this subcommittee concerning Senate Concurrent Resolution 66 to disapprove the President's decision not to provide import relief to the domestic industry producing nuts, bolts, and large screws.

On the House side, I initiated a concurrent resolution and subsequently Congressman Vanik introduced a resolution for which we have 60 cosponsors to override the President's decision, largely because of the findings by the U.S. International Trade Commission that metal fasteners are "being imported into the United States in

such increased quantities as to be a substantial cause of injury to the domestic industry."

The need for import relief to the domestic metal fastener industry has become urgently clear because of three important factors.

First: Import relief is recommended by the ITC as necessary to protect American jobs.

Second: Import relief as strongly implied by the 1977 Federal Preparedness Agency Report, is necessary to protect our national defense readiness.

Third: Import relief is necessary to protect the manufacturing capability of our domestic metal fastener industry from further erosion by unrestricted imports.

The rate of import penetration has increased steadily since 1969 so that today half the metal fasteners sold in this country, approximately half, are of foreign origin. Between 1969 and 1977, imports increased at an annual average rate of 14 percent, or 15 million pounds per year.

More dramatically and significantly, domestic shipments—that is, fasteners produced by our own industry and sold here—decreased between 1969 and 1977 at an annual average rate of 38 million pounds, or 3 percent, per year.

As cheaply priced imports have taken over a larger and larger share of the U.S. market, domestic producers of fasteners have found it increasingly difficult to compete, the result being the loss of employment of thousands of metal fastener workers. Some 10,000 jobs have been lost in the last 8 years and, in and around my district in the greater Cleveland area alone, in the second half of 1977, four metal fastener plants have been forced to shut down.

Mr. Chairman, I would like to submit several letters for the record that I have from various companies who indicate that there will be further layoffs because of the President's decision.

Senator RIBICOFF. Without objection, those will be included in the record.

[The following was subsequently supplied for the record:]

RUSSELL, BURDSALL & WARD, Inc.,  
Mentor, Ohio, February 16, 1978.

Mr. CHARLES CAMPISI,  
Cannon House Office Building,  
Washington, D.C.

DEAR MR. CAMPISI: Confirming our telephone conversation of this morning, following are figures relating to employment and shipments from the RB&W factory at Mentor, Ohio:

Calendar year ending December	Number of hourly employees	Index of standard product shipments.
1973.....	519	1 NA
1974.....	476	100
1975.....	354	74
1976.....	338	63
1977.....	342	31
Month ending:		
January 1978.....	339	
February 1978.....	289	

<sup>1</sup> Acquired March 1973.

<sup>2</sup> This includes planned reductions of personnel because of the President's decision not to grant relief to our industry.

We appreciate the Congresswoman's efforts to gain house support for the resolution she plans to file this week to reverse the President's decision.  
Please let us know if we can be of further assistance.

Sincerely yours,

JAMES M. DILL,  
Director, Marketing Services.

RUSSELL, BURDALL & WARD, INC.,  
Mentor, Ohio, February 27, 1978.

HON. MARY ROSE OAKAR,  
U.S. House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE OAKAR: I have been informed by our top management that it is necessary to lay off over 100 of our employees. These layoffs are a direct result of President Carter's decision not to provide tariff relief to our industry.

As Eastern Regional Sales Manager, I can certainly relate to the seriousness of the problem. Our sales in the last few years have steadily decreased and show no promise of improving.

May we have your assistance in any Congressional action taken to override President Carter's decision.

Very truly yours,

WARD HILL,  
Sales Manager-East.

RUSSELL, BURDALL & WARD, INC.,  
Mentor, Ohio, February 28, 1978.

HON. MARY ROSE OAKAR,  
Cannon House Office Bldg.,  
Washington, D.C.

MADAM: This past week we were compelled to reduce our work force by 23 people at this plant; and, during the month of March, we will be reducing our work force by an additional 30 people. Total employment at this plant then will be approximately 360 people compared to a level of approximately 600 people during January, 1973—the period before fastener imports became a serious threat.

These recent layoffs are a direct result of President Carter's decision not to provide either tariff relief or import quotas on fasteners imported into our country.

These layoffs in our industry come at a time when the general business condition of this country is sound. Our employees have a very difficult time understanding why the industry in which they have worked for many years is suddenly in this position. Our only response is that the leadership of our nation cares very little about the future of a small but very important industry.

I do believe, however, that there are some leaders such as yourself who do care about an industry that has played a vital role in our mechanized world. Therefore, I am requesting your full support of any and all congressional actions that will serve to override President Carter's decision. Prompt action on this issue is obviously called for as the very existence of a small but vital industry is at stake.

Respectfully yours,

CHARLES G. SMOOT,  
Plant Manager.

Representative OAKAR. The metal fasteners industry is a vital one, employing highly skilled workers who, because of the time required to learn their technical skills, cannot easily find employment in a different industry. As Members of Congress, as legislators and as representatives, we have a serious responsibility to do for the people what the people cannot always do for themselves. In this industry, as well as in others, where thousands of American jobs have been lost to increased and increasing imports of products of every kind, we cannot idly sit by and watch with indifference as lines form at the unemployment office.

Mr. Chairman, I do not wish to sound melodramatic or to base my argument on exaggeration. We are not just dealing with numerical abstractions or impersonal arithmetic. We are dealing with human facts of dispossession, disruption and even the despair that comes

with forced unemployment. There is no good reason why our Government, which is supposed to be the Government of the people, cannot use the means at hand provided by the Congress in the escape clause section of the 1974 Trade Act and recommended by the ITC to protect American metal fastener workers through a 5-year sliding scale of tariffs on imported nuts, bolts and large screws.

Mr. Chairman, were Congress to override the President and implement the ITC recommendations, not only would additional layoffs within the domestic industry be avoided, but about 2,500 jobs could be restored almost immediately because of increased metal fastener production. Moreover, with import relief, we are told, another 5,000 jobs which conceivably could be lost in the next 5 years without relief, instead would be saved.

Thus, if we assumed that the highly-skilled metal fastener worker earns a median wage of \$12,600 and if we multiply that figure by 7,500 jobs that we have restored, \$96 million in wages alone would flow into the economy as a result of import relief. This means that Government would collect revenues from taxes on metal fastener workers' incomes and that these workers would not have to rely on unemployment compensation, a system already strained to the breaking point.

I was recently appointed to the Unemployment Compensation Committee and, as all of you know, we spent \$20 billion in unemployment compensation checks last year.

In summary of this argument, then, import relief is desperately needed to protect American metal fastener workers whose jobs are at the mercy of unrestricted and subsidized foreign competitors.

The second point that has been elaborated upon by my colleague and friend, Senator Glenn, and Congressman Anderson, is the fact that the strategic—that fastener imports undermines the strategic capacities of our own industry to provide adequate supplies of nuts, bolts and large screws to meet national emergency requirements. A wide range of military equipment uses thousands of metal fasteners. For example, our huge C5-A cargo planes use more than several thousand fasteners for every—we use 2 million fasteners for the C5-A cargo planes and several thousand fasteners for every tank that is built.

Do we really want to risk so basic a component to the perilous circumstances of uncertain dependence on our allies and trading partners in a serious national crisis, including perhaps, and hopefully this does not occur, hostilities?

The President himself, in rejecting import relief, nevertheless directed the Secretary of the Treasurer to initiate an expedited—and I stress the word expedited—national security investigation under section 232 of the Trade Expansion Act of 1962 to determine the extent to which metal fasteners and imported fasteners have threatened domestic self-sufficiency in emergency or wartime conditions.

The very fact that the President found it necessary in addition to the fact that the Federal Preparedness Agency had already indicated that this was a problem, is certainly an argument that we need our own industry protected from the imports due to the national security issue.

In January 1976, a letter to the Director of the Federal Preparedness Agency from the Deputy Assistant Secretary of Defense said that:

The industrial fastener industry is one of the basic industries supporting civilian and defense requirements. If this upward swing of imports continues, we could be almost totally reliant on foreign sources within a few years.

This means simply that increased levels of fastener imports significantly reduces the capacity of our domestic industry to meet all essential emergency requirements.

I will skip over the issue, elaboration of this issue, but I will submit the rest for the record. But I would like to get, without objection, my third and final point is that metal fastener imports have caused a 50-percent drop in domestic operating capacity, so that our own fastener industry is functioning at only half its real strength.

This extremely low rate of capacity utilization in the form of vital equipment and machinery and laid-off workers is especially discouraging because of the capital-intensive nature of the fastener industry. To recover the high fixed costs associated with a capital-intensive industry and to earn sufficient revenue to be profitable, domestic metal fastener producers must operate the plants at a rate much higher than 50 percent of overall capacity.

Net operating profits have declined sharply from \$146 million in 1974 to just \$40 million in June 1977. According to the December 1977, U.S. International Trade Commission Report, and I quote:

The ratio of imports to production has increased every year since 1968, rising from 25 percent in '69 to 65 percent in '76. The ratio was 67 percent during January to July, 1977.

In 1976 alone, U.S. import of nuts, bolts and large screws totalled 704 million pounds valued at about \$229 million.

Mr. Chairman, I will stop there, but I just want to conclude by saying that I think it would be unthinkable in the most talented country in the world that something as basic as nuts, bolts and screws perhaps not be manufactured in our great country, the United States of America.

Senator RIBICOFF. Thank you.

Representative OAKAR. So I hope that this committee will look favorably on the concurrent resolution offered by Senator Glenn and, without objection, Mr. Chairman, I would like to submit, on behalf of my colleague, Congressman Charles Vanik who is the chairman of the Subcommittee on Trade for the Committee on Ways and Means, a response that he received from the U.S. International Trade Commission.

Senator RIBICOFF. Without objection, I think that Senator Glenn has submitted it. If he has, we do not want the same document printed twice.

Representative OAKAR. Thank you.

Senator RIBICOFF. Thank you very much, Congresswoman.

Any questions?

Senator ROTH. I have one quick question.

In Mr. Wolff's testimony, which is still to come, the statement is made that communities in which fasteners are produced are mostly large cities, such as Chicago, Cleveland, New York, and Philadelphia, where there are generally alternative employment opportunities for unemployed workers.

Would you agree with that statement?

Representative OAKAR. I am told by many of these 60 cosponsors, many of whom represent more of the rural area that they have industries concerning metal fasteners, and I do not believe that that is necessarily the case. I think that there are small towns throughout the country, Georgia, Alabama, Tennessee, that also produce metal fasteners and are suffering in the same type of manner.

So I do not think it is just a so-called urban problem.

Senator ROTH. What I was particularly interested in, do you feel there are alternative employment opportunities, for example, in Cleveland?

Representative OAKAR. Well, of course, we have had, and Cleveland, I think, is representative of many areas, it is a known fact that once a person is laid off, for example, from the steel industry that that person has no other alternative but to go on unemployment compensation, so I would not agree with that statement, Senator.

Senator ROTH. Thank you.

[The prepared statement of Ms. Oakar follows:]

#### STATEMENT OF REPRESENTATIVE MARY ROSE OAKAR

Mr. Chairman, I am grateful for the opportunity to testify today before this Subcommittee on International Trade on Senate Concurrent Resolution 66 to disapprove the President's decision not to provide import relief to the domestic industry producing nuts, bolts, and large screws.

I initiated a Concurrent Resolution in the House to override the President's decision largely because of the finding by the U.S. International Trade Commission that metal fasteners are, "being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry." The need for import relief to the domestic metal fastener industry has become urgently clear because of three important reasons.

First, import relief, as recommended by the International Trade Commission, is necessary to protect American jobs; Second, import relief, as strongly implied by the 1977 Federal Preparedness Agency Report, is necessary to protect our national defense readiness; Third, import relief is necessary to protect the manufacturing capability of our domestic metal fastener industry from further erosion by unrestricted imports.

The rate of import penetration has increased steadily since 1969, so that today half of the metal fasteners sold in this country are of foreign origin. Between 1969 and 1977, imports increased at an average annual rate of 14 percent, or 50 million pounds per year. More dramatically and significantly, domestic shipments—that is, fasteners produced by our own industry and sold here—decreased between 1969 and 1977 at an annual average rate of 38 million pounds, or three percent per year.

As cheaply-priced imports have taken over a larger and larger share of the U.S. market, domestic producers of fasteners have found it increasingly difficult to compete, with the result being the loss of employment to thousands of metal fastener workers. Some ten thousand jobs have been lost in the last eight years. In and around my district in the Greater Cleveland area alone, in the second half of 1977, four metal fastener plants have been forced to shut down.

The metal fastener industry is a vital one, employing highly skilled workers who, because of the time required to learn their technical skills, cannot easily find employment in a different industry. As Members of Congress, as legislators and Representatives, we have a serious responsibility to do for the people what the people cannot always do for themselves. In this industry, as well as in others, where thousands of American jobs have been lost to increased and increasing imports of products of every kind, we cannot idly sit by and watch with indifference as lines form at the unemployment office.

Mr. Chairman, I do not wish to sound melodramatic or to base my argument on exaggeration, but we're not just dealing with numerical abstractions or impersonal arithmetic. We are dealing with *human facts*—of dispossession, disruption, and even the despair—that come with forced unemployment.

There is no good reason why our government, which is supposed to be government of the people, by the people, and FOR the people, cannot use the means at

hand, provided by Congress in the escape clause section of the 1974 Trade Act and recommended by the International Trade Commission, to protect American metal fastener workers through a five-year sliding scale of tariffs on imported nuts, bolts, and large screws.

Mr. Chairman, were Congress to override the President and implement the ITC recommendations, not only would additional layoffs within the domestic industry be avoided but about 2,500 jobs could be restored almost immediately because of increased metal fastener production. Moreover, with import relief, another 5,000 jobs which conceivably could be lost in the next five years *without* relief, instead would be *saved*.

Thus, if we assume that a highly-skilled metal fastener worker earns an average annual wage of \$12,600, and if we multiply that figure by the 7,500 jobs that are restored, \$96 million in wages alone would flow into the economy as a result of import relief. This means that government would collect revenue from taxes on fastener workers' incomes and that these workers would not have to rely on unemployment compensation, a system already strained to the breaking point. In summary, then, import relief is desperately needed to protect American metal fastener workers whose jobs are at the mercy of unrestricted and subsidized foreign competitors.

My second point is that our continued dependence on metal fastener imports undermines the strategic capacity of our own industry to provide adequate supplies of nuts, bolts, and large screws to meet national emergency requirements. A wide range of military equipment uses thousands of metal fasteners. Did you know that two million fasteners hold together, literally, each of our huge C5A cargo planes, and that several thousand fasteners are needed for every tank built? Do we really want to risk so basic a component to the perilous circumstances of uncertain dependence on our allies and trading partners in a serious national crisis, including actual hostilities?

The President himself, in rejecting import relief, nevertheless directed the Secretary of the Treasury to initiate an expedited—and I stress the word “expedited”—national security investigation under Section 232 of the Trade Expansion Act of 1962, to determine the extent to which imported fasteners have threatened domestic self-sufficiency in emergency or wartime conditions. The very fact that the President found it necessary to order such an investigation invalidates much of his own argument for rejecting import relief and compromises legitimate national security questions because of his own apparent misunderstanding of the close relationship that domestic metal fastener production has to a credible national defense in crisis situations. Permit me to be more specific in this regard.

In a January, 1976 letter to the Director of the Federal Preparedness Agency, the Deputy Assistant Secretary of Defense said that, “the industrial fastener industry is one of the basic industries supporting civilian and defense requirements \* \* \*. If this upward swing of imports continues, we could be almost totally reliant on foreign sources within a few years.” This means simply that increased levels of fastener imports significantly reduces the capacity of our domestic industry to meet all essential emergency requirements. This also means that projected shortages in fastener supply under less favorable import conditions during an emergency or in wartime are, “serious enough to warrant concern.” Let me illustrate this point as clearly as I can.

Japan presently accounts for about 75 percent of all metal fasteners imported into the United States. During projected Mobilization years of 1977, 1981, and 1985, the Federal Preparedness Agency estimates that Japanese exports of fasteners to this country would increase at a constant rate, despite readjustment of production capabilities made necessary by wartime conditions. Yet, this seemingly assured flow of Japanese-made fasteners to meet our civilian and defense needs is only theoretically valid, because the truth is that imported fasteners from Japan would be endangered by Soviet air and naval harassment.

In any national emergency in which a declaration of war is a possibility, it certainly is not unreasonable to assume that there would be some form of Soviet action to disrupt the flow of strategic supplies to the United States from those countries with whom we have friendly diplomatic and trading ties, such as Japan and the West European nations. In any worst-case scenario involving our military and industrial capacity to survive a national crisis without a dangerous dependence on foreign suppliers, it is absolutely vital that domestic producers be able to satisfy our defense needs. Therefore, with an industry as basic and essential to our national security needs as the metal fastener industry, import relief is not merely a request or a recommendation—but an *urgent necessity*.

My third and final point is that metal fastener imports have caused a 50 percent drop in domestic operating capacity, so that our own fastener industry is functioning at only half its real strength. This extremely low rate of capacity utilization, in the form of idled equipment and machinery and laid-off workers, is especially disturbing because of the capital intensive nature of the fastener industry. To recover the high fixed costs associated with a capital intensive industry and to earn sufficient revenue to be profitable, domestic metal fastener producers must operate their plants at a rate much higher than 50 percent of overall capacity. Net operating profits have declined sharply from \$146 million in 1974 to just \$40 million in June, 1977. According to the December, 1977 U.S. International Trade Commission Report, and I quote: "The ratio of imports to production has increased every year since 1969, rising from 25 percent in 1969 to 65 percent in 1976. The ratio was 67 percent during January to July, 1977." In 1976 alone, U.S. imports of nuts, bolts, and large screws totalled 704 million pounds, valued at about \$229 million.

In the face of this onslaught of imported fasteners, American producers have been forced to idle machinery and lay off employees. To become competitive again in the marketplace of their own country American metal fastener producers need the type of import relief recommended by the International Trade Commission. Indeed, this recommendation of relief is in complete legal conformity with the escape clause provision instituted by Congress as part of the 1974 Trade Act to protect American industries seriously threatened by foreign competition. The Congress gave that authority in the Act to the International Trade Commission to recommend such relief in clear-cut cases where increased quantities of an imported article have been the cause of, or threaten to be the cause of, serious injury to a domestic industry producing a similar or identical article. The ITC found the American metal fastener industry to be such a case.

Mr. Chairman, by overriding the President's decision, we will not declare any opening shot in a new round of trade wars. Rather, we will merely be asserting our legislative prerogative to provide necessary relief, in accordance with legally established procedures, to an industry vital to our economic and national security interests.

The case for import relief speaks clearly enough for itself. Mr. Chairman, I urge you and the members of your subcommittee to support Senator Glenn and favorably report his Concurrent Resolution of disapproval. We must act now, in both Houses, while the time is ours, to protect American workers, to protect American defense readiness, and to protect the American metal fastener industry itself. In doing this, we will tell other Americans whose jobs are threatened by imports that Congress cares about them, too.

Thank you, Mr. Chairman, for allowing me this important opportunity to testify here today.

Senator RIBICOFF. Ambassador Wolff.

Mr. WOLFF. Mr. Chairman, members of the subcommittee, I have with me this morning Richard Heimlich, Assistant Special Trade Representative for Industrial Policy, should there be any questions that he could help with.

**STATEMENT OF AMBASSADOR ALAN WILLIAM WOLFF, DEPUTY  
SPECIAL TRADE REPRESENTATIVE, ACCOMPANIED BY RICHARD  
HEIMLICH, ASSISTANT SPECIAL TRADE REPRESENTATIVE FOR  
INDUSTRIAL POLICY**

Mr. WOLFF. I appreciate this opportunity to discuss the President's decision in the industrial fastener import relief case with you today. I will attempt to summarize my statement very briefly, if I might.

Senator RIBICOFF. Your entire statement will go in the record, Mr. Ambassador, as if it were read.

Mr. WOLFF. As the committee knows, the U.S. International Trade Commission looks at a much narrower range of factors than the President is required to take into account. Superficially, this is a

very compelling case for import relief. Imports went up by volume to 44 percent of consumption; production is down; capacity utilization is only at 50 percent; and employment dropped 25 percent in the last 3 years.

Those are compelling factors.

But, upon further examination, this case is not all that simple and, as Senator Glenn said earlier, Bob Strauss' initial conclusion and STR's initial conclusion, was that import relief ought to have been granted, in a different form than recommended by the USITC, but nevertheless, granted.

But consideration of the following factors raised some doubt. The President is required to make his judgment on nine specific national economic interest criteria contained in the Trade Act.

First, he is to take into account a report from the Secretary of Labor as to whether trade adjustment assistance or other manpower programs will be utilized. Four thousand workers are already receiving such assistance and the programs appear to be capable of meeting the needs of most of the displaced fastener workers during the fiscal year 1978 and beyond.

Unemployed workers are located, largely—and we will have to supply additional figures for the record—in areas where unemployment rates are below the national average, so that reemployment prospects for most of the unemployed workers are reasonably good.

[The following was subsequently supplied for the record:]

With regard to the location of unemployed fastener workers and their reemployment prospects I am submitting Table 1 which compares unemployment rates for major U.S. fastener-producing areas with the national unemployment rate, as of September 1977. Data collected by the Department of Labor in its adjustment assistance report to the President on fasteners indicate that most of the currently unemployed U.S. fastener workers should be located in these areas. As can be seen from Table 1, the majority of these fastener-producing areas had unemployment rates below the national average as of September 1977, so reemployment prospects for most of the laid off workers in impacted areas are reasonably good.

TABLE 1.—Unemployment rates for U.S. fastener-producing areas <sup>1</sup>

State and area:	Unemployment rate
Alabama: Birmingham SMSA.....	5.4
Connecticut: Hartford SMSA.....	5.5
Pennsylvania:	
Pittsburgh SMSA.....	6.1
Lebanon County, Pa.....	4.9
Pennsylvania-New Jersey:	
Philadelphia SMSA.....	6.9
Allentown-Bethlehem-Easton SMSA.....	5.2
Michigan: Detroit SMSA.....	5.8
Ohio:	
Cleveland SMSA.....	5.1
Akron SMSA.....	5.6
Illinois:	
Chicago SMSA.....	4.3
Winnebago County.....	6.1
Indiana: Whitley County.....	2.5
Minnesota-Wisconsin: Minneapolis-St. Paul SMSA.....	4.6
California: Los Angeles SMSA.....	6.7
National U.S. unemployment rate.....	6.6

<sup>1</sup> September 1977 unemployment rates (seasonally unadjusted).

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Mr. WOLFF.** The President found that the provision of import relief would not have created, or saved, many jobs in this industry. The range of estimates is from 700 to 2,000 jobs. There would have been a substantial inflationary impact from having created those jobs.

The second factor the President must take into account is a report from the Secretary of Commerce as to whether firm and community trade adjustment assistance would be available. No U.S. firms have applied for assistance, nor have any communities. However, the Department of Commerce estimates that 10 U.S. firms could be certified as eligible for trade adjustment assistance benefits and they have indicated that they will be in contact with each and every firm, each and every establishment—180 of them in this industry—to inform them of the availability of benefits which include loans to individual firms, technical assistance and consultant specialists on management and technical marketing problems.

This is a varied industry and the health varies from one area to another in terms of the type of production. Producers of automotive fasteners generally have been highly profitable and so have producers of specialized fasteners. It is worth noting that, while imports are up by volume, they are down by value as a percent of domestic consumption, and the domestic industry's prices, measured by unit value, have increased 50 percent since 1973.

The third national economic interest consideration is the ability of the domestic industry to adjust to import competition. The President determined that the 30-percent tariffs recommended by the USITC would not have been effective in allowing domestic producers of these items to recapture lost sales to imports.

Price margins exist of close to 60 percent in the bulk standard fastener items. It is questionable whether our industry could ever produce or recapture that part of the production.

However, production of automotive and specialized fasteners has not been subject to significant import competition and here import relief also would not have contributed to adjustment because, to a large degree, such competition from imports does not exist.

In order to provide relief to this industry, the President would have had to grant it on a blanket basis, to the industry across-the-board as far as products are concerned, which would have resulted in windfall profits to the stronger firms. He could not have segmented out automobile fastener production or the production of specialized fasteners.

The fourth criterion the President is required to look at is the effect of import relief on U.S. consumers and on competition. This was a principal area in which the President felt that the national economic interest would not be served by the provision of import relief.

The aggregate cost of providing this relief would have been \$57 million at a minimum and \$179 million estimated at a maximum for 700 to 2,000 additional jobs; that is, roughly at a cost of \$80,000 to \$260,000 per job. We estimate that this would have resulted in a net job loss to the U.S. economy due to the impact on consumers.

The fifth factor that the President is required to look at is the effect on our international economic interests. The major impact

would have been on Japan, which supplies three-quarters of our fastener imports and on Canada which supplies 8 percent.

With respect to Japan, we currently have gotten a number of major commitments from that country to reduce import barriers to exports of interest to us, and the imposition of restrictions by the United States on fasteners might well have weakened support within Japan for its efforts to meet these crucial commitments.

With respect to Canada, we have a very healthy surplus, as a matter of fact, on fastener trade. Exports have gone up substantially in recent years, including this last year, as shown by the new USITC data that became available last night.

Canada indicated to us that she would have responded, or considered responding in kind, in closing off our market in Canada if we adversely affected Canadian imports to this country. So our fastener industry might have been seriously affected by the provision of import relief in this case.

In a broader context, I might say that major developed countries have obviously been faced with increasing pressures from imports which have jeopardized U.S. jobs and each time the United States retreats from its efforts to maintain an open trading system, we invite other countries to do likewise. It is worth just mentioning briefly what the record has been. Several cases have been before the President. Shoes, a \$1 billion case, in terms of trade coverage, import relief was granted. Television receivers, an \$800 million case, import relief was granted.

CB radios, a \$400 million to \$800 million case, import relief was granted. We have a textile import program in place. We have a trigger price mechanism on steel. Each of those areas involve several billion dollars worth of trade.

In each of these cases, we believe relief from imports was warranted. If you add to that sugar import relief, in effect we have provided by the Congress relief on an additional \$1 billion worth of trade; specialty steel, another \$200 million. And we have imposed relief on, not counting steel and textiles, \$3.5 billion worth of the cases that have come before the President and denied it in only \$350 million worth of cases.

So, on a trade coverage basis, over 90 percent of the cases coming before the President, import relief has ultimately been granted. The largest part of the \$350 million worth of trade in which import relief was not granted was the fastener case.

The question always in granting import relief is: Who is going to pay the bill besides the U.S. consumer? Our export industries would either suffer retaliation or we would have to pay compensation in terms of reduced barriers to foreign imports for another industry.

That was another factor that was considered in this case as adverse.

I might just add one thing in summary. There is a national security investigation proceeding in the Treasury, because a valid point was raised as to whether national security might be affected in this case. A recent fact—it is not in my testimony and has not been previously mentioned, and the President did not have this before him at the time he acted—is that the Japanese Government has said to us that acting unilaterally, it has decided to attempt to

stabilize fastener exports at reasonable levels through guidance that will raise Japanese export prices to this market. That will be another favorable factor with respect to the domestic industry.

One last point, if I might, and that is that I would hope that the use of the override provision in the Trade Act would be confined to cases where it is not reasonable to reach the conclusion that the President has. On the facts of this case, I submit that reasonable men could differ, but the President reached a reasonable conclusion in this case.

Thank you, Mr. Chairman.

Senator RIBICOFF. Let's examine your last comment. A major reason the administration rejected the Commission's recommendation for relief was the relatively high profit rate in the recent past, better than 11 percent, according to the President.

What would the administration's position be if the full year 1977 rate of return on sales was about 7 percent?

Mr. WOLFF. Well, I was just handed the figures as I walked into this hearing and the second year, apparently—the full year figures are down with the second-half year data to 7.6 percent. This is still in the range of profitability of all manufacturing, and the second half of the year may well reflect seasonal factors as well as some weakening in auto demand which now appears to be picking up.

So one would expect the profit rates to increase back to trend, which has been 10 to 11 percent.

Senator RIBICOFF. Recently the President decided to increase CB radio tariffs 15 percent in response to an ITC recommendation. Would you distinguish for us the President's decision on the CB radio case from his decision in the industrial fasteners case?

What were the criteria for national economic interest in the CB case and the fastener case?

Senator HANSEN. Mr. Chairman, if I could interrupt, I am intensely interested in your questions. The information I had was that, in the CB case, the tariffs were to be increased by 21 percent, then 18 percent, then 15 percent. I was wondering if my information was in error.

Mr. WOLFF. It is an increase to 21 percent by 15 percent above the 6-percent current duty. It is an additional 15 points on top of the existing duty of 6 percent in the first year, phasing down to 18 and 15 in the 2 subsequent years.

Senator RIBICOFF. Will you tell us the difference of economic interests in each case?

Mr. WOLFF. Several major factors were involved in CB radios. Imports in 1 year exceeded all of U.S. consumption, which is a massive flood of imports in that case. As far as inflationary impact is concerned, CB radios are an end consumer product. Price increases, if any, would not cause a ripple effect throughout the economy as in the case of fasteners—as fastener price increases would, fasteners being used in a whole range of intermediate industrial production.

The stocks of CB radios in everyone's warehouses are immense, and therefore the inflationary impact would be likely to be very limited for that reason as well.

Half the firms went out of business in the CB radio industry; there were five firms capable of making substantial recovery. Therefore, it was felt that the provision of relief would have an effect. In the fastener case, it is not clear that the U.S. industry can ever adjust to the import competition in the so-called standard fastener items, which are the very inexpensive, bulk, large-scale fastener production runs.

I would say that those were the major distinguishing factors.

Senator RIBICOFF. Let me ask you, what share of Japanese exports of industrial fasteners go to the U.S. market as compared with other major markets for Japanese fasteners?

Mr. WOLFF. I do not believe we have that figure with us, but we could supply it for the record.

[The following was subsequently supplied for the record:]

TABLE 2.—JAPANESE EXPORTS OF INDUSTRIAL FASTENERS

[In thousands of dollars]

	1977		1976		1975		1974	
	Metric tons	United States						
World.....	354,167	\$322,838	333,572	\$263,691	244,723	\$202,903	336,152	\$371,553
United States.....	295,327	243,395	282,393	202,223	195,081	144,107	299,739	316,891
European community.....	9,727	12,501	6,789	8,334	6,899	6,384	3,058	4,568
Total.....	305,054	255,896	289,182	210,557	201,980	150,491	302,797	321,459

Senator RIBICOFF. I think what you might find, and I am very curious, that the Japanese intentionally concentrate on the U.S. market instead of the Europeans, and the Europeans are able to work out a quota system very easily with the Japanese, and we get the brunt of it, generally.

Mr. WOLFF. I know of no quantitative import restrictions or export restraints vis-a-vis the European market on industrial fasteners from Japan.

Senator RIBICOFF. But they have their so-called gentlemen's agreement between themselves. They make it quietly. That is why I am very curious as to how much of the Japanese fasteners are going to Europe and how much are coming to the United States.

Mr. WOLFF. As far as I know, only steelmill products are covered by their agreement, but as you say, we do not have full data on any of these agreements.

Senator RIBICOFF. Let me ask you, what was Ambassador Strauss' first recommendation? What was it specifically on the industrial fasteners?

Mr. WOLFF. It was a tariff rate quota, at 1976 levels with an over quota rate at 30 percent for a period of 3 years.

Senator RIBICOFF. The President generally takes Ambassador Strauss' recommendations, does he not, on most of these matters?

Mr. WOLFF. Well, his batting average has been reasonably good in most areas. But in reviewing the factors in this case further, Ambassador Strauss came to support what the President ultimately did.

Senator RIBICOFF. Was Ambassador Strauss careless with his first recommendation, or did he study that very carefully with the able assistance of you two gentlemen?

Mr. WOLFF. This is a case where one could go either way, I would say, and various agencies often do on these cases. This was closer than most. But there is a compelling case for import relief. I would not say it was more compelling than the case against import relief, based on the factors that I have outlined.

Senator RIBICOFF. Senator Roth.

Senator ROTH. As the chairman and you yourself pointed out, the problem is primarily one of imports from Japan. Now, as I understand your testimony, you say that the Japanese Government has made a number of commitments to the United States in order to reduce its trade surplus by opening its market to our goods.

Has there been any substantial improvements since those commitments were made? Do we have any up-to-date information?

Mr. WOLFF. There have been substantial increases in export prices of the Japanese and this should have an impact. Of course, a lot of this has to do with appreciation of the yen and the passthrough of the increased dollar prices to consumers.

I believe that the February imports were actually up. Whether that was in anticipation of import relief being granted, I do not know. It will take longer to estimate what the longrun impact of the Japanese undertaking, or Japanese guidance, will be.

Senator ROTH. Was any consideration or effort made to try to reach some kind of agreement to minimize, or limit, the imports from Japan? As I understand your testimony, one of your concerns is that we have a favorable balance with Canada and other countries and if we take restrictive action across-the-board, we will affect these favorable relationships.

Was any consideration given to trying to make, shall we say, a gentleman's agreement with Japan in this area?

Mr. WOLFF. The difficulty in this case, just a practical matter, even had the administration desired to do so, is that there are a large number of small- and medium-sized Japanese producers. This is not similar to steel where the bulk of steelmill product exports come from six firms. There are several hundred Japanese firms involved, and even if the Japanese Government had been interested in this process, it would have been difficult for them to have entered into such an arrangement.

Senator ROTH. There was not a number of large, dominating exporters?

Mr. WOLFF. That's correct, there are not.

Senator ROTH. I have no more questions, Mr. Chairman.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Senator Roth asked the question that was on my mind, Mr. Chairman. I was just wondering, Mr. Wolff, if you might be willing to hazard any prediction as to a favorable change that you anticipate will flow from these commitments made by the Japanese Government in helping out our balance-of-payments situation with Japan.

Is it right that in 1977 we had between \$8 billion and \$9 billion—

I have heard \$8 billion and I have heard \$9 billion—do you have a figure on that, as to what our balance-of-payments outflow was?

Mr. WOLFF. I believe it was an \$8.1-billion deficit with Japan. They had a global current account surplus with everyone of some \$17 billion.

Senator HANSEN. So nearly half was with the United States?

Mr. WOLFF. That is right.

Senator HANSEN. Would you make any prediction as to what would result from this commitment that Japan has made?

Mr. WOLFF. It will take some time for any substantial shift to take place. The yen appreciation works initially to swell the Japanese export figures and on the import side, the Japanese now mainly import raw materials and there is unlikely to be a major increase in sales of raw materials due to the appreciation of the yen.

What the Japanese need to do is to make structural changes. They are embarked upon a program of stimulating domestic demand, building power generating plants, roads, hospitals, housing, to shift Japan away from export orientation.

They have taken a number of import increasing steps. There was a buying mission here that resulted in about \$2 billion worth of contracts. There are a number of steps. But none of them really add up to, by themselves, the fundamental change that has to take place through a change in attitude on the part of the Japanese trading companies, banks, and government, to rely more on manufactured goods imports. That will take a while.

But there has been a good deal of good will expressed in implementing the commitments made by Minister Ushiba to Ambassador Strauss.

Senator HANSEN. I know that the Chairman has expressed on several occasions the desirability of increasing the standard of living in Japan and suggesting that one of the ways that that could be accomplished, of course, would be by using more products that come from the United States. We were told in January of this year that, despite the very significant differences in the prices and values of products, as they would leave the United States and as they are made available in retail distribution in Japan, there seems to be a significant barrier that must be overcome before the benefits of lowered prices in this country can be translated directly into Japanese consumers.

Is that your opinion also?

Mr. WOLFF. Yes. The distribution system is a major barrier to our trade. Beef, for example, sells for \$30 to \$40 a pound in Japanese market, and obviously there is a great deal of demand for beef, for citrus and for consumer goods in general.

If we could get through the distribution system, bring down the tariffs, which we are working on at the MTN, and reduce the other nontariff barriers that exist.

Senator HANSEN. I have no further questions.

Senator RIBICOFF. Just to follow up, I have always been curious. Who buys beef at \$30 a pound?

Mr. WOLFF. Very few. Very few Japanese.

Senator RIBICOFF. Well, why does it get to be \$30 a pound? It certainly does not leave Wyoming at \$30 a pound.

I have often—no one asks that question. Tell me, what happens to that beef when it leaves Senator Hansen's State and gets to the consumer at \$30 a pound. I cannot quite figure that out.

Mr. WOLFF. The Japanese Government has an import quota on beef which is very restrictive. They, in effect, auction licenses to import the beef and I do not know how much of an increase is caused by that stage, but I suspect it is a substantial increase. Then it goes through several more pairs of hands until it reaches the consumer and it is often said that the Japanese have a low propensity to consume at those kind of beef prices, so it—

Senator RIBICOFF. So would anybody. I do not know how much beef you could sell anywhere in the world at \$30 per pound.

Is this, would you consider this, a nontariff barrier?

Mr. WOLFF. Yes, sir.

Senator RIBICOFF. What are you doing about that in your negotiations in Geneva, just that case where beef sells for \$30 a pound? What are you doing about that?

Mr. WOLFF. We have done something both in the short term and we are making a request, as well, in the Multilateral Trade Negotiations in Geneva. In the short term, the Japanese committed to facilitate the importation of an additional 10,000 tons of high quality beef which is the type of beef that the United States supplies.

We are not as competitive in the lower priced ranges.

We are trying to get that commitment implemented. A group of U.S. beef industry representatives and Government people went over to Japan to discuss the commitment. There was not too much progress made, I must say, and the group from Japan will be coming back here this month to talk further on this question.

But we expect the Japanese to live up to their commitment in that there will be 10,000 tons of additional high quality beef imported this year in Japan.

In the MTN in Geneva, the trade negotiations, we have made a request for longer term access to the Japanese market. This is still a very small amount of beef, about one hamburger per Japanese per year that we are talking about.

Senator RIBICOFF. Well, now, let me ask you, if beef were sold in Japan at the cost in the United States, would the consumption go up in Japan?

Mr. WOLFF. Very substantially. The Japanese have not traditionally been heavy consumers of beef, but beef is a good alternative source of protein and with the 200-mile limit that has been adopted around the world, there is less fish supply, and the Japanese people could well turn more and more to beef as a source of protein.

Senator RIBICOFF. I think this is an outrageous symbol, beef at \$30 a pound. You know, it does not affect the State of Connecticut, but it is a symbol of what we are dealing with and why you have got such a distortion in trade figures. There are some of us expecting to be in Geneva during the latter part of May, and I think this is a symbolic problem that we ought to address.

Are there other items in which there is such a huge distortion in one country that has a favorable trade balance on prices such as that? Is there any other item but beef? What else?

Mr. WOLFF. Well, I do not know offhand the price of citrus, but there is a very, very tight quota on our citrus exports to Japan. The price of automobiles multiplies by the time the cars are delivered to Japan, going to the distribution system, being subject to a high commodity tax similar to the excise tax that we used to have.

We would not sell enormous numbers of cars to Japan in any event, but nevertheless, they sell quite a number to us, therefore, it would be to their interest to lower the obstacles and, in fact, on March 4 they lowered their 6-percent duty to 0 unilaterally. But that is just a start, and there are still high duties on computers, other goods where we are competitive and could hope to ship a good deal to Japan.

Senator RIBICOFF. I think that was the problem when Ambassador Strauss came before us to report on his agreement with the Japanese, and I think there was general skepticism at this table for most of the members at how you would translate these good intentions into reality. It is very disturbing to all of us to see the continuation of these huge trade deficits where the United States really cannot continue to have these huge trade deficits.

You know, you come in to make these arguments that here Japan is the one that exports the greatest amounts of these fasteners to the United States and their trade balance keeps rising.

Mr. WOLFF. Progress in implementation of the Strauss-Ushiba statement has been uneven. It has been uneven on our side. We committed to energy legislation and reduction of our dependence on foreign oil, which is of great interest to the Japanese.

It is uneven on their side in terms of their tariff offer in the multilateral trade negotiations which was far from adequate, really, wholly inadequate.

Their response to us—

Senator RIBICOFF. Well, Mr. Wolff, I agree that it is uneven. I am for having an energy package, and I have gone along basically with the President's program, but I do not know how you can compare a trade balance with the United States and Japan of over \$8 billion a year and our failure to act on imports which hurts us—I do not know what impact that has on the Japanese, that we have failed to do something that helps us in our country. What has that to do with the trade relations between the United States and Japan? We do not sell them oil; we are not buying oil from the Japanese?

Mr. WOLFF. The primary relationships are—and they are indirect—that the massive U.S. trade deficit is, in large part related to oil, not wholly, but in large part—and that is a destabilizing factor in the foreign exchange markets.

Senator RIBICOFF. No, but that \$8 billion of our trade deficit with the Japanese, that \$8 billion has nothing to do with oil.

Mr. WOLFF. Not directly, no.

Senator RIBICOFF. I mean, that is such a huge distortion, and I realize worldwide that our imports of oil affect our overall trade deficit, but looking at Japan as our trading partner, it is so out of balance that I think it is a very invidious comparison to use the oil examples for our trade deficit with Japan.

Mr. WOLFF. Well, we have stressed primarily with the Japanese their relations vis-a-vis the whole world. Everybody is in deficit

to the OPEC countries, of course, and if one country, or any group of countries, is in a major surplus condition, they put a strain on everybody else. We are that much more in deficit because of the Japanese.

Now, we did not direct our attention as much at bilateral balances. We had a healthy surplus with the European Community, for example, in bilateral trade balance. The Japanese have a very high overall deficit.

It is really their global deficit that prevents the system from evening out and causes a great deal of distress.

Senator RIBICOFF. You see, I think we have a deep concern—you raised the point—I do not think you intended to raise it, but it is a great problem. Because what you are really saying is that the high cost of oil around the world is all being shouldered by the United States because everybody is sloughing off that high cost on the shoulders of the United States.

I mean, last week, in talking with David Owen in London and he said that it was a wonderful thing that there was one country willing to assume the burden of large trade deficits because of the high cost of imported oil. And I responded to him, I do not think that you and the other nations of the world have a right to assume that the United States, by itself, is going to carry the world's burden because of the high price of OPEC oil, and that is exactly what is happening.

And all of the other countries, in one way or another, are manipulating their trade to put their burden of the increased cost of oil on the shoulders of the United States and that is why we continue running these high trade deficits.

And I do not think the American people are going to continue to be patient with the fact that we are the only ones who are basically undertaking that burden, when you look at the overall trade balances around the world, and the dollar keeps going down and it is under great strain and so they say that is supposed to help our business. I do not see where it is helping our business at all.

The Deutsche mark goes up in value constantly, but they keep on doing business and people keep buying German products. I think that we have a deep problem here, and I hope that many of the members of this committee can go to Geneva this May because I think it is important to tell our trading partners around the world that the American people and the Congress are not going to continue supinely, and keep on smiling at these fantastic trade deficits we are running, and the continued decline in the value of the American dollar.

Senator Hansen.

Senator HANSEN. First, let me say how much I appreciate what you have just said, Mr. Chairman. Just parenthetically, there is one thing we could do. It is not of tremendous overriding importance but it seems, nevertheless, to me to make sense. The United States cannot take advantage, under present law, as I understand it, of the opportunity to trade some oil with Japan because of the provisions we have written in the law. It makes little sense, in my mind, for us to bring oil down from Alaska, to take it across the Isthmus of Panama and bring it on up the east coast and to have the Japanese

taking oil from the Middle East around the circuitous route that it has to go to Japan when we could do a little bit of trading and save everybody a lot of dough.

Now, I know that a lot of people do not agree with me on that point, but I just have to think that it would make sense if we could do some trading with Japan and take some of the oil that they might be bringing from the Middle East and deliver that to our east coast and to take some of the oil that otherwise comes around this other way and goes that long way to the east and send that over there.

I make this point because I hope, sooner or later, that we will come to our senses and decide that we had better save both countries a lot of unnecessary expense.

Senator RIBICOFF. Senator Danforth.

Senator DANFORTH. Senator, thank you very much for letting me participate in the hearing.

Senator RIBICOFF. You are always welcome, Senator Danforth, and I would hope that more members of the Finance Committee, even if they are not members, would join us. You are certainly welcome.

Senator DANFORTH. Mr. Wolff, on March 18 of this year, Mr. Strauss wrote me a letter on this question and in the letter he said the following:

To have provided the relief recommended by the U.S.I.T.C. would have been very inflationary, so much so that it could have generated greater unemployment in other industries than the employment that would have been created among domestic fastener producing firms.

Now, my questions to you relate to that statement. First, would you please tell me what the effect of the relief would have been on the consumer price index?

Mr. WOLFF. It is not directly reflected in the Consumer Price Index. It is probably reflected in a number of areas in the Consumer Price Index. That statement was based on the fact that our estimates are that it would have cost \$30,000 to \$260,000, as a range, per job, to put 700 to 2,000 workers back to work in the fasteners industry.

That means that the purchasers of fasteners, ultimately the consumer, but first the firms using fasteners, would have had that much less funds to buy other goods, or U.S. consumers would have been deprived of that much demand for other goods which we estimated could have resulted in a net loss to the U.S. economy in terms of jobs.

Senator DANFORTH. Well, will you please tell me how much inflation would have been caused in percentages and would you also tell me how many jobs would have been lost?

Mr. WOLFF. Well, the—I do not know exactly, Senator, in terms of the Consumer Price Index itself. A \$57 million cost increase in any area has to be inflationary, and there is a balance here of jobs created and jobs lost. That is \$57 million that people do not have to spend on other goods.

Senator DANFORTH. Well, assuming it is \$57 million, that, an economist could translate that, could he not, into effect on the CPI?

Mr. WOLFF. I am not sure of the methodology. If it can be done, we will attempt to do so and supply it for the record.

Senator DANFORTH. Would you, for the record?

Mr. WOLFF. Yes, sir.

Senator DANFORTH. And also the effect on unemployment?

Mr. WOLFF. Yes, sir.

[The following was subsequently supplied for the record:]

In response to Senator Danforth's request for further information on the derivation of our interagency estimates on the consumer cost and number of additional fastener worker job opportunities associated with the provision of the USITC-recommended import relief, I am supplying brief descriptions of two alternative analyses which define the range of our consumer cost and jobs-created estimates.

*Method 1:* This analysis results in an aggregate cost to U.S. consumers of the imposition of the USITC remedy of \$179 million for the third (and middle) year of the five-year import relief program. This analysis indicates that approximately 700 fastener production workers' job opportunities would be created by imposing the USITC relief; thus, there is a \$260,000 cost to U.S. consumers associated with each additional job created.

The steps used to derive the above estimates are outlined below:

1. The value of U.S. consumption of ferrous bolts, nuts, and large screws is assumed to increase from its \$1.1 billion level in 1976 to \$1.7 billion in 1980. This increase in the value of U.S. consumption consists of a five percent annual growth in U.S. fastener demand and a six percent annual increase in prices of fasteners consumed in the United States.

2. The price of all U.S. imports of fasteners is assumed to rise by 21 percent reflecting a complete pass-through (with no additional mark-up) of the tariff increases by foreign exporters, U.S. importers, U.S. distributors and U.S. industrial users of fasteners to ultimate U.S. consumers of fasteners. This 21 percent import price increase represents a weighted average of the 30 percentage point increase in U.S. tariffs on nuts and bolts and of the 17.5 and 19.5, respectively, percentage point increases in U.S. tariffs on lag and large screws implicit in the remedy recommended by the USITC.

3. Roughly 30 percent of the U.S. market for bolts, nuts, and large screws consists of specialized fasteners. This segment of the market faces little import competition, so domestic industry fastener prices, production, and production worker employment were assumed not to be affected by provision of import relief. The same assumptions were made with respect to small and large automotive standard fasteners (which were assumed to together comprise about 20 percent of U.S. consumption).

4. The remaining 50 percent of the U.S. fastener market consists of small and large non-automotive standard fasteners (with 30 and 20 percent shares of the U.S. market, respectively). It was assumed that the current widespread price differentials between imported and domestically-produced small non-automotive standard fasteners would persist in 1980, so that provision of 30 percent tariffs on imports of these products would be insufficient to induce a shift from imports to domestic production. The domestic industry is more price competitive with imports of larger non-automotive standard fasteners, so provision of import relief was assumed to generate increased domestic production and employment of workers producing these products.

5. Domestically-produced and imported large non-automotive standard fasteners were assumed to be perfect substitutes. It was assumed that imports of these items would continue (although at reduced levels) if import relief were provided. In order to generate the maximum increase in domestic large non-automotive standard fastener production and employment (in response to the decrease in imports of these items), domestic prices of large non-automotive standard fasteners were assumed to rise by the same percentage as imports—21 percent.

6. A major part of the \$179 million additional cost to consumers as a result of providing the USITC import relief is accounted for by the 21 percent price increase in imports of small non-automotive standard fasteners. These increased import prices are not accompanied by any increase in domestic production of these products and do not generate any additional domestic industry employment.

7. The import elasticity of demand was assumed to be  $-0.5$ . Thus, a 21 percent increase in import prices would generate a 10.5 percent decrease in the quantity of imported bolts, nuts, and large screws.

8. The 10.5 percent decrease in the quantity of U.S. bolt, nut, and large screw imports (resulting from provision of the USITC import relief) would generate

roughly a seven percent increase in quantity of U.S. fastener industry output. This increase in domestic fastener production is based on assumption of a dollar-for-dollar substitution of imports by domestic production.

9. Each unit increase in fastener industry output, was assumed to generate approximately an additional 0.8 unit increase in U.S. fastener production worker employment. Thus, a seven percent increase in U.S. fastener output would cause fastener production worker employment to increase by 5.6 percent. Based on recent employment levels, this 5.6 percent increase amounts to a U.S. fastener production worker employment level of about 700 greater than would have existed in the absence of import relief. Given an aggregate consumer cost of relief of \$179 million, the cost per job created is thus roughly \$260,000.

*Method 2:* This analyses results in an aggregate cost to U.S. consumers of implementing the USITC relief of about \$57-60 million for the initial year of import relief and indicates that, at a maximum, about 2,000 fastener production worker job opportunities would be created. Thus, the consumer cost per each additional fastener production worker job created is about \$30,000 at a minimum.

Assumptions used to estimate the aggregate consumer cost of implementing the tariff increases recommended by the USITC include:

(1) no price increases on either imports (on an FOB basis) or domestically produced fasteners;

(2) no increase in demand for fasteners by the U.S. industry over 1977 levels;

(3) complete pass-through of the tariff to users of bolts, nuts and large screws.

In order to estimate the impact of import relief on U.S. fastener production worker employment, estimates of the price elasticity of demand for imports and the USITC tariff increases were combined to obtain estimates of the impact of the USITC tariff increases on the volume of imports. The decline in the quantity of imports (resulting from increased tariffs) was assumed to be matched by an equal increase in the volume of domestic production. The increase in the volume of domestic production was then translated into an increase in domestic fastener production worker employment by using average labor-output ratios for U.S. nut production and U.S. production of bolts and large screws. These labor-output ratios were calculated from USITC bolt, nut, and large screw production and employment data for the period 1974 through the first half of 1977.

Using an elasticity of demand for imports of  $-0.5$ , the number of U.S. fastener production worker job opportunities created by implementation of the USITC relief was estimated to be slightly under 1,000 workers. However, using an import demand elasticity of  $-1.0$ , generates a larger decline in the quantity of imports (as a result of the increased tariffs) and, thus, a larger increase in domestic fastener production and production worker employment. Under the  $-1.0$  import demand elasticity assumption, the number of additional fastener production worker job opportunities created would be about 2,000.

Estimates of the consumer cost per job created range from approximately \$30,000 under an import demand elasticity assumption of  $-1.0$  to \$61,000 using an import demand elasticity of  $-0.5$ .

It should be noted that both Method 1 and Method 2 estimate the number of U.S. production worker jobs created by import relief rather than the effect of import relief on total U.S. fastener employment. USITC data on total employment at firms producing nuts, bolts, and large screws are overstated because they include all workers at plants producing a variety of products in addition to the industrial fasteners covered by this case. Data for production and related workers, however, specifically indicate those employees actually producing the nuts, bolts, and large screws covered by the USITC fastener escape clause investigation and recommended remedy.

In response to Senator Danforth's question about the effect of fastener import relief on the CPI, the Council of Economic Advisers estimated that implementation of the proposed USITC remedy would result in an increase in the WPI of 0.007 percent. The increase in the CPI would be approximately the same. To compensate for this inflationary impact, the U.S. unemployment rate would have to increase between 0.014 and 0.042 percent. This increase is equivalent to putting between 2,800 and 8,400 Americans out of work, and thus would offset the increase in domestic fastener production worker employment resulting from provision of import relief.

Senator DANFORTH. My suspicion is that this is a very much exaggerated statement and that the effect on the economy would be very close to zero. I mean, it is very hard for me to believe that a 30-percent going down to 20-percent increase in the cost of imported

nuts, bolts and screws is going to have any real impact on either the economy or on the employment, other than on the people who are directly affected in that industry.

Mr. WOLFF. I think the answer really is that, in any given case, the inflationary impact can be absorbed. This is only \$229 million worth of trade out of something like what, over \$150 billion worth of imports that we take in each year. But, as I pointed out, we have, as a Government, Congress included, granted relief in some \$3.5 billion worth of cases. This is just an additional amount of inflation. It is not much. It is an additional loss of jobs caused by depriving consumers, including industrial consumers, of income.

Senator DANFORTH. But it just seems to me to be straining at gnats because, you know, here we are focusing on a miniscule item—which does have a great effect on the people who are involved in the industry—and yet we follow other policies in our Government which have a colossal effect on the cost of living and on unemployment.

Mr. WOLFF. Oh, I would not say that this was the dominant factor in this case. There is more inflation in footwear, for example, and that is 1.2 percent of the Consumer Price Index, and the President granted relief because he felt that there would be a substantial increase in jobs and the cost per job was acceptable.

Here, with a \$30,000 to \$260,000 estimate cost per job, that cost was deemed unacceptable.

Senator DANFORTH. Could you tell me how that was computed?

Mr. WOLFF. That is, I believe, just dividing the \$57 million estimate of increased cost by the estimate of jobs created, 700 to 2,000.

Senator DANFORTH. Could you also furnish us with the basis for all of those estimates?

Mr. WOLFF. Yes sir.<sup>1</sup>

Senator DANFORTH. What is the relationship between the trigger price mechanism and the health of the fastener industry?

Mr. WOLFF. The trigger price mechanism has the effect of increasing the cost of the raw material that these plants use, the steel wire rod. And, to that extent, it makes this industry less competitive with imported fasteners.

Senator DANFORTH. So this industry will be, in the future, adversely affected by the trigger price mechanism?

Mr. WOLFF. Well, the issue of coverage of steel wire rod, if I am not mistaken, is currently under review by the Treasury due to some litigation that is just taking place, so I do not know what the future holds with respect to coverage of that particular product.

Senator DANFORTH. If wire rods are covered by the trigger price mechanism, would that have an adverse effect on the fastener industry.

Mr. WOLFF. In terms of depriving them of imports that are probably below fair value, yes. There was access to, in effect, imports that may well have been dumped—sold in this country at less than fair value. The trigger price mechanism removes the possibility of dumping, or, at least, triggers antidumping actions.

<sup>1</sup> See p. 37.

Senator DANFORTH. But one of the adverse effects of it would be specifically felt by this industry, is that not correct?

Mr. WOLFF. Yes. It would increase the prices, most likely, of their inputs.

Senator DANFORTH. Would that put the fastener industry in the future in a more precarious position than it is in now?

Mr. WOLFF. That depends on a number of factors, whether the cost could be passed along. Twenty-five percent of this industry's output is to the automobile industry. It is largely a captive market and the specialized fasteners are also largely domestically supplied. There should not be an erosion in that area. There should be an erosion in the bulk of the standard line.

Senator DANFORTH. Well, this industry does compete with, as you say, Japan and Canada, is that not right?

Mr. WOLFF. That is right.

Senator DANFORTH. And if the cost of ingredients, the cost of the product, is increased as a result of the trigger price mechanism applied to steel rods, then it would place the fastener industry in an adverse competitive position, would it not?

Mr. WOLFF. Well, the Canadians, I believe, have taken additional steps, as well, to act against potential dumping of imports, so the disadvantage, vis-a-vis Canada, may not exist.

With respect to Japan, there is a lot of very inexpensive steel and, undoubtedly, this is one of the major advantages the Japanese have now and that margin of advantage would probably increase—to the detriment of our industry.

Senator DANFORTH. Is it possible that another result of the trigger price mechanism, in addition to increasing the costs of the products to the American industry, would be that any unfair trade practices now practiced by the Japanese with respect to other steel products would be focused on those steel products that are excluded from the trigger price mechanism, namely fasteners?

Mr. WOLFF. There has been a finding that bounties or grants have been accorded, subsidization by the Japanese and by several other countries with rather small amounts of subsidies involved that have been offset by countervailing duties.

Senator DANFORTH. I would like to get to that later, but I am talking about the future now, rather than the past. I am talking about the possibility in the future of dumping being channeled instead of into other steel products, into the fastener industry.

Mr. WOLFF. The Customs Service is monitoring imports currently of fasteners, including prices, and the Japanese Government has issued guidance, as I mentioned, which may assure that, in effect, the pressure of the trigger price mechanism is not translated through to low priced imports of steel fasteners.

Senator DANFORTH. When is it—can we, at this time, reach a conclusion that this transfer effect will not take place?

Mr. WOLFF. No. I would say that we would have to continue monitoring and observe whether Japanese prices continue to increase. As I mentioned earlier, they have increased substantially, which is probably primarily due to the appreciation of the yen, but also because of cost increases.

Senator DANFORTH. When, in time, would we be able to reach a conclusion as to the effect of the trigger price mechanism, if any, on unfair trade practices with respect to fasteners?

Mr. WOLFF. Well, a trend would not become ascertainable, I would think, before a number of months had elapsed. This system went into effect around the third week in February, so it is still very early to note the effects.

There was a falling off of imports of most products covered by the trigger price mechanism, I believe, but that may have been due—at least in some areas—I think it is true in the Great Lakes, but this may have been due to the fact that people stockpiled steel in anticipation for the system's going into effect.

The trigger price mechanism makes all U.S. industries less competitive that use steel to the extent that they no longer have access to dumped steel.

Senator DANFORTH. If the trigger price mechanism is effective, will that not mean that less Japanese steel that is covered by the trigger price mechanism will be imported by the United States?

Mr. WOLFF. That depends on a number of factors, including the price behavior of our own firms. If Japanese prices increase and domestic prices were stable, presumably there will be less imports.

Senator DANFORTH. All right.

Now, then, if there are less imports of other steel products, would it not be reasonable to assume that there would be more imports of Japanese fasteners?

Mr. WOLFF. All other things being equal, I would assume so.

Senator DANFORTH. But it is too early, at this point, to tell whether or not the degree to which that would happen, is that right?

Mr. WOLFF. Yes, I would say that is right.

Senator DANFORTH. Has this possibility, do you know, been programmed into the President's decision?

Mr. WOLFF. Of the effect of the trigger price mechanism?

Senator DANFORTH. Yes.

Mr. WOLFF. Yes. It was an issue that was considered.

Senator DANFORTH. It was considered. What conclusion, if any, was reached?

Mr. WOLFF. That it was not sufficient to offset the other factors, for example, the high cost per job of creating these jobs to indicate that relief should be granted.

Senator DANFORTH. The so-called inflation unemployment effect of this relief, then, were viewed as dominant over the effect of the trigger price mechanism?

Mr. WOLFF. Well, that, and as I say, the cost per job is not just inflation but the relatively small benefit to be gained from the cost to the economy and to the consumer in general of providing the relief.

Senator DANFORTH. Well, we are not talking about the consumer in general. We are talking about the people who are employed in this industry.

Mr. WOLFF. Well, that, I think, is the difference between the U.S. International Trade Commission's study, which is confined more to

the health of this industry, and the President's determination. He has to look at the effect on—

Senator DANFORTH. Yes, and that is why I want to find out precisely what the inflationary and unemployment effects will be.

Now, let me ask you this. You mentioned countervailing duties. There are right now countervailing duties, is that not right, on imported fasteners?

Mr. WOLFF. That is right, from a number of countries, including Japan.

Senator DANFORTH. Can you tell me the extent of that, the percentage of that?

Mr. WOLFF. They are really nominal. The amount of the subsidies found to exist was very slight.

Senator DANFORTH. So what would be the amount of the countervailing duty?

Mr. WOLFF. It was .7 cents per pound from Italy, .7 of 1 cent per pound on Italian imports; the same with respect to—

Senator DANFORTH. Seven mills?

Mr. WOLFF. Seven mills with respect to Italy; 0.2 percent ad valorem with respect to Japan.

Senator DANFORTH. .7 of 1 percent.

Mr. WOLFF. Just short of 1 percent.

Senator DANFORTH. That would be very nominal, would it not?

Mr. WOLFF. Yes.

Senator DANFORTH. Now, it is my understanding—and correct me if I am wrong—that in the mid-1960's, there were a variety of different subsidies provided by the Japanese Government to their fastener industry, but that, in recent years, those subsidies have been very modest, if they existed at all, and that what the countervailing duties do not do is to compensate for market distortion resulting from unfair subsidies which occurred in the 1960's and further, that those subsidies in the 1960's, which took the form of accelerated depreciation based on export sales, interest-free loans, partial government financing of new machinery and other export promotion programs—those unfair subsidies are now bearing fruit in the form of a greater than normal share of the fastener market by the Japanese fastener industry. Is that correct?

Mr. WOLFF. That may well be the case. I think it has been true in a number of industries and remains true in a number of industries with Japan. I am told that the small countervailing duty that results is because of the spreading out over a great deal of time and a great volume of trade of the original subsidies, but that the countervailing duties, although nominal, were designed to offset the effect of the subsidization.

Senator DANFORTH. But it is a very nominal subsidy and the injury took place in the 1960's, is that fair?

Mr. WOLFF. Yes.

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

Senator RIBICOFF. Thank you very much.

Thank you, Ambassador Wolff.

[The prepared statement of Ambassador Wolff follows:]

TESTIMONY OF AMBASSADOR ALAN WM. WOLFF  
DEPUTY SPECIAL TRADE REPRESENTATIVE

Mr. Chairman, members of the subcommittee: I appreciate this opportunity to discuss with you today the President's decision in the industrial fastener import relief case.

As you are aware, under the Trade Act of 1974, the U.S. International Trade Commission determines whether a U.S. industry has been seriously injured or threatened with serious injury and whether that injury or threat has been caused substantially by increased imports. If the answer is yes in both cases, the Commission recommends a remedy.

The law further provides that the President consider a much broader set of criteria, and determine whether granting import relief and providing the remedy recommended by the Commission is in the overall national economic interest.

In each "escape clause" case, the President is required to review nine national economic interest criteria outlined in section 202(c) of the Trade Act of 1974. Therefore, I would like to discuss with you briefly each of these nine considerations as they related to the review of the fasteners case.

First, the President is required to consider a report from the Secretary of Labor on the extent to which workers in the industry have used or are likely to use trade adjustment assistance or other manpower programs.

The Labor Department report on fasteners indicated that over 4,000 workers producing bolts, nuts and large screws were already receiving trade adjustment assistance benefits and that the Comprehensive Employment and Training Act programs appeared to be capable of meeting the needs of most of the displaced fastener workers during fiscal year 1978. The Labor report also noted that, generally, unemployed bolt, nut, and large screw industry workers are located in parts of the United States with unemployment rates below the national average, so that reemployment prospects for most of these unemployed workers are reasonably good.

The Department of Labor also reported that, despite strong automotive demand, domestic fastener industry production worker employment might continue to decline somewhat. While this was taken into account in the review process, the President found that the imposition of the import relief recommended by the USITC would not have created or saved many jobs in this industry, and that providing such relief would have a substantial inflationary impact on the economy.

Second, the President must consider a report from the Secretary of Commerce on the use or prospective use of trade adjustment assistance programs by firms or communities.

The Secretary of Commerce reported that no U.S. firms producing bolts, nuts, or large screws had applied for trade adjustment assistance benefits. The Commerce Department report did indicate, however, that as many as 10 U.S. firms could be certified as eligible to receive trade adjustment assistance benefits, should they choose to apply for them. No communities applied to receive adjustment assistance benefits.

In the fastener industry, there is a wide divergence in the health of individual firms. Producers of specialized and automotive fasteners probably do not need trade adjustment assistance benefits since these firms are generally profitable and have not been heavily impacted by imports. On the other hand, the fact that 4,000 workers at 19 domestic plants representing eleven different U.S. fastener manufacturing companies have been certified as import-impacted indicates that there are firms that could possibly be assisted through trade adjustment assistance programs.

The communities in which fasteners are produced are mostly large cities, such as Chicago, Cleveland, Detroit and Philadelphia, where there are generally alternative employment opportunities for unemployed workers.

The third national economic interest consideration is the probable effectiveness of import relief to promote domestic industry adjustment to import competition.

For many inexpensive standard fastener items, imposition of the 30 percent tariff recommended by the USITC would probably not have been effective in terms of allowing domestic producers of these items to recapture sales lost to imports. This is because of the substantial price margin that exists between many imported and domestically-produced standard fasteners—price margins of nearly 60 percent on some items, according to the USITC. Given these widespread price differentials and the fact that the Treasury Department found only a limited government subsidization of fastener exports to the United States, it is questionable whether the domestic industry could ever produce standard fastener items at prices competitive with imports.

There is another segment of the U.S. fastener industry—generally consisting of producers of automotive and specialized fasteners—where the industry has not encountered significant import competition. Here, import relief would not have promoted adjustment to import competition because to a large degree such competition does not exist.

In the case of other products, U.S. producers might become competitive with imports had the USITC recommended relief been provided and had the industry used the funds generated by increased production and sales to make the investments needed to produce fasteners more efficiently. However, in order to provide import relief to the parts of this industry where import relief might have been effective in promoting adjustment to import competition, the President would have had to have granted import relief to the entire industry. There are literally millions of different types of ferrous bolts, nuts and screws produced in the United States. It was not possible, administratively, to target import relief to the segments of the domestic industry where it might have been effective.

The President is next directed to evaluate the effect of import relief on U.S. consumers and on competition. This was a principle area where the President felt the national economic interest would not be served by provision of import relief. In the interagency review process, a range of estimates were developed of the annual, aggregate cost to U.S. consumers of the imposition of the relief recommended by the USITC. These estimates ranged from \$57 million, at a minimum, to \$179 million. Analysis further indicated that imposition of the USITC relief would have generated only an additional 700 to 2,000 job opportunities for fastener production workers. Thus, each domestic industry job created or saved as a result of relief would have cost U.S. fastener-consuming industries, and ultimately U.S. consumers, roughly \$30,000 to \$200,000. This would have been an expensive and inflationary way to reemploy workers or generate additional employment.

Regarding the effect of relief on competition, it was concluded that imports served to ensure that the domestic industry will be competitive in its pricing practices.

The fifth factor outlined in section 202(c) of the Trade Act is the effect of relief on the international economic interests of the United States.

Provision of import relief would have had an adverse effect on our foreign economic interests, especially with Japan and Canada. Japan is by far the major foreign supplier of fasteners in the U.S. market; about \$160 million of its exports to the United States would have been affected by fastener import relief. The Japanese Government has just made a number of major commitments to the United States in order to reduce its trade surplus by opening its market to our goods. Imposition of restrictions on Japanese fastener exports might well have weakened support within Japan for its efforts to meet these crucial commitments.

The United States has a surplus in fastener trade with Canada, our second largest foreign supplier. The imposition of increased tariffs on Canadian fastener exports, even though Canadian duty-free automotive fastener exports would not have been affected, would have had serious adverse economic effects on the Canadian fastener industry. Such action would have deprived Canadian fastener producers of the economies of scale needed to produce both automotive and non-automotive fasteners competitively with U.S. producers. Provision of import relief would have invited the Canadian Government to take similar action to protect its own fastener industry. This is particularly significant since Canada comprises our largest export market for bolts, nuts, and large screws.

In a broader context, import relief would have comprised a serious setback to our efforts in the multilateral trade negotiations to open up the world's trading system. We are now in a crucial phase of negotiating major reductions to trade barriers in the multilateral trade talks in Geneva. The major developed countries are faced with increasing pressures to close their doors to imports, thus jeopardizing U.S. jobs. Each time the United States retreats from its efforts to maintain an open trading system, we invite other countries to follow suit. We have taken that risk in a number of instances—such as shoes, television receivers, C.B. radios, textiles, and steel—because in these cases relief from imports was warranted.

The sixth Presidential consideration is the possible effect of foreign government retaliation or demand for U.S. compensation on other U.S. industries or firms.

The fastener escape clause case covers roughly \$229 million of trade, based on 1976 import values. This figure excludes imports of Canadian fasteners entering the United States duty-free under the U.S.-Canadian Automotive Product Trade Act. Imposition of the USITC-recommended tariffs would have affected all of this \$229 million in imports and our foreign suppliers of fasteners, including Japan, Canada, the EC, India, Spain, and others, would have been entitled under Article XIX of the GATT to suspend trade agreements concessions substantially equivalent in value to those affected by the provision of fastener import restrictions. Alterna-

tively, the United States could choose to offer compensation (in terms of reducing trade barriers on other U.S. imports) in order to forestall foreign retaliation.

There is no way to determine precisely whether a given foreign supplier will indeed retaliate or request compensation as a result of U.S. Government action to impose import relief. However, the Canadian Government indicated to us that if we imposed fastener import relief, it would seriously consider taking similar action with respect to its own fastener industry.

Under the international rules of which we have taken advantage on more than one occasion, the taking of an import restriction action allows others to retaliate against our exports. This can be avoided by reducing duties on other products. Whenever import relief is granted, the President and Congress must face the question of which other United States industry is to pay the bill, either in terms of lost export opportunities abroad or increased import competition at home.

No import relief action is cost free, nor does it assure to the U.S. economy a net increase in jobs. Any excessive restrictions go beyond what is internationally tolerable, and become a protectionist response—to push the burden of adjustment onto foreign countries.

World economic recovery is far too fragile and our overall national economic interest is far too important to permit the resort to any restrictions that are not fully warranted.

The next factor, the geographic concentration of imports, was not relevant in this case because imported fasteners are widely distributed throughout the United States.

The President must also consider the extent to which the U.S. market is the focal point for fastener exports due to foreign export or import restraints.

Japan, Canada, and the EC each have higher tariffs than does the United States on imports of bolts and nuts. Japanese tariffs on large and lag screws are less than those currently imposed by the United States. We found no evidence, other than tariff barriers, that caused the United States market to be the focal point of foreign exports by reason of restraints on fastener exports to, or on fastener imports into, third country markets.

Finally, the President must consider the economic and social costs to U.S. taxpayers, communities, and workers if relief is or is not provided.

As I indicated earlier, economic analysis of this case indicated that imposition of import relief would cause domestic fastener production worker employment to increase by 700 to 2,000 jobs over levels that would have existed in the absence of any provision of import relief. Each one of these jobs that was saved or created would have cost roughly \$30,000 at a minimum and \$260,000 at a maximum. This far exceeds the amount of trade adjustment assistance currently being given to unemployed fastener workers. And in the aggregate, the consumer costs of providing the USITC-recommended relief were estimated to be at least \$57 million on an annual basis. This compares to the \$5.4 million paid to some 4,100 workers in trade adjustment assistance benefits over the period from April 1975 through December 1977.

It is difficult to measure the total cost incurred by U.S. taxpayers or communities for each unemployed fastener worker. However, given the significant inflationary impact of increasing employment in the fastener industry through provision of import relief, the likelihood that the inflationary impact of import relief would engender unemployment in other U.S. industries, and the small number of jobs in the fastener industry that would potentially be generated by import relief, the President came to the conclusion that the economic and social costs to U.S. taxpayers, workers, and communities of import relief did not justify the potential benefits of providing relief.

I would now like to briefly discuss one other important factor in the fastener case—our country's national security interests.

The findings of a Federal Preparedness Agency staff report were fully and carefully considered in the review of this case. The President concluded that further investigation of U.S. national security interests in fasteners was necessary. The Treasury Department has already initiated, under section 232 of the Trade Act, the national security investigation ordered by the President. This investigation will be completed within a six month period; in the interim, I do not feel that domestic fastener production capability will significantly deteriorate, given recent increases in U.S. fastener production, and demand for fasteners.

Finally, Mr. Chairman, I hope you will allow me a personal observation, although one which is fully supported by Bob Strauss. More is involved in this resolution to override the President's decision than its impact on the fastener industry. It is also a question of how U.S. trade policy decisions are to be made.

I have devoted the last 9 years to trade in the U.S. Government. I joined STR to draft the Trade Act of 1974. I spent the better part of two years with the Con-

gress during its consideration of that legislation, including many hours with this Committee. I therefore feel as strongly as the members of this Committee that the joint effort that the Trade Act represents work well.

The Congress devoted a lot of time to the question of how the import relief provision of the Trade Act would operate. The Congress set the guidelines, and then authorized the President to act in the national interest, reserving to itself the opportunity to override that decision by joint resolution.

When should that override procedure be used? I would suggest that it *not* be used in any case where the Congress merely differs with the President over whether relief was warranted. If this were the basis for passing on override resolution, there would be no real need to involve the President in administering the Trade Act at all, because Congress could simply enact tariff increases following a USITC hearing.

Instead Congress proposed that the President administer the law. But, it reserved for itself an override to correct a case, not where reasonable men could differ (indeed the USITC split 3-1 on this case on narrower criteria than the President must consider), but where the President is judged to have acted arbitrarily or capriciously. This is the normal standard for judicial review of administrative actions, and it should be applied here.

The consideration of the above criteria that I have recited lead to a conclusion that the decision was and is well-founded: It is reasonable to conclude that the granting of relief in this case would be contrary to the national interest, that the costs to this country would outweigh the benefits to the domestic fasteners industry. On that basis, there are no grounds for an override, even if any member of Congress, or anyone else for that matter, feels that on the same facts he would have decided differently.

Mr. Chairman, this concludes my prepared testimony. I would, of course, be pleased to answer any questions you or other members of the Subcommittee may have.

Senator RIBICOFF. The next panel consists of David Spoehr, Robert Blinken, Richard Clayton, Peter Buck Feller, John Walker, Dale Holl and Bernard Feldman.

Gentlemen, would you please identify yourselves so we will know with whom we are talking. Please start from left to right, and tell us what your names are.

Mr. FELDMAN. Bernard R. Feldman, Industrial Fasteners.

Mr. HOLL. Dale Holl, president of Darling Bolt Co., Warren, Mich.

Mr. CLAYTON. Richard Clayton, executive vice president, domestic operations, Standard Pressed Steel Co.

Mr. SPOEHR. David Spoehr, Russell, Burdsall and Ward, vice president.

Mr. BLINKEN. Robert J. Blinken, chairman of MITE Corporation, New Haven, Conn.

Mr. FELLER. Peter Feller from the law firm of McClure and Trotter.

Mr. WALKER. John Walker from the law firm of Jones, Day, Reavis & Pogue.

Senator RIBICOFF. Gentlemen, all of us are pretty well aware of the problems here, and you have your material which will go into the permanent record as if it were read. We have allocated 20 minutes to you. Somebody can make the case and whoever wants to make a contribution can, and then we might have some questions. Anyone can answer the questions, or maybe all of you.

So, would you proceed, sir?

Mr. SPOEHR. Yes, sir, Mr. Chairman. My statement is 14 pages plus some exhibits and I would like to read excerpts from that statement. I believe I can keep it under 10 minutes. I will speak for the manufacturing group and then we have two distributors who have introduced themselves to describe the distributors' interest.

Senator RIBICOFF. All right, then, would you proceed accordingly, sir?

**STATEMENT OF DAVID A. SPOEHR, VICE PRESIDENT, RUSSELL,  
BURDSALL & WARD**

Mr. SPOEHR. We all have introduced ourselves. We very much appreciate the opportunity to appear before you today and to speak in support of Senate Concurrent Resolution 66. That resolution would implement the import relief recommendation of the International Trade Commission, an independent bipartisan agency of trade experts established by Congress.

The Commission found that the fastener industry is suffering serious injury because of rising imports. It determined that a tariff increase was necessary to remedy that injury and so recommended to the President.

On February 10, the President not only rejected the ITC's recommended level of relief, but denied import relief altogether. This was a cruel blow to our industry. As a result, we can expect to see widespread plant shutdowns and layoffs in the months ahead.

The problem is deadly serious, Mr. Chairman. Consider these facts. Imports of nuts, bolts and large screws have more than doubled since 1969. Imports now account for about 44 percent of the American market as against 21 percent in 1969.

Close to 8,000 jobs have been displaced since 1969. This represents an employment drop of more than 36 percent. Industry profits have fallen sharply for 3 straight years.

In 1977, the industry's pretax profit on sales fell to—and this number needs to be adjusted as of this morning—to 7.6 percent.

This is a disastrous profit level for a highly capital-intensive industry such as ours.

The industry has been operating at about 50 percent of its capacity for the last 3 years. Since mid-1977 alone, there have been six plant shutdowns or major cutbacks in domestic production.

This includes my own company which, as a direct result of the President's decision, is now being forced to lay off an additional 100 to 125 workers at our facilities in Ohio, Illinois and Pennsylvania.

In December 1977, the Federal Preparedness Agency concluded a 2-year study that identified nuts, bolts, screws and other fasteners as being critical to our national security. That study concluded that, because of the import displacement of domestic fastener production, a serious shortfall in available supplies would likely occur during a period of national mobilization.

In the words of the President, the FPA study indicated that domestic fastener production capability was inadequate to satisfy U.S. requirements in a national emergency. In light of these facts, the denial of temporary import relief was totally unjustified. It was also wrong in light of the congressional intent underlying the escape clause provisions.

There have been only 4 out of 17 cases cleared by the ITC in which some sort of import relief was extended. The denial of import relief has been the rule, rather than the exception.

The reasons cited for denying import relief in our case are set forth in the President's report to the Congress. Those reasons are simply invalid. I regret to say that some are actually misleading.

-- For example, one of the cited reasons is that domestic producers' shipments in exports increased in 1976 and in the first half of 1977. However, the point of reference is 1975, which represents an 8-year low in producers' shipments.

It must be remembered that in 1975, the United States experienced almost its worse domestic slump in almost 40 years.

The fact is that the level of producers' shipments in 1976 and 1977 were even lower than they were in 1969. Imports, on the other hand, have enlarged their share of the American market in each and every year, without exception, since 1969.

The remaining reasons for denying import relief are equally unsound. Rather than take the committee's time to present a detailed rebuttal, we have attached our evaluation to this statement and it is attachment No. 1. We do, however, wish to call the committee's attention to several particular points. First, the fact that trade negotiations are in progress was given as a reason for denying import relief. Surely Congress could not have intended this to be a legitimate reason since it liberalized the escape clause provisions in the same statute which authorized the President to conduct those same negotiations in the first place.

Moreover, we do not understand how the executive branch can say with any creditability that it is proper to deny relief because of trade negotiations and then grant tariff relief in the recent CB radio case.

Second, an examination of the merits of the nuts and bolts case and the CB radio case reveals a glaring absence of consistency in the application of the law. It suggests that these executive branch decisions are essentially arbitrary.

For example, a comparison of the basic economic data in both cases over the period covered by the ITC investigation shows employment in the fastener industry has dropped drastically while employment in the CB radio industry has, in fact, increased. Profits in the CB radio industry have generally been higher than the capital-intensive fastener industry. Capacity utilization in the past 3 years has been higher in the CB radio industry than in the fastener industry.

The percentage growth in the import share of the domestic market has been far greater for nuts, bolts and large screws than it has been for CB radios.

Under those circumstances, a decision to sacrifice the domestic fastener industry side by side with a decision to help the CB radio industry to survive seems entirely irrational. This is compounded by the fact that the administration has stressed the additional cost to consumers as a grounds for rejecting the ITC recommendations, yet, in the CB radio case, it decided to raise the tariff on CB radios by 15 percentage points to—and this number needs correcting for the record; it is 21 percent.

The additional annual cost of imported CB radios would be more than twice as much as the additional cost of imported nuts, bolts and large screws. It should also be noted that CB radios are generally consumer products, while nuts, bolts and large screws are generally intermediate industrial products.

This means that the direct effect of an increased tariff on fasteners on consumers would be negligible. On the average, the actual cost of the fasteners that hold an assembled product together is approximately 1 percent of the total cost of that product. Thus, even if the

cost of all fasteners went up by 20 percent—to use an extreme example—it would raise the cost of the finished product by only .2 of 1 percent.

This speaks to the question that Mr. Danforth asked on the inflation effect and Mr. Blinken would like to discuss that further at the conclusion of my statement.

The job saving and job creation effect of the ITC import relief measure would contribute about \$96 million to the economy annually. This figure is based on the fact that the average annual wage of the highly skilled workers of this industry is \$12,600. Thus, implementation of the ITC recommendation would more than offset the additional tariff cost of imported fasteners.

Other offsets include the fact that a tariff measure would provide revenue for the Government and reduce its need to borrow. It would also reduce spending by the State, local and Federal governments for unemployment compensation and similar programs and perhaps the most important effect of import relief would be to permit an increase in the volume of domestic production, thereby facilitating a more efficient use of plants and equipment.

This will lower the unit cost of domestic production, a savings that will ultimately be reflected in producers' prices.

And finally, the President recited the statutory condition that granting relief to the fastener industry was not in the national economic interest. At the same time, the President ordered a national security investigation on an expedited basis. Because of the FPA study which, in essence, found that an economically viable fastener industry is crucial to our national security interests, it seems obvious, then, that the national economic interest and the national security interest are inseparable in this case.

Since 1969, the domestic industry have been losing an average of 1,000 jobs per year. There is no reason to believe that this pattern will not continue in the absence of import relief. Thus, by approving Senate Concurrent Resolution 66, this committee would be helping to save 5,000 fastener jobs over the next 5 years.

In addition to the jobs-saving effect of affirmative action here, about 2,500 additional jobs would be created. That figure derives from the industry's rule of thumb that one worker produces an average of 60,000 pounds of fasteners per year.

Implementation of the ITC recommendation would enable the domestic industry to produce an additional 150 million pounds of nuts, bolts and large screws per year. This translates into 2,500 production jobs and does not include the secondary jobs created by the multiplier effect in the economy.

Among other things, import relief would help to correct a series of Government actions that have contributed to the industry's import problems over the years. To begin with, the United States' tariff structure itself provides an incentive for the importation of nuts and bolts. This is caused by a tariff anomaly which exacts a higher effective duty on steel wire rod than on nuts and bolts, the finished products made from wire rod.

The irony is that this inversion in the tariff structure produces an effect tantamount to an import subsidy conferred by the United States Government itself.

The import of nuts and bolts was further stimulated by the voluntary restraint arrangements on steel which went into effect by the late 1960's under State Department auspices. Those restraints forced foreign mills to ship steels to the United States foreign markets in the form of steel fasteners and other converted forms not covered by the agreement.

Steel fastener imports rose markedly as they became an alternate channel for the movement in international trade. To add insult to injury, duty-free treatment was extended to nuts and bolts under the generalized system of preferences in 1975.

Now, the trigger price mechanism is diverting foreign steel in the United States markets in the form of industrial fasteners.

We requested the Treasury Department last November to cover nuts, bolts and large screws within the scope of the trigger price mechanism so as to neutralize its adverse effects. This request was denied, and it is in our appendix.

The diversion of steel into fasteners has already begun. One example involves the sale of steel wire rods by Japanese mills to Taiwanese fastener makers at dumping prices. This gives the Taiwanese fastener producers a raw material cost advantage of substantial proportions.

We believe the recent heavy influx of fasteners from Taiwan is largely attributable to this dumping practice. Unfortunately, the Antidumping Act is written in such a way that it cannot be used to address this problem and we reference appendix B of our statement.

In addition, the Government has been woefully remiss in dealing with foreign unfair trade practices, even in the face of conclusive evidence in its possession. The tremendous growth of Japanese imports began in the mid-1960's as a result of a Government industry program to modernize, rationalize and promote the export competitiveness of Japan's fastener industry, and we refer you to appendixes C and D for the details of that.

Our industry, therefore, has been competing against the Government of Japan and not just the Japanese industry. It must be remembered that our industry is fragmented. Most of our companies are small. Our trade association does not maintain Washington offices; it does not have the wherewithal to monitor unfair trade practices abroad. For that reason, we did not learn of these subsidy practices until 1975 when it was too late to do much about it.

The Japanese industry had already reaped the benefits. It had already achieved great economies of scale and competitive strength, at our expense.

In 1977, the U.S. trade deficit with Japan was about \$9.5 billion and Japanese fasteners account for close to one-quarter of \$1 billion of that deficit. The magnitude of the deficit has caused the yen to appreciate substantially against the dollar. By the end of 1977, the yen had appreciated by about 22 percent.

This has provided no relief, however, because the prices of Japanese nuts and bolts have not reflected the increase in the value of the yen and, in fact, really did not go up at all in 1977.

We are speaking to you today, Mr. Chairman, on behalf of 12,500 American workers still directly employed in our industry. The fate of our companies are in similar jeopardy as are the tax revenues we are now paying at the local, State, and Federal levels.

Thousands of jobs in supplier industries are also at stake. Equally important, Mr. Chairman, is the national security of the United States itself. These fasteners are indispensable to the production of military hardware and virtually every type of essential civilian manufacturing or construction activity in our economy.

We appeal to this committee. We urge this committee, for all the reasons we have presented today, to support Senate Concurrent Resolution 66.

I thank you, Mr. Chairman, and Mr. Blinken has a couple of comments on the inflation matter that Mr. Danforth has questioned.

**STATEMENT OF ROBERT J. BLINKEN, CHAIRMAN OF THE BOARD,  
AND CHIEF EXECUTIVE OFFICER, MITE CORP.**

Mr. BLINKEN. Mr. Chairman, I would like to try to answer several of the questions that were asked of previous witnesses. First, Mr. Chairman, I think you inquired as to the number or the quantity of Japanese fastener production that is targeted toward the United States.

The information that our industry has is that there are approximately 300 Japanese producers who work exclusively for the purpose of exporting to the United States. The Japanese export approximately 670 million pounds of fasteners to the United States annually. This translates into something approximating 8,400 direct labor jobs in Japan, which are, for the purpose of exporting fasteners to the United States and, since we are slightly more productive than they are, something slightly less than 8,000 jobs not existing in the United States which would were it not for this particular trade situation.

Mr. Danforth asked about the inflation effect. Although Ambassador Wolff did not dwell on that question extensively today, Ambassador Strauss in prior testimony and press releases and statements from the administration in this case did waive the bloody shirt of inflation rather vigorously.

Our industry has taken a very contrary position on this matter. We were disturbed by these allegations and consequently last week we commissioned Data Resources to do a computer run for us using, I think, the same econometric models that the Government agencies use on inflation effect.

I would like to submit that report for the record and merely read one excerpt from it.

Senator RIBICOFF. Without objection, the entire report will go into the record.

Mr. BLINKEN. Thank you, Mr. Chairman.

[The material referred to follows:]

**AN INPUT-OUTPUT ANALYSIS OF THE DOMESTIC FASTENER INDUSTRY**

**METHODOLOGY AND ASSUMPTIONS**

The simulations contained in this report were carried out with an input-output model of the U.S. economy developed at DRI. This model incorporates the structural interrelations among more than 450 economic sectors—incorporating the sectoral composition of purchases and sales for each of these basic activities. This model is used to simulate 3 levels of effects of a tariff increase on the domestic economy—immediate, short-term and long-term.

The immediate effects (referred to as impact multipliers in the accompanying tables) constitute the total domestic industrial activity increase necessary to support an increase in the domestic output of the impacted industry. For example, an increase in nuts and bolts production requires an increase in steel production which in turn require inputs of mining, machinery, etc. The sum of all such direct and indirect inputs to the metal fasteners industry represent an immediate economy-wide effect of the increased domestic activity.

The short-term effects (referred to as induced consumption multipliers) and the long-term effects (referred to as induced consumption and capital expenditures multipliers) additionally incorporate the direct and indirect effects of personal consumption expenditures and capital expenditures in the impacted industry respectively induced by the increases in personal income and returns on corporate investment resulting from the impact or immediate effects.

The model used is based on 1972 technological relations (the latest year for which such detailed economic information is available) but experience with changing technologies indicates that incorporating the present day technological relations, if it were possible, would change the aggregate results contained here by very little—perhaps at most 5-10%. The model further assumes that increases in personal consumption expenditures are proportional to the average industrial composition of personal consumption expenditure and that the marginal propensity to consume domestically-produced goods and services is 0.8.

It should also be noted that the employee compensation figures somewhat underestimate the total wage salary impacts because they do not incorporate proprietor and partnership income. These considerations generally increase the total personal income to about 70-75% of the GNP impact.

#### RESULTS

The impact of the nuts, bolts and large screws industry on the national economy is summarized in Tables 1 and 2. Table 1 represents the product, GNP, and employee compensation multipliers under the assumption that tax revenues generated by the tariff and the industrial expansion it induces are used to decrease the budget deficit. Table 2 assumes that the deficit remains constant so that the government either spends the additional revenue or returns it in the form of transfer payments or compensating tax reductions. It should also be pointed out that these figures do not take into account increased capital expenditures in other industries—preliminary investigations indicate that under the assumptions of Table 2, this multiplier could be larger than 4.

#### GNP EFFECTS

To determine the actual impact of the tariff in dollar terms these multipliers must be applied to the increase in domestic sales arising from the tariff. Using an estimate of this impact of 150 million pounds at an average domestic price of 86 cents per pound (figures supplied by Charles Wilson of the Industrial Fasteners Institute) yields an immediate increase in domestic production of nearly \$130 million. This would bring about a minimum increase of more than \$330 million in the gross national product. With government expenditures increasing in the proportions with the increased taxes the GNP impact would reach nearly \$400 million. And this, accounting for induced capital expenditures in other industries, could bring the resultant to over \$500 million.

#### INFLATIONARY EFFECT

The direct impact of the proposed action on the general price level will be essentially unnoticeable—in fact it should be less than a one-hundredth of one percent increase in the WPI. In terms of individual products the immediate price impacts will still be small. Only 195 of the over 450 product classes involve inputs of nuts, bolts, and large screws and for all but a handful of these products the inputs are less than 1% of the total producers value—the largest being approximately 1.2%. Thus the largest impact on any single product would be less than 0.5% ( $\frac{1}{2}\%$ ) price increase—assuming that the foreign product constitutes its entire input—or less than 0.1% price increase if its purchases of foreign product is comparable to that industry wide.

Furthermore, the model indicates that even if all these minor price increases were passed on to all other manufacturers the change in the WPI would still be far less than 0.1 (1/10) percent.

#### SUMMARY

The results can be summarized as follows:

## A. Assuming a total impact of —\$130 million in the domestic production

	Immediate effects	Short-term effects	Long-term effects
GNP (million).....	+\$125	+\$350	+\$400
WPI (percent).....	<0.01	<<0.01	<<0.01

## B. Assuming that the tariff stops further penetrations and yields a \$200 million impact on domestic production the longer term

	Immediate	Short-term	Long-term
GNP (million).....	~\$125	~\$350	~\$600
WPI (percent).....	<0.01	<0.01	<<0.1

TABLE 1.—MULTIPLIERS FOR THE NUTS, BOLTS, AND LARGE SCREW INDUSTRY

	Agriculture	Mining	Construction	Manufacturing	Transportation and trades	Services and other	Total
Impact multipliers							
Production.....	0	0.05	0.02	1.73	0.10	0.15	.....
GNP.....	0	.03	.01	.79	.06	.09	0.99
Employee compensation.....	0	.02	.01	.57	.04	.04	.67
Induced consumption multipliers							
Production.....	0.13	0.09	0.05	2.61	0.54	1.03	.....
GNP.....	.05	.06	.03	1.13	.38	.69	2.34
Employee compensation.....	.01	.02	.03	.78	.23	.26	1.33
Induced consumption and capital expenditures multipliers							
Production.....	0.15	0.10	0.09	2.88	0.62	1.15	.....
GNP.....	.06	.06	.05	1.25	.44	.78	2.62
Employee compensation.....	.01	.02	.04	.87	.26	.29	1.49

TABLE 2.—MULTIPLIERS FOR THE NUTS, BOLTS, AND LARGE SCREW INDUSTRY

	Agriculture	Mining	Construction	Manufacturing	Transportation and trades	Services and other	Total
Impact multipliers							
Production.....	0	0.05	0.02	1.73	0.10	0.15	.....
GNP.....	0	.03	.01	.79	.06	.09	0.99
Employee compensation.....	0	.02	0.1	.57	.04	.04	.67
Induced consumption multiplier							
Production.....	0.17	0.10	0.07	2.88	0.68	1.30	.....
GNP.....	.06	.06	.04	1.23	.48	.88	2.75
Employee compensation.....	.01	.02	.03	.85	.29	.33	1.53
Induced consumption and capital expenditures multipliers							
Production.....	0.19	0.11	0.10	3.19	0.77	1.46	.....
GNP.....	.07	.07	.05	1.36	.55	.99	3.09
Employee compensation.....	.01	.03	.04	.94	.33	.37	1.72

Mr. BLINKEN. Regarding the inflation impact, the statement is: "The direct impact of the proposed action"—that is the tariff increase—"on the general price level will be essentially unnoticeable. In fact, it should be less than a one-one hundredth of 1 percent increase in the wholesale price index."

The rest of the report addresses itself also to the beneficial economic effect from the projected relief which would be an increase of approximately \$130 million in domestic production which, with the multiplier effect, represents a long-range increase of \$500 to \$600 million of gross national product.

There is nobody, I think, who can tell us that this is going to cause unemployment in the United States. I think that is a totally unsupported allegation.

#### STATEMENT OF DALE HOLL, PRESIDENT, DARLING BOLT CO.

Mr. HOLL. Mr. Chairman, I appreciate the opportunity to appear before you today to urge this committee to support Senate Concurrent Resolution 66. As a major distributor of fasteners, I want to say unequivocally that I think the President's decision to deny import relief was wrong and should be reversed by the Congress.

I am president of the Darling Bolt Company in Warren, Mich. I have been in business for 20 years and, for the past 10 years, have been the sole owner of Darling Bolt Co. My company is known in the trade as a master distributor in that I sell to other distributors all over the United States. My customers, therefore, buy both domestic and imported products.

Darling Bolt sells a whole range of fastener products and markets in the entire United States. In addition to basic fasteners, we also sell special products which are not generally available from importers.

Last year, in order to serve my customers better, I also started manufacturing fasteners. I made a \$2 million investment, which is sizable for a firm like mine, and I now produce large size bolts which are longer than those generally available from the imported markets.

Mr. Chairman, I would like to make four basic points to this committee. In my experience, distributors prefer to buy American fasteners, but many of them have begun to purchase imported products because of the prices offered by foreign suppliers.

You will hear some distributors on the next panel who will be opposing this resolution. I would like to make it clear that, in my opinion, they are not speaking for all of the distributors, many of whom would support this resolution.

Two, I am concerned, as many other distributors are, about the security of supplies from importers. Back in 1973-74, there was a significant shortage of supply because of high demand at that time. My company was in good shape because I had traditional relationships with domestic suppliers and could supply my customers' needs.

Many importers had serious problems because the foreign suppliers did not have the loyalty to their customers that the American firms have always maintained.

Three, price of imports is subject to wide variation. In this same 1973-74 period, the prices of imported products increased by at least 25 percent just simply because of the increased demand. There was no cost, it just went higher.

Domestic mills supplying need did not increase their prices with the result I had a couple of great years because of relationships with American manufacturers.

Four, import relief would not adversely affect any jobs in the distributor end of this business. I do not think it would affect employment at all at the distributor level.

Of course, most distributors who have been buying foreign would wish to begin to buy American fasteners, and I feel at the present time and have no doubt that U.S. mills could supply their demand.

In summary, Mr. Chairman, I am all for this resolution. It is just unfair to this industry which has made a convincing case before the International Trade Commission and for political reasons they were not granted relief. I hope you will support this resolution.

Thank you.

#### **STATEMENT OF BERNARD FELDMAN, PRESIDENT, INDUSTRIAL FASTENERS CORP.**

Mr. FELDMAN. Mr. Chairman, I am pleased to testify in support of Senate Concurrent Resolution 66. I am Bernard Feldman, president of the Industrial Fasteners Corp. which is located in New York City. My company is a distributor of fasteners, and we also have a small manufacturing plant which accounts for about 20 percent of our total sales.

We distribute in the east coast region, primarily from New England south to the Carolinas and Georgia. I have been in this business for 50 years, so I know it well.

There is little I can add to what already has been said except for one thing. The panel has agreed that the fastener industry is very important to the defense of this country. A fastener plant cannot be put on a standby basis. Without the skilled help, the technical know-how and the toolmaking capacity required to run a plant, it would be impossible to bring a plant such as this back to life if it were closed down on a standby basis.

That is all, sir. Thank you.

Senator RIBICOFF. Thank you.

I just have a few questions, Mr. Spoehr. You may answer, or anybody on the panel may answer.

What do you think that your company would do, or the industry would do, if the resolution to disapprove the President's decision was passed by the House and the Senate. Would you raise prices immediately, or soon thereafter?

Mr. SPOEHR. In the first place, the domestic industry is some 600 companies, very fragmented, very competitive. Whether there was tariff granted and therefore imported product, those prices were higher, would not enable us to raise our own prices against our own, very competitive, domestic industry.

Our interest is being competitive with the imported product coming in. Many of our customers are very large companies and, in many cases, they are the ones that police, discipline and, in fact, set the prices that we can sell to.

Senator RIBICOFF. Now, if this were—if this relief was granted and the President was overruled, what would the industry do over

the next 5 years to adjust to outside competition. How would you use this 5 years?

Mr. SPOEHR. The most important thing, probably, is to recognize that within our industry today there is adequate capacity to take care of whatever reductions in import volume occurred. Our interest is taking the current levels of production, which are barely at 50 percent of capacity, improving those levels of production which would also improve the unit cost price of the product that we produce.

We would be interested, obviously, in bringing back the some 8,000 employees that were on layoff. It would allow us to accommodate certain of the OSHA and EPA requirements that we must conform to, and to the extent that we felt that we could deal with the import problem 5 years down the road would then make the appropriate capital expenditures to do what was necessary to further update our facilities.

Senator RIBICOFF. Are the Japanese facilities more efficient and more updated than the American facilities generally?

Mr. BLINKEN. Mr. Chairman, I can speak principally from my own visits to Japanese plants which are essentially the equivalents of ours. Our observation was, number one, that their plants were not essentially more efficient than ours. Their equipment was certainly not better than ours. There is a paucity of statistical data available from Japan, but our observation was that our American workers are more productive than the Japanese workers.

There is a great myth about the problems of an American industry having to do with the lack of productivity. It is just not true in our industry.

We think our tons per employee shipped are probably better, statistically, than those of the Japanese. Our plants, we feel, are in many cases as good or better, but this is not a static industry. The technology keeps changing, and in order to keep up with the technology, in order to continue to reinvest at an extremely high rate in plant and equipment, we have to have a reasonably orderly market which we do not have at the present time.

I think Mr. Spoehr alluded to our desire to accelerate our re-investment in plant and equipment and I think that is one of the essential factors in our program to become even more competitive. Fifty percent of the cost of a fastener is steel and the single largest discernible advantage that the Japanese have over us is that they can buy their steel at a much lower price.

They have other advantages which Senator Danforth made reference to which go back to favorable tax treatment, favorable depreciation schedules. I might also add that we pay a lot of taxes in the United States that essentially constitute the Japanese defense budget. They do not pay any taxes for our benefit over here, so that we operate in certain areas at disadvantages that we have no way of overcoming.

The important point is that we are efficient companies. One of the problems that our industry has is that we are too efficient. We do not have enough votes. We turn out a lot of product with a relatively small number of employees.

But we compare favorably. We are not an industry that deserves to die because we have not reinvested adequately.

We are talking about equipment, now, in the fastener industry which runs anything from \$¼ million to \$1½ million per piece of machinery and, in that connection, Congressman Anderson made reference to Russian self-sufficiency in the industry. I had occasion to visit a machine tool manufacturer a couple of years ago who was about 6 months late in delivering a very critical component of a \$1½ million machine that we were installing. He took me down the assembly line to show me the machine he was working on for us and ahead of it were about 15 machines, all tagged for shipment to Russia.

Senator RUBINOFF. Senator Roth?

Senator ROTH. What concerns me, Mr. Chairman, when you see the period from 1969 to 1977, the percentage of imports to consumption goes up from 21 to 45 percent. I think that certainly signals a serious problem.

Again, let me say on the other side of the coin, we can always say inflation is not a factor in the case of a specific product like industrial fasteners, but I think that is a very serious problem that the country faces, and while a straw weighs very little, I do not think we can entirely disregard what the President is saying on that side of the matter. So we are on the horns of a dilemma. It is apparently the difference in price of steel that is a key factor in your being unable to compete with imported products. Is that correct?

Mr. BLINKEN. I think it is a very significant factor, sir, yes.

Senator ROTH. Does your industry essentially buy American steel?

Mr. BLINKEN. Our industry buys predominantly American steel. At least 75 percent of the steel we consume is American.

I might also point out that I think our Government has announced as its target in implementing the trigger price system a reduction of imports of steel of about 7 million tons, from close to 20 down to 15.

The steel contained in the fasteners imported into the United States represents 5 percent of that total target.

Senator ROTH. What will be the effect of the reference pricing system?

Mr. BLINKEN. Sir, we can only look at experience. In 1969, I think we had voluntary restraints that were entered into on the export of steel to the United States and that was what triggered the really massive targeting of the U.S. fastener market by the Japanese, and I think it is reasonable to assume, again, that with restraints on the exports of steel to the United States implemented by trigger prices, it will have the same effect, that the fasteners do represent the next step up the fabrication line from raw steel and if they are inhibited from exporting steel to the United States, I think it is reasonable to assume that they will place greater emphasis on the next step up the line which will be, in our case, fasteners.

Senator ROTH. You probably could expect increased problems.

In Mr. Wolff's testimony, he makes the statement that—

for many inexpensive standard fastener items, imposition of the 30 percent tariff recommended by the USITC would probably not have been effective in terms of allowing domestic producers of these items to recapture sales lost to imports. This is because of the substantial price margin that exists between many import and domestically produced standard fasteners, price margins of nearly 60 percent on some items, according to the USITC.

Would you care to comment on that?

Mr. BLINKEN. The standard fasteners that Ambassador Wolff referred to are fundamentally products that are manufactured in very large quantities on substantially automated equipment. With an industry such as ours, which is operating at 51 percent of capacity, we can see that we are not getting anything like the output of our machinery and equipment. And this is a process which feeds on itself, both upwards and downwards.

Given some more reasonable relationship in pricing, American manufacturers can start to use their machinery and equipment much more efficiently. Their unit costs will come down, so it will not only be the effect of the tariff, but also the incremental effect of greater production efficiency which will, I think, reduce that pricing gap very, very quickly and much more so than just the tariff itself will do.

Senator ROTH. So you believe that the USITC proposed tariff will have a significant impact?

Mr. BLINKEN. Yes, we obviously—we do not think that the tariff will benefit every segment of the industry identically; that is not a reasonable expectation. It will be more helpful in some areas than others. We do take very, very serious exception to Ambassador Wolff's statement that this will constitute a windfall for the healthier segment of our industry. That is just not be a true statement.

The healthiest segment of our industry is that, right now I think, that which serves the automobile manufacturers. There is no prospect whatsoever of any increase at all in the price of U.S. produced fasteners sold in the automobile industry as a consequence of this tariff.

They are buying our fasteners now even though they cost more money. They exert enormous price discipline. The smallest automobile company is 10 times the size of our whole industry put together. Their purchasing power is enormous and they are not going to let us play games because of a tariff.

Senator ROTH. Mr. Wolff also makes the statement that the Secretary of Commerce reported that no U.S. firms producing bolts, nuts or large screws had applied for a trade adjustment assistance benefits. The Commerce Department report, however, did report as many as 10 U.S. firms could be certified as eligible to receive trade adjustment assistance benefits, should they choose to apply for them. No community has applied to receive adjustment assistance benefits.

I wonder why no relief in this direction has been requested.

Mr. CLAYTON. Senator, if I may comment on that, I think you would find basically in our industry that we have a lot of companies who have been liquidating facilities, equipment, et cetera, and therefore, they really have not created a need for cash generation. They have been throwing off cash in the process of liquidation.

Also, with the very tenuous atmosphere and environment that we currently have there is not a climate to encourage substantial investment, so that is why, I think, they have not applied for relief.

Senator ROTH. That is all I have.

Senator RIBICOFF. Gentlemen, thank you very much for your excellent presentation in a short period of time. You have made your points.

[The prepared statement of the preceding panel follows:]

STATEMENT  
OF  
DAVID A. SPOEHR

ON BEHALF OF THE  
UNITED STATES FASTENER MANUFACTURING GROUP

MR. CHAIRMAN. DISTINGUISHED MEMBERS OF THE SUBCOM-  
MITTEE ON TRADE. MY NAME IS DAVID SPOEHR. I AM VICE PRESIDENT  
OF RUSSELL, BURDSALL & WARD, A DOMESTIC FASTENER MANUFACTURER.  
THE OTHER MEMBERS OF OUR PANEL ARE --

ROBERT J. BLINKEN, CHAIRMAN OF THE MITE  
CORPORATION;

RICHARD CLAYTON, EXECUTIVE VICE PRESIDENT  
OF THE STANDARD PRESSED STEEL CORPORATION;

DALE HOLL, PRESIDENT OF DARLING BOLT CO; AND

BERNARD R. FELDMAN, PRESIDENT OF INDUSTRIAL  
FASTENERS CORPORATION

WE VERY MUCH APPRECIATE THE OPPORTUNITY TO APPEAR BE-  
FORE YOU TODAY AND TO SPEAK IN SUPPORT OF SENATE CONCURRENT  
RESOLUTION 66. THAT RESOLUTION WOULD IMPLEMENT THE IMPORT  
RELIEF RECOMMENDATION OF THE INTERNATIONAL TRADE COMMISSION--  
AN INDEPENDENT, ARTISAN AGENCY OF TRADE EXPERTS ESTABLISHED  
BY CONGRESS. THE COMMISSION FOUND THAT THE FASTENER INDUSTRY

OFFERING SERIOUS INJURY BECAUSE OF RISING IMPORTS. IT DETERMINED THAT A TARIFF INCREASE WAS NECESSARY TO REMEDY THAT INJURY--AND SO RECOMMENDED TO THE PRESIDENT.

OUR UNDERSTANDING IS THAT THE TRADE POLICY STAFF COMMITTEE AND AMBASSADOR STRAUSS RECOMMENDED THAT IMPORT RELIEF BE GRANTED IN THIS CASE. BUT ON FEBRUARY 10 THE PRESIDENT NOT ONLY REJECTED THE ITC'S RECOMMENDED LEVEL OF RELIEF, BUT DENIED IMPORT RELIEF ALTOGETHER.

THIS WAS A CRUEL BLOW TO OUR INDUSTRY. MANY STRUGGLING MANUFACTURERS--BOTH LARGE AND SMALL--HAD BEEN ENCOURAGED TO "HANG ON" IN THE EXPECTATION THAT THE ITC'S FINDINGS WOULD BE HEEDED AND THAT ITS RECOMMENDATIONS WOULD BE IMPLEMENTED. THEIR HOPES HAVE NOW BEEN DASHED AND, AS A RESULT, WE CAN EXPECT TO SEE WIDESPREAD PLANT SHUTDOWNS AND LAYOFFS IN THE MONTHS AHEAD.

THE PROBLEM IS DEADLY SERIOUS, MR. CHAIRMAN. CONSIDER THESE FACTS:

- IMPORTS OF NUTS, BOLTS AND LARGE SCREWS MORE THAN DOUBLED SINCE 1969. IMPORTS NOW ACCOUNT FOR ABOUT 44% OF THE AMERICAN MARKET AS AGAINST 21% IN 1969.
- CLOSE TO 8,000 JOBS HAVE BEEN DISPLACED SINCE 1969. THIS REPRESENTS AN EMPLOYMENT DROP OF MORE THAN 36%.
- INDUSTRY PROFITS HAVE FALLEN SHARPLY FOR THREE STRAIGHT YEARS. IN 1977 THE INDUSTRY'S

- 3 -

PRE-TAX PROFIT ON SALES FELL TO AN ESTIMATED 5%--A DISASTROUS PROFIT LEVEL FOR A HIGHLY CAPITAL-INTENSIVE INDUSTRY SUCH AS OURS. THE PROFITS OF THE AMERICAN SHOE INDUSTRY-- WHICH IS FAR LESS CAPITAL-INTENSIVE--WAS AROUND 5% WHEN IT WAS GRANTED IMPORT RELIEF.

- THE INDUSTRY HAS BEEN OPERATING AT ABOUT 50% OF ITS CAPACITY FOR THE LAST THREE YEARS.
- SINCE MID-1977 ALONE, THERE HAVE BEEN SIX PLANT SHUTDOWNS OR MAJOR CUTBACKS IN DOMESTIC PRODUCTION. THIS INCLUDES MY OWN COMPANY WHICH--AS A DIRECT RESULT OF THE PRESIDENT'S DECISION--IS NOW BEING FORCED TO LAY OFF AN ADDITIONAL 100 TO 125 WORKERS AT OUR FACILITIES IN OHIO, ILLINOIS AND PENNSYLVANIA.
- IN DECEMBER 1977, THE FEDERAL PREPAREDNESS AGENCY CONCLUDED A TWO-YEAR STUDY THAT IDENTIFIED NUTS, BOLTS, SCREWS AND OTHER METAL FASTENERS AS BEING CRITICAL TO OUR NATIONAL SECURITY. THAT STUDY CONCLUDED THAT BECAUSE OF THE IMPORT DISPLACEMENT OF DOMESTIC FASTENER PRODUCTION, A SERIOUS SHORTFALL IN AVAILABLE SUPPLIES WOULD LIKELY OCCUR DURING A PERIOD OF NATIONAL MOBILIZATION. IN THE WORDS OF THE PRESIDENT, THE FPA STUDY "INDICATED THAT DOMESTIC

FASTENER PRODUCTION CAPABILITY WAS INADE-  
QUATE TO SATISFY U.S. REQUIREMENTS IN A  
NATIONAL EMERGENCY."

IN THE LIGHT OF THESE FACTS, THE DENIAL OF TEMPORARY  
IMPORT RELIEF WAS TOTALLY UNJUSTIFIED. IT WAS ALSO WRONG IN  
LIGHT OF THE CONGRESSIONAL INTENT UNDERLYING THE ESCAPE CLAUSE  
PROVISIONS. IN ITS REPORT ON THE 1974 TRADE ACT, THIS COM-  
MITTEE MADE THAT INTENT ABSOLUTELY CLEAR WHEN IT SAID:

"THE COMMITTEE DECIDED THAT WHENEVER SERIOUS  
INJURY, OR THE THREAT THEREOF, WAS FOUND TO  
EXIST BY THE COMMISSION, SOME FORM OF RELIEF  
WAS JUSTIFIED." S. REPT. 93-1298, P. 27.

YET DESPITE THAT CLEAR AND UNAMBIGUOUS LANGUAGE  
THERE HAVE BEEN ONLY FOUR OUT OF SEVENTEEN CASES CLEARED BY  
THE ITC IN WHICH SOME SORT OF IMPORT RELIEF WAS EXTENDED. THE  
DENIAL OF IMPORT RELIEF HAS BEEN THE RULE, RATHER THAN THE  
EXCEPTION.

THE REASONS CITED FOR DENYING IMPORT RELIEF IN OUR  
CASE ARE SET FORTH IN THE PRESIDENT'S REPORT TO THE CONGRESS.  
THOSE "REASONS" ARE SIMPLY INVALID. I REGRET TO SAY THAT SOME  
ARE ACTUALLY MISLEADING. FOR EXAMPLE, ONE OF THE CITED REASONS  
IS THAT DOMESTIC PRODUCERS' SHIPMENTS AND EXPORTS INCREASED  
IN 1976 AND IN THE FIRST HALF OF 1977. HOWEVER, THE POINT  
OF REFERENCE IS 1975, WHICH REPRESENTS AN EIGHT-YEAR LOW IN  
PRODUCERS' SHIPMENTS. IT MUST BE REMEMBERED THAT IN 1975  
THE UNITED STATES EXPERIENCED ITS WORST ECONOMIC SLUMP IN  
ALMOST 40 YEARS. IT GIVES A FUNDAMENTALLY FALSE IMPRESSION,  
THEREFORE, TO SAY THAT PRODUCERS' SHIPMENTS (WHICH INCLUDE

EXPORTS) ARE UP WHEN MEASURED AGAINST AN ABNORMALLY LOW SHIPMENT YEAR. THE FACT IS THAT THE LEVEL OF PRODUCERS' SHIPMENTS IN 1976 AND 1977 WERE EVEN LOWER THAN THEY WERE IN 1969. IMPORTS, ON THE OTHER HAND, HAVE ENLARGED THEIR SHARE OF THE AMERICAN MARKET IN EACH AND EVERY YEAR--WITHOUT EXCEPTION-- SINCE 1969.

SOME OF THE CITED REASONS ACTUALLY SUBSTANTIATE THE ACUTE NEED FOR TEMPORARY IMPORT RELIEF IN THIS CASE, RATHER THAN THE REVERSE. FOR EXAMPLE, IT WAS POINTED OUT THAT DOMESTIC PRODUCERS ACCOUNTED FOR 20 TO 25% OF IMPORTS IN 1976. THIS FACT DRAMATIZES THE EXTENT OF IMPORT DISPLACEMENT OF DOMESTIC PRODUCTION--THE VERY CONDITION THE ESCAPE CLAUSE SEEKS TO REMEDY. IT ILLUSTRATES THE TERRIBLE DILEMMA CONFRONTING DOMESTIC MANUFACTURERS. THEY ARE CAUGHT IN A VICIOUS CYCLE WHERE THEY MUST EITHER TERMINATE DOMESTIC PRODUCTION ALTOGETHER OR TRY TO OFFSET UNPROFITABLE PRODUCTION WITH PROFITS FROM IMPORTING ACTIVITIES. BUT THIS ONLY PROLONGS THE AGONY FOR A SHORT TIME. AS THE VOLUME OF THEIR DOMESTIC PRODUCTION DROPS, UNIT COSTS RISE BECAUSE OF THE HIGH FIXED COSTS ASSOCIATED WITH THIS CAPITAL-INTENSIVE INDUSTRY. THE UPSHOT IS THAT DOMESTIC PRODUCTION BECOMES EVEN LESS ATTRACTIVE AND LEADS TO ADDITIONAL SUBSTITUTION OF IMPORTED FASTENERS FOR THOSE DOMESTICALLY PRODUCED.

THE REMAINING REASONS FOR DENYING IMPORT RELIEF ARE EQUALLY UNSOUND. WE WERE, FRANKLY, SHOCKED THAT SUCH A CRITICAL DECISION WAS MADE ON SUCH A FLIMSY BASIS. RATHER

THAN TAKE THE COMMITTEE'S TIME TO PRESENT A DETAILED REBUTTAL, WE HAVE ATTACHED OUR EVALUATION TO THIS STATEMENT (ATTACHMENT I). WE DO, HOWEVER, WISH TO CALL THE COMMITTEE'S ATTENTION TO SEVERAL PARTICULAR POINTS.

FIRST, THE FACT THAT TRADE NEGOTIATIONS ARE IN PROGRESS WAS GIVEN AS A REASON FOR DENYING IMPORT RELIEF. SURELY, CONGRESS COULD NOT HAVE INTENDED THIS TO BE A LEGITIMATE REASON, SINCE IT LIBERALIZED THE ESCAPE CLAUSE PROVISIONS IN THE SAME STATUTE WHICH AUTHORIZED THE PRESIDENT TO CONDUCT THOSE NEGOTIATIONS IN THE FIRST PLACE. MOREOVER, WE DO NOT UNDERSTAND HOW THE EXECUTIVE BRANCH CAN SAY WITH ANY CREDIBILITY THAT IT IS PROPER TO DENY RELIEF BECAUSE OF TRADE NEGOTIATIONS AND THEN GRANT TARIFF RELIEF IN THE RECENT CB RADIO CASE.

SECOND, AN EXAMINATION OF THE MERITS OF THE NUTS AND BOLTS CASE AND THE CB RADIO CASE REVEALS A GLARING ABSENCE OF CONSISTENCY IN THE APPLICATION OF THE LAW. IT SUGGESTS THAT THESE EXECUTIVE BRANCH DECISIONS ARE ESSENTIALLY ARBITRARY. FOR EXAMPLE, A COMPARISON OF THE BASIC ECONOMIC DATA\* IN BOTH CASES OVER THE PERIOD COVERED BY THE ITC INVESTIGATION SHOWS (1) THAT EMPLOYMENT IN THE FASTENER INDUSTRY HAS DROPPED DRASTICALLY, WHILE EMPLOYMENT IN THE CB RADIO INDUSTRY HAS IN FACT INCREASED; (2) THAT PROFITS IN THE CB RADIO INDUSTRY HAVE GENERALLY BEEN HIGHER THAN IN THE CAPITAL-INTENSIVE FASTENER INDUSTRY; (3) THAT CAPACITY UTILIZATION IN THE PAST THREE YEARS HAS BEEN HIGHER IN THE CB RADIO INDUSTRY THAN IN

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\*ATTACHMENT II TO THIS STATEMENT SETS FORTH THE COMPARATIVE DATA

THE FASTENER INDUSTRY; AND (4) THAT THE PERCENTAGE GROWTH IN THE IMPORT SHARE OF THE DOMESTIC MARKET HAS BEEN FAR GREATER FOR NUTS, BOLTS AND LARGE SCREWS THAN IT HAS BEEN FOR CB RADIOS.

UNDER THOSE CIRCUMSTANCES A DECISION TO SACRIFICE THE DOMESTIC FASTENER INDUSTRY, SIDE BY SIDE WITH A DECISION TO HELP THE CB RADIO INDUSTRY TO SURVIVE, SEEMS ENTIRELY IRRATIONAL. THIS IS COMPOUNDED BY THE FACT THAT THE ADMINISTRATION HAS STRESSED THE ADDITIONAL COST TO CONSUMERS AS A GROUNDS FOR REJECTING THE ITC RECOMMENDATION. YET IN THE CB RADIO CASE IT DECIDED TO RAISE THE TARIFF ON CB RADIOS BY 15 PERCENTAGE POINTS TO 31%. IT SHOULD BE NOTED, MR. CHAIRMAN, THAT CB RADIO IMPORTS IN 1976 AMOUNTED TO \$840 MILLION, WHEREAS IMPORTS OF NUTS, BOLTS AND LARGE SCREWS WERE LESS THAN ONE-THIRD OF THAT FIGURE--\$260 MILLION. THE ADDITIONAL ANNUAL COST OF IMPORTED CB RADIOS WOULD BE MORE THAN TWICE AS MUCH AS THE ADDITIONAL COST OF IMPORTED NUTS, BOLTS AND LARGE SCREWS.

IT SHOULD ALSO BE NOTED THAT CB RADIOS ARE GENERALLY CONSUMER PRODUCTS, WHILE NUTS, BOLTS AND LARGE SCREWS ARE GENERALLY INTERMEDIATE INDUSTRIAL PRODUCTS. THIS MEANS THAT THE DIRECT EFFECT OF AN INCREASED TARIFF ON FASTENERS ON CONSUMERS WOULD BE NEGLIGIBLE. ON THE AVERAGE THE ACTUAL COST OF THE FASTENERS THAT HOLD AN ASSEMBLED PRODUCT TOGETHER IS APPROXIMATELY 1% OF THE TOTAL COST OF THAT PRODUCT. THUS, EVEN IF THE COST OF ALL FASTENERS WENT UP BY 20%--TO USE AN

EXTREME EXAMPLE--IT WOULD RAISE THE COST OF THE FINISHED PRODUCT BY ONLY .2%.

THE JOB-SAVING AND JOB-CREATION EFFECT OF THE ITC IMPORT RELIEF MEASURE WOULD CONTRIBUTE ABOUT \$96 MILLION TO THE ECONOMY ANNUALLY. THIS FIGURE IS BASED ON THE FACT THAT THE AVERAGE ANNUAL WAGE OF THE HIGHLY SKILLED WORKERS IN THIS INDUSTRY IS \$12,600. THUS, IMPLEMENTATION OF THE ITC RECOMMENDATION WOULD MORE THAN OFFSET THE ADDITIONAL TARIFF COST OF IMPORTED FASTENERS.

OTHER OFFSETS INCLUDE THE FACT THAT A TARIFF MEASURE WOULD PROVIDE REVENUE FOR THE GOVERNMENT, AND REDUCE ITS NEED TO BORROW. IT WOULD ALSO REDUCE SPENDING BY THE STATE, LOCAL AND FEDERAL GOVERNMENTS FOR UNEMPLOYMENT COMPENSATION AND SIMILAR PROGRAMS. PERHAPS THE MOST IMPORTANT EFFECT OF IMPORT RELIEF WOULD BE TO PERMIT AN INCREASE IN THE VOLUME OF DOMESTIC PRODUCTION, THEREBY FACILITATING MORE EFFICIENT USE OF PLANT AND EQUIPMENT. THIS WILL LOWER THE UNIT COST OF DOMESTIC PRODUCTION--A SAVINGS THAT WILL ULTIMATELY BE REFLECTED IN PRODUCERS' PRICES.

FINALLY, THE PRESIDENT RECITED THE STATUTORY CONDITION THAT GRANTING RELIEF TO THE FASTENER INDUSTRY WAS "NOT IN THE NATIONAL ECONOMIC INTEREST." AT THE SAME TIME, THE PRESIDENT ORDERED A NATIONAL SECURITY INVESTIGATION ON AN EXPEDITED BASIS, BECAUSE OF THE FPA STUDY WHICH, IN ESSENCE, FOUND THAT AN ECONOMICALLY VIABLE FASTENER INDUSTRY IS CRUCIAL TO OUR NATIONAL SECURITY INTERESTS. IT SEEMS OBVIOUS, THEN, THAT THE NATIONAL

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ECONOMIC INTEREST AND THE NATIONAL SECURITY INTERESTS ARE INSEPARABLE IN THIS CASE.

THE PRESIDENT'S REJECTION OF THE ITC RECOMMENDATION WAS TOTALLY UNJUSTIFIED. WE BELIEVE THAT OUR INDUSTRY IS MORE SERIOUSLY INJURED AND IS MORE IMPORTANT TO OUR NATION'S ECONOMIC WELL-BEING AND SECURITY THAN ANY OTHER INDUSTRY THAT HAS RECEIVED IMPORT RELIEF. WE APPEAL TO THIS COMMITTEE TO RIGHT THIS WRONG UNDER THE OVERRIDE PROCEDURE WHICH YOU ESTABLISHED IN THE 1974 TRADE ACT.

SINCE 1969 THE DOMESTIC INDUSTRY HAS BEEN LOSING AN AVERAGE OF 1,000 JOBS PER YEAR. THERE IS NO REASON TO BELIEVE THIS PATTERN WILL NOT CONTINUE IN THE ABSENCE OF IMPORT RELIEF. THUS, BY APPROVING SENATE CONCURRENT RESOLUTION 66 THIS COMMITTEE WOULD BE HELPING TO SAVE 5,000 FASTENER JOBS OVER THE NEXT FIVE YEARS. IN A SENSE THIS WOULD BE PRACTICING CONSERVATION OF A VERY VALUABLE HUMAN RESOURCE, SINCE OUR WORKERS ARE HIGHLY SKILLED. IT TAKES FROM 6 TO 18 MONTHS OF TRAINING FOR AN INDIVIDUAL TO BECOME PROFICIENT IN OPERATING A BOLT MAKER, NUT FORMER OR OTHER MACHINE USED IN FASTENER PRODUCTION.

IN ADDITION TO THE JOB-SAVING EFFECT OF AFFIRMATIVE ACTION HERE, ABOUT 2,500 ADDITIONAL JOBS WOULD BE CREATED. THAT FIGURE DERIVES FROM THE INDUSTRY'S RULE OF THUMB THAT ONE WORKER PRODUCES AN AVERAGE OF 60,000 POUNDS OF FASTENERS PER YEAR. IMPLEMENTATION OF THE ITC RECOMMENDATION WOULD ENABLE THE DOMESTIC INDUSTRY TO PRODUCE AN ADDITIONAL 150 MILLION

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POUNDS OF NUTS, BOLTS AND LARGE SCREWS PER YEAR. THIS TRANSLATES INTO 2,500 PRODUCTION JOBS AND DOES NOT INCLUDE THE SECONDARY JOBS CREATED BY THE MULTIPLIER EFFECT IN THE ECONOMY.

WE ALSO WISH TO EMPHASIZE THAT IMPORT RELIEF IN THIS CASE WILL ONLY BENEFIT THOSE THAT NEED RELIEF. THE ONE SECTOR OF OUR INDUSTRY THAT HAS NOT FARED AS POORLY AS THE REST OF US IS MADE UP OF COMPANIES SPECIALIZING IN PRODUCING FASTENERS FOR AUTOMOTIVE MANUFACTURERS. THESE COMPANIES, HOWEVER, WOULD NOT BENEFIT FROM IMPORT RELIEF FOR THE SIMPLE REASON THAT THEIR ONLY SIGNIFICANT IMPORT COMPETITION COMES FROM CANADA UNDER THE TERMS OF THE U.S.-CANADIAN AUTO AGREEMENT. SINCE THE ITC RECOMMENDATION DOES NOT APPLY TO THESE DUTY-FREE FASTENER IMPORTS FROM CANADA, IMPLEMENTATION OF THAT RECOMMENDATION WOULD ONLY BENEFIT THE OTHER SECTORS OF THE FASTENER INDUSTRY THAT ARE IN SUCH DESPARATE STRAITS.

AMONG OTHER THINGS, IMPORT RELIEF WOULD HELP TO CORRECT A SERIES OF GOVERNMENT ACTIONS THAT HAVE CONTRIBUTED TO THE INDUSTRY'S IMPORT PROBLEMS OVER THE YEARS. THE COMMITTEE SHOULD BE AWARE OF THESE FACTORS IN CONSIDERING THIS CASE.

TO BEGIN WITH, THE UNITED STATES TARIFF STRUCTURE ITSELF PROVIDES AN INCENTIVE FOR THE IMPORTATION OF NUTS AND BOLTS. THIS IS CAUSED BY A TARIFF ANOMALY WHICH EXACTS A HIGHER EFFECTIVE DUTY ON STEEL WIRE ROD THAN ON NUTS AND BOLTS--THE FINISHED PRODUCTS MADE FROM WIRE ROD. THE IRONY IS THAT THIS INVERSION IN THE TARIFF STRUCTURE PRODUCES AN EFFECT TANTAMOUNT

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TO AN IMPORT SUBSIDY CONFERRED BY THE UNITED STATES GOVERNMENT ITSELF.

THE IMPORT OF NUTS AND BOLTS WAS FURTHER STIMULATED BY THE VOLUNTARY RESTRAINT ARRANGEMENTS ON STEEL WHICH WENT INTO EFFECT BY THE LATE 1960'S UNDER STATE DEPARTMENT AUSPICES. THOSE RESTRAINTS FORCED FOREIGN MILLS TO SHIP STEEL TO THE UNITED STATES MARKET IN THE FORM OF STEEL FASTENERS AND OTHER CONVERTED FORMS NOT COVERED BY THE AGREEMENT. STEEL FASTENER IMPORTS ROSE MARKEDLY AS THEY BECAME AN ALTERNATE CHANNEL FOR THE MOVEMENT OF STEEL IN INTERNATIONAL TRADE.

TO ADD INSULT TO INJURY, DUTY-FREE TREATMENT WAS EXTENDED TO NUTS AND BOLTS UNDER THE GENERALIZED SYSTEM OF PREFERENCES IN 1975.

NOW, THE TRIGGER PRICE MECHANISM IS DIVERTING FOREIGN STEEL INTO THE U.S. MARKET IN THE FORM OF INDUSTRIAL FASTENERS. WE REQUESTED THE TREASURY DEPARTMENT LAST NOVEMBER TO COVER STEEL NUTS, BOLTS AND LARGE SCREWS WITHIN THE SCOPE OF THE TRIGGER PRICE MECHANISM SO AS TO NEUTRALIZE ITS ADVERSE EFFECTS. THIS REQUEST WAS DENIED (SEE APPENDIX A) EVEN THOUGH TREASURY'S REPORT TO THE PRESIDENT ON THE STEEL PROGRAM RECOGNIZED THIS PROBLEM. THE REPORT OBSERVED:

"THE SYSTEM EXTENDS ONLY TO STEEL MILL PRODUCTS: HENCE, THERE IS SOME RISK THAT STEEL FABRICATIONS WILL SUBSTITUTE FOR THE MORE BASIC STEEL PRODUCTS IN U.S. IMPORTS, AS OCCURRED DURING THE QUANTITATIVE IMPORT RESTRICTIONS ON STEEL MILL PRODUCTS IMPOSED IN THE LATE 1960'S." SOLOMON REPORT TO THE PRESIDENT, "A COMPREHENSIVE PROGRAM FOR THE STEEL INDUSTRY" (DEC. 6, 1977) AT P. 19.

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THE DIVERSION OF STEEL INTO FASTENERS HAS ALREADY BEGUN. ONE EXAMPLE INVOLVES THE SALE OF STEEL WIRE ROD BY JAPANESE MILLS TO TAIWANESE FASTENER MAKERS AT DUMPING PRICES. THIS GIVES THE TAIWANESE FASTENER PRODUCERS A RAW MATERIAL COST ADVANTAGE OF SUBSTANTIAL PROPORTIONS. WE BELIEVE THAT THE RECENT, HEAVY INFLUX OF FASTENERS FROM TAIWAN IS LARGELY ATTRIBUTABLE TO THIS DUMPING PRACTICE. UNFORTUNATELY, THE ANTIDUMPING ACT IS WRITTEN IN SUCH A WAY THAT IT CANNOT BE USED TO ADDRESS THIS PROBLEM. SEE APPENDIX B.

IN ADDITION, THE GOVERNMENT HAS BEEN WOEFULLY REMISS IN DEALING WITH FOREIGN UNFAIR TRADE PRACTICES, EVEN IN THE FACE OF CONCLUSIVE EVIDENCE IN ITS POSSESSION. THIS FAILURE HAS HAD A SEVERE IMPACT ON FASTENER PRODUCERS. REMEMBER THAT ABOUT 75% OF OUR IMPORTS OF NUTS, BOLTS AND LARGE SCREWS COME FROM JAPAN.

THE TREMENDOUS GROWTH OF JAPANESE IMPORTS BEGAN IN THE MID-1960'S AS A RESULT OF A GOVERNMENT-INDUSTRY PROGRAM TO MODERNIZE, RATIONALIZE AND PROMOTE THE EXPORT COMPETITIVENESS OF JAPAN'S FASTENER INDUSTRY. THAT PROGRAM INCLUDED OFFICIALLY-ORDAINED EXPORT TARGETS FOR NUTS AND BOLTS AND THE SYSTEMATIC, GOVERNMENT-FINANCED ACQUISITION AND INSTALLATION OF THE MOST MODERN PRODUCTION MACHINERY AVAILABLE. A BROAD ARRAY OF EXPORT SUBSIDIES HELPED THE JAPANESE MANUFACTURERS TO REACH THOSE EXPORT TARGETS.

THERE IS NO QUESTION THAT THE PENETRATION OF THE UNITED STATES MARKET WAS THE PRIMARY OBJECTIVE OF THIS PROGRAM.\* ACCORDING TO THE ITC, 300 JAPANESE FIRMS PRODUCE FASTENERS EXCLUSIVELY FOR THE UNITED STATES MARKET, WHICH ACCOUNTS FOR ABOUT 80% OF ALL JAPANESE FASTENER EXPORTS.

MANY OF THESE SUBSIDY PRACTICES WERE DESCRIBED IN DETAIL IN A 1966 AIRGRAM FROM THE AMERICAN EMBASSY IN TOKYO.\*\* THIS WAS CIRCULATED THROUGHOUT THE U.S. GOVERNMENT, INCLUDING THE TREASURY DEPARTMENT WHICH IS RESPONSIBLE FOR ENFORCING THE COUNTERVAILING DUTY LAW. YET TREASURY TOOK NO ACTION TO PROTECT DOMESTIC INDUSTRIES FROM THIS FORM OF UNFAIR TRADE PRACTICE.

OUR INDUSTRY, THEREFORE, HAS BEEN COMPETING AGAINST THE GOVERNMENT OF JAPAN AND NOT JUST THE JAPANESE INDUSTRY. IT MUST BE REMEMBERED THAT OUR INDUSTRY IS FRAGMENTED. MOST OF OUR COMPANIES ARE SMALL. OUR TRADE ASSOCIATION DOES NOT MAINTAIN WASHINGTON OFFICES. IT DOES NOT HAVE THE WHEREWITHAL TO MONITOR UNFAIR TRADE PRACTICES ABROAD. FOR THAT REASON, WE DID NOT LEARN OF THESE SUBSIDY PRACTICES UNTIL 1975, WHEN IT WAS TOO LATE TO DO MUCH ABOUT IT. THE JAPANESE INDUSTRY HAD ALREADY REAPED THE BENEFITS. IT HAD ALREADY ACHIEVED GREAT ECONOMIES OF SCALE AND COMPETITIVE STRENGTH--AT OUR EXPENSE.

THE 1977 U.S. TRADE DEFICIT WITH JAPAN WAS ABOUT \$9.5 BILLION (JAPANESE FASTENERS ACCOUNT FOR CLOSE TO ONE

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\* A MORE DETAILED DESCRIPTION OF JAPAN'S FASTENER PROGRAM IS IN APPENDIX C.

\*\* A COPY OF THE 1966 AIRGRAM IS IN APPENDIX D.

QUARTER OF A BILLION DOLLARS OF THAT DEFICIT). THE MAGNITUDE OF THE DEFICIT HAS CAUSED THE YEN TO APPRECIATE SUBSTANTIALLY AGAINST THE DOLLAR. BY THE END OF 1977 THE YEN HAD APPRECIATED BY ABOUT 22%. THIS HAS PROVIDED NO RELIEF, HOWEVER, BECAUSE THE PRICES OF JAPANESE NUTS AND BOLTS HAVE NOT REFLECTED THE INCREASE IN THE VALUE OF THE YEN.

WE ARE SPEAKING TO YOU TODAY, MR. CHAIRMAN, ON BEHALF OF 12,500 AMERICAN WORKERS STILL DIRECTLY EMPLOYED IN OUR INDUSTRY. THE FATE OF OUR COMPANIES ARE IN SIMILAR JEOPARDY, AS ARE THE TAX REVENUES WE NOW PAY AT THE LOCAL, STATE AND FEDERAL LEVELS. THOUSANDS OF JOBS IN SUPPLIER INDUSTRIES ARE ALSO AT STAKE.

EQUALLY IMPORTANT, MR. CHAIRMAN, IS THE NATIONAL SECURITY OF THE UNITED STATES ITSELF. THESE FASTENERS ARE INDISPENSABLE TO THE PRODUCTION OF MILITARY HARDWARE AND VIRTUALLY EVERY TYPE OF ESSENTIAL CIVILIAN MANUFACTURING OR CONSTRUCTION ACTIVITY IN OUR ECONOMY.

WE APPEAL TO THIS COMMITTEE. WE URGE THIS COMMITTEE FOR ALL THE REASONS WE HAVE PRESENTED TODAY TO SUPPORT SENATE CONCURRENT RESOLUTION 66. THANK YOU, MR. CHAIRMAN.

## UNITED STATES FASTENER MANUFACTURING GROUP

EVALUATION  
OF THE  
PRESIDENT'S STATEMENT OF REASONS FOR  
DENYING IMPORT RELIEF

On February 10, 1978, the President transmitted a document to both Houses of Congress entitled "Import Relief Action: Bolts, Nuts and Large Screws." That document sets forth the "reasons" why the President rejected the import relief recommended by the U.S. International Trade Commission under the escape clause provisions of the Trade Act of 1974.

As shown below, the denial of import relief in this case is totally unwarranted. Favorable action on S.Con.Res. 66 (to disapprove the denial of import relief) would not only provide temporary relief for an industry whose survival is clearly in the national interest, but would also demonstrate that Congress intends to exercise its Constitutional authority over trade policy.

Point-by-Point Rebuttal

The "reasons" for denying import relief are contained in six numbered paragraphs, although several points may be covered by a single paragraph. There are ten identifiable points in the President's statement which are quoted and answered below:

1. "USITC reported domestic producers' shipments and exports had increased in 1976 and the first half of 1977."

In 1975 the United States experienced its worst economic slump in almost 40 years. Producers' shipments of bolts, nuts and large screws dropped by 33% during that year. Imports, nevertheless, increased their share of the U.S. market. In the 1976 recovery year, imports grew by 32% while producers' shipments only grew by 7.5%--despite the record increase in automotive production that year.

It gives a false impression to say that producers' shipments (which include exports) are up, when the point of reference (1975) is an 8-year low. The fact is that the level of producers' shipments in 1976 and in 1977 were even lower than they were in 1969. At the same time imports continued to enlarge their market share. In addition, producers' shipments in the second half of 1977 declined by an estimated 10% to 15% from the first half.

This "reason" in effect reopens the question whether the domestic industry is seriously injured. The ITC has already determined, after a six-month investigation, that the serious injury test has been met. The ITC is the agency charged with making that determination under the law. It is highly inappropriate for the Executive Branch to substitute its judgment for that of the ITC on this question, and to deny relief on that basis.

2. "[D]omestic producers' rates of return on sales were above the corresponding ratios for producers of all fabricated metal products and for all manufacturing corporations."

Whether a particular industry's profitability is healthy or not depends, in large part, on its capital intensity. The fastener industry is highly capital-intensive. Its profits have been falling for three successive years. On the basis of return on capital or investment--a more meaningful measure of performance than return on sales--the domestic fastener industry is considerably less profitable than similar industries, including the fabricated metal products sector.

Industry profit on sales for all of 1977 is estimated at about 6% pretax--about the same level experienced by the domestic footwear industry when it received import relief.

Again, reference to the return on sales cannot legitimately be cited as a reason for denying relief, since it relates to the seriousness of the injury concerned--a matter within the jurisdiction of the ITC.

3. "Domestic producers or their wholly-owned subsidiaries imported 20-25% of total 1976 shipments of imported fasteners in the U.S."

This fact dramatizes the extent of import displacement of domestic production--the very condition which the escape clause provisions seek to remedy. It supports the need for import relief, rather than the denial of relief.

Domestic producers face a terrible dilemma. They must either abandon domestic production altogether, or try to offset unprofitable operations with profits from importing activities. This becomes a vicious cycle, however, because of the fixed costs associated with capital-intensive fastener production. As the volume of domestic production drops, unit costs rise, making domestic production even less attractive. This in turn leads to additional substitution of imported products for domestic production.

Thus, the importation of fasteners by producers provides further evidence of the domestic industry's rapid deterioration.

4. "The domestic industry, particularly firms specializing in the production of automotive fasteners, has and should continue to benefit from increased U.S. consumption of fasteners."

Virtually all imports of fasteners used in automotive production come from Canada under the terms of the U.S.-Canadian Auto Agreement. These imports are excluded from the ITC's findings and recommendations. Consequently, the rationale for denying relief is untenable, since import relief would not apply to such automotive fastener imports.

With regard to the domestic fastener industry in general, all the evidence points to a rapid worsening of prospects. According to the ITC, imports have steadily increased their share of the domestic market whether consumption has

been robust or slack. Since 1969 the import market share has increased in each and every year without exception.

During the second half of 1977, the following plant closings or cutbacks were announced:

- July 1977. Federal Steel and Wire Corp. stopped production of track nuts and bolts at its Cleveland, Ohio plant.
- August 1977. Bethlehem Steel discontinued operations at its Lanham Bolt Division plant in East Chicago, Indiana.
- September 1977. Stanadyne announced the closing of its bolts and cap screw plant in Elyria, Ohio. Some of the machinery is to be used in another plant; the rest is to be sold or scrapped.
- December 1977. Standard Pressed Steel of Jenkintown, Pennsylvania, announced that its Cleveland Cap Screw Division will terminate production of all standard cap screws. Five warehouses used for the distribution of such cap screws will be sold.
- December 1977. The AVC Corporation initiated the shutdown of its nut-making facility in Cleveland, Ohio.

It is quite apparent, then, that the domestic industry is not benefitting from increased consumption. There is every reason to expect that the domestic industry will continue its downward course at an accelerated pace. Failure to grant import relief would convey an unmistakable message to foreign producers--and to domestic producers--that the United States is content to see its fastener industry sacrificed. That message will ensure the collapse of the domestic industry.

5. "Provision of import relief would have significantly increased cost of fasteners for U.S. manufacturers who use fasteners to produce cars, machinery, equipment, and construction items."

As previously stated, imported fasteners used in automotive production would not be affected by the ITC remedy because it would not apply to imports of fasteners under the U.S.-Canadian Auto Agreement. Canada is the country of origin of virtually all imported fasteners used in automotive production in the United States. This can hardly be a valid reason for denying import relief.

With respect to other imported fasteners, it is reasonable to assume that at least part of the added tariff would be passed forward in the price of the product. Any import relief measure has the effect of increasing the cost of the imported product to some extent. That is precisely its purpose. There is no form of import relief which would not raise the cost of the imported products concerned. Consequently, the fact that import relief will likely have an impact on the price of imports cannot be a valid reason to deny import relief. Otherwise, import relief would have to be denied in each and every case--a result that Congress did not intend.

Because nuts, bolts and large screws are generally intermediate industrial products, import relief could only have a modest effect on the total price of end-products which use such imported fasteners.

6. "Inflationary impact of providing relief could cause unemployment in other U.S. industries, offsetting gains in fastener employment if import relief had been imposed."

The statement that import relief "could" cause unemployment in other U.S. industries is purely speculative. To deny import relief on such a nebulous and unsubstantiated basis is plainly unfair.

In contrast there are reasonably solid grounds to conclude that implementation of the ITC recommendation would not only avoid additional layoffs within the industry, but could restore approximately 2,500 jobs previously lost to imports. It is estimated that the ITC recommendation would enable the domestic industry to produce an additional 110,000,000 pounds of bolts, nuts and large screws per year over the next five years. Taking market growth and foreign cost increases into account, it is reasonable to expect that the average additional domestic production would be about 150,000,000 pounds per year. The bulk of this additional production would be in the more popular size ranges. The rule of thumb within the domestic industry is that one worker would produce about 60,000 pounds of these fasteners per year. On that basis, one can easily calculate that a 150,000,000 pound increase in production would create 2,500 jobs. This figure, of course, does not include another 800 or so jobs created by the "ripple effect" in the economy.

Since 1969 the domestic industry has lost an average of 1,000 jobs per year. On the basis of that pattern, one can reasonably expect that in the absence of import relief 5,000 jobs would be lost over the next 5 years. Thus, the number of jobs saved, plus the number of jobs created, by import relief would be about 7,500. Since the average annual wage of the highly-skilled workers in the industry is \$12,600, import relief could contribute \$96 million to the economy annually. This more than offsets any additional cost of importing fasteners.

Another offset derives from the fact that the tariff would provide revenue for the Government, thereby reducing its need to borrow. Another source of revenue would be the taxes on the earnings of fastener workers whose jobs would be saved or created. Import relief would also serve to reduce spending by the state, local and federal governments for unemployment compensation and related programs.

It should also be noted that the increased volume of domestic production resulting from import relief would facilitate more efficient use of plant and equipment, therefore lowering the unit cost of domestic fasteners--a savings that will ultimately be reflected in domestic producers' prices. Because of the 50% excess capacity and the keen competition within the industry, any price rise by domestic producers is likely to be moderate.

7. "Department of Labor has stated reemployment prospects for unemployed fastener workers are fair since many of these workers are located in areas with unemployment rates below national average."

Rather than justifying the denial of import relief, the fact that reemployment possibilities for laid-off fastener workers are only fair actually highlights the need for import relief. Even the conclusion that reemployment prospects are fair is doubtful because it ignores the high level of skill possessed by production workers in the fastener industry. It takes from 6 to 18 months of training for such production workers to become proficient in their job. The Labor Department study does not attempt to determine to what extent laid-off fastener workers have been reemployed or what kind of jobs might be available for them.

8. "Provision of import relief would subject U.S. jobs in other industries to possible foreign retaliation against U.S. exports or compensation by the U.S. by lessening U.S. import restrictions on other products."

The possibility of foreign retaliation or demands for compensation is always present when escape clause action is taken. Congress knew this when it enacted the escape clause provisions. Such a possibility, therefore, could not be a valid reason to deny import relief.

In the fastener case there is far less chance of retaliation or compensation demands for the simple reason that

75% of U.S. fastener imports come from Japan. In 1977 the United States had a \$9.5 billion trade deficit with Japan. Under those circumstances the likelihood that the Japanese would retaliate or seek compensation would seem to be extremely remote.

The fact that Japanese fasteners have captured so large a share of the American market is attributable to a government-industry plan to promote the modernization and export competitiveness of the Japanese fastener industry. Implementation of the plan was characterized by extensive governmental financing of machinery purchases and a wide array of export aids. The United States has never retaliated or received compensation for the depredations of the American fastener industry occasioned by the Japanese program. Import relief in this case would serve to compensate for the deleterious effects of that program. Those effects include the undermining of the national security interests of the United States.

9. "Import relief would adversely affect U.S. international economic interests, particularly in light of U.S. efforts to reduce trade barriers in the multilateral trade negotiations."

The fact that trade negotiations are in progress cannot be a legitimate reason to deny import relief. Since Congress liberalized the escape clause provisions at the same time and in the same statute that it authorized the President

to conduct trade negotiations, it is evident that this "reason" contravenes the intent of Congress.

10. "The appreciation of the yen during 1977 will alleviate competitive pressures from Japanese fastener exports to the U.S. Imports from Japan have comprised about three-fourths of total U.S. fastener imports in recent years."

The appreciation of the yen since the beginning of 1977 has had little effect on the price of fasteners imported from Japan. For example, the average unit value of bolts imported from Japan in January 1977 was 30 cents per pound. The average unit value of Japanese bolts for all 1977 was exactly the same--30 cents per pound. Yet the Japanese yen appreciated by more than 20% during 1977.

The average unit value of nuts from Japan was 44 cents per pound in January 1977. Again, the average unit value for the whole year remained unchanged. Accordingly, the suggestion that the import problems of the American fastener industry have been solved by the appreciation of the yen is demonstrably invalid.

The yen appreciation is apparently being absorbed by Japanese fastener makers, or more likely, by Japanese steel mills anxious to move their steel to the United States market in and form. The implementation of the Trigger Price Mechanism will further encourage the Japanese steel industry to export steel to the United States in the form of fasteners which are not subject to the Trigger Price Mechanism.



- 2 -

Shipments, Imports, Exports, Consumption  
(Value and Ratios)

CB Radios (USITC Pub. 852, p. A-46)

Period	U.S.	Imports	Exports	Apparent	Ratio of imports to--	
	shipments <sup>1/</sup>			consumption	U.S.	Consumption
					shipments	tion
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	Percent	Percent
	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>		
1972-----	10,843	36,671	300	47,214	338	78
1973-----	18,076	44,130	300	61,906	244	71
1974-----	32,636	87,299	420	119,515	267	73
1975-----	74,714	251,335	1,104	324,945	336	77
1976-----	102,246	<u>839,302</u>	1,987	939,561	821	89
Jan.-June--						
1976-----	61,569	386,844	1,059	447,354	628	86
1977-----	32,156	279,670	4,645	307,182	870	91

<sup>1/</sup> Refers only to shipments of U.S.-made CB transceivers.

Nuts, Bolts and Large Screws (USITC Pub. 847, p. A-53)

Type and period	Producer	Im-	Ex-	Apparent	Ratio (percent) of	
	shipments	ports <sup>1/</sup>	ports <sup>2/</sup>	consumption	imports to--	
					Shipments	Apparent
	Value					
	*	*	*		\$	Lbs
1969-----	733,397	69,198	46,503	756,092	9	21
1970-----	670,603	85,900	45,376	711,127	13	24
1971-----	660,934	82,339	44,691	698,582	13	25
1972-----	768,664	113,466	51,436	830,674	15	27
1973-----	905,972	166,348	66,042	1,006,278	18	28
1974-----	1,167,777	388,222	95,732	1,460,267	33	36
1975-----	923,881	227,128	101,251	1,049,758	25	39
1976-----	946,397	<u>259,790</u>	107,055	1,099,132	28	44
January-June--						
1976-----	484,288	112,853	54,062	545,074	23	41
1977-----	543,847	150,434	59,430	614,651	28	43

Ratio of Net Operating Profit to Net Sales  
(Percent)

CB Radios (USITC Pub. 852, p. A-48)

1972	1973	1974	1975	1976	1977
18.3	18.7	18.6	22.9	7.2	(24.4)

Nuts, Bolts and Large Screws (USITC Pub. 847, p. A-56)

1972	1973	1974	1975	1976	January- June 1977
5.4	9.4	17.1	14.7	11.4	10.4

Employment

CB Radios (USITC Pub. 852, p. A-17)

Item	1972	1973	1974	1975	1976	January- June--	
	1976	1977					
Average number of:							
all employees--	1,810	2,191	2,894	3,941	6,098	6,289	4,519
Average number							
of production							
and related							
workers in CB--	269	406	725	1,651	3,389	3,312	2,061

- 4 -

Employment  
(Contd.)

Nuts, Bolts and Large Screws (USITC Pub. 847, p. A-57)

Period	: Total, all employees	: Production and related workers engaged in the production of--			: Total
		: All products	: Bolts, and large screws	: Nuts	
1969-----	43,457	34,154	1/	1/	20,232
1970-----	40,639	32,541	1/	1/	18,746
1971-----	38,624	30,744	1/	1/	17,210
1972-----	40,073	32,262	1/	1/	16,858
1973-----	42,092	33,791	1/	1/	17,536
1974-----	42,342	34,497	13,008	4,382	17,390
1975-----	35,101	26,977	10,016	3,357	13,373
1976-----	34,339	27,080	9,690	3,387	13,077
1977 (January-June)-----	34,509	27,011	9,510	3,393	12,903

1/ Not available.

CHARTS

- CHART 1 - NUTS, BOLTS AND LARGE SCREWS: IMPORTS AND PRODUCERS' SHIPMENTS, 1969-1977
- CHART 2 - NUTS, BOLTS AND LARGE SCREWS: U.S. IMPORTS BY QUARTER, 1975-1977
- CHART 3 - SELECTED INDEXES OF INDUSTRIAL PRODUCTION AND IMPORTS OF NUTS, BOLTS AND LARGE SCREWS
- CHART 4 - NUTS, BOLTS AND LARGE SCREWS: INDEXES OF IMPORTS, EMPLOYMENT AND MAN-HOURS WORKED, 1969-1977
- CHART 5 - DOMESTIC PRODUCERS' AND IMPORTERS' SHARE OF APPARENT U.S. MARKET FOR BOLTS, LARGE SCREWS AND NUTS BY WEIGHT
- CHART 6 - BOLTS, NUTS AND LARGE SCREWS: DETERMINANTS OF IMPORT DEMAND BY QUARTERS, JANUARY 1972-JUNE 1977

CHART I

**NUTS, BOLTS, AND LARGE SCREWS:  
IMPORTS AND PRODUCERS' SHIPMENTS, 1969-1977**

MILLIONS OF POUNDS

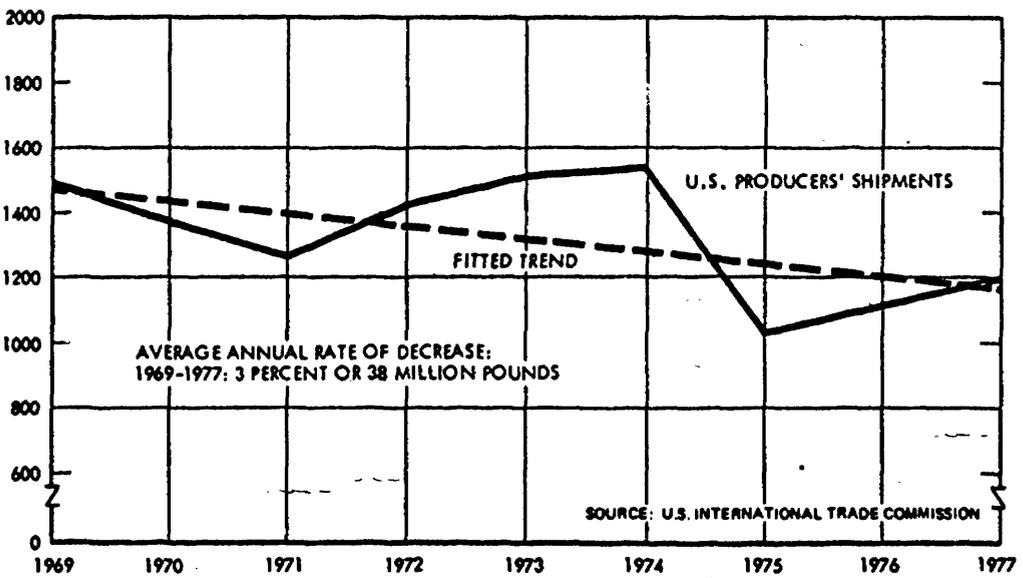
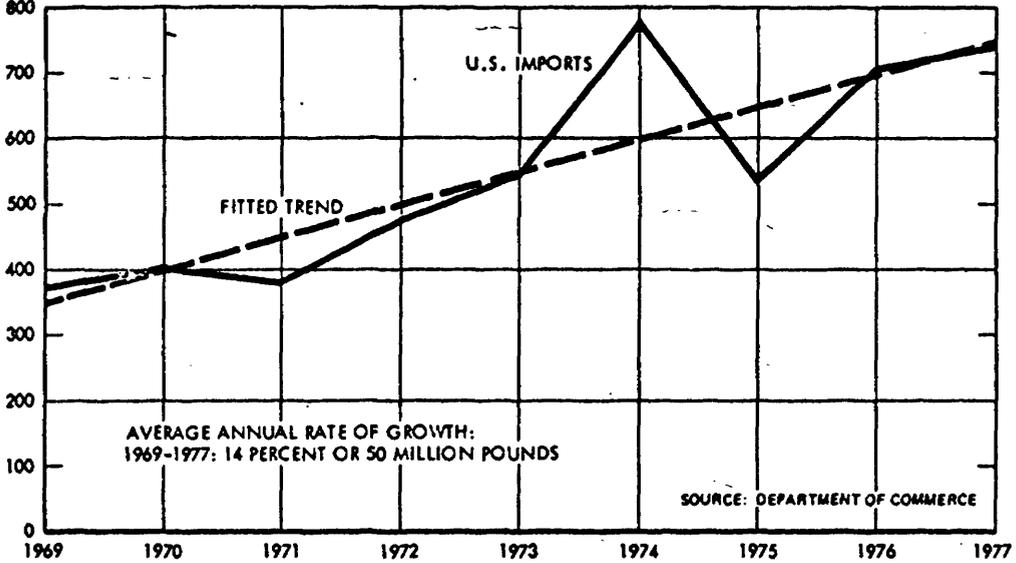


CHART 2

NUTS, BOLTS, AND LARGE SCREWS:  
U.S. IMPORTS BY QUARTER, 1975-1977

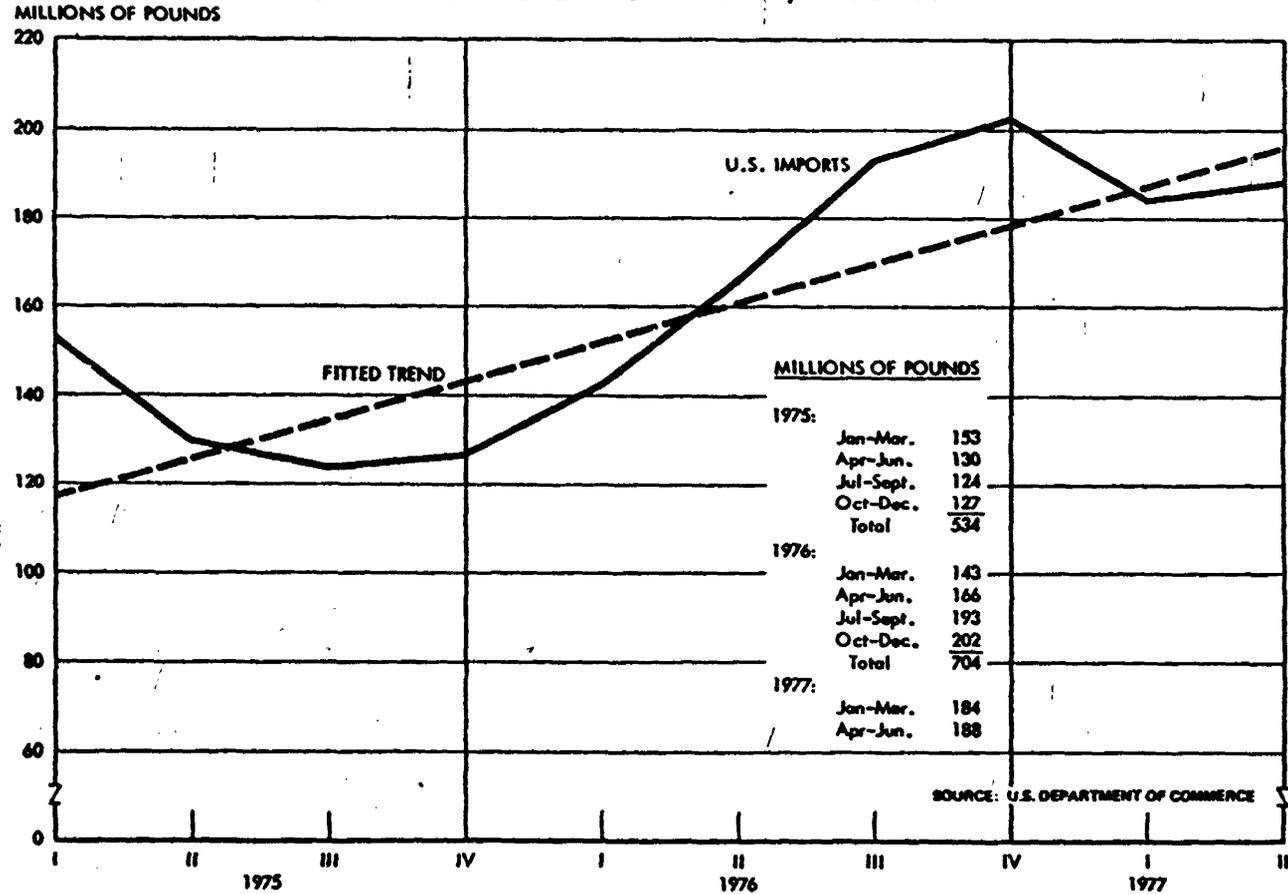


CHART 3

### SELECTED INDEXES OF INDUSTRIAL PRODUCTION AND IMPORTS OF NUTS, BOLTS AND LARGE SCREWS

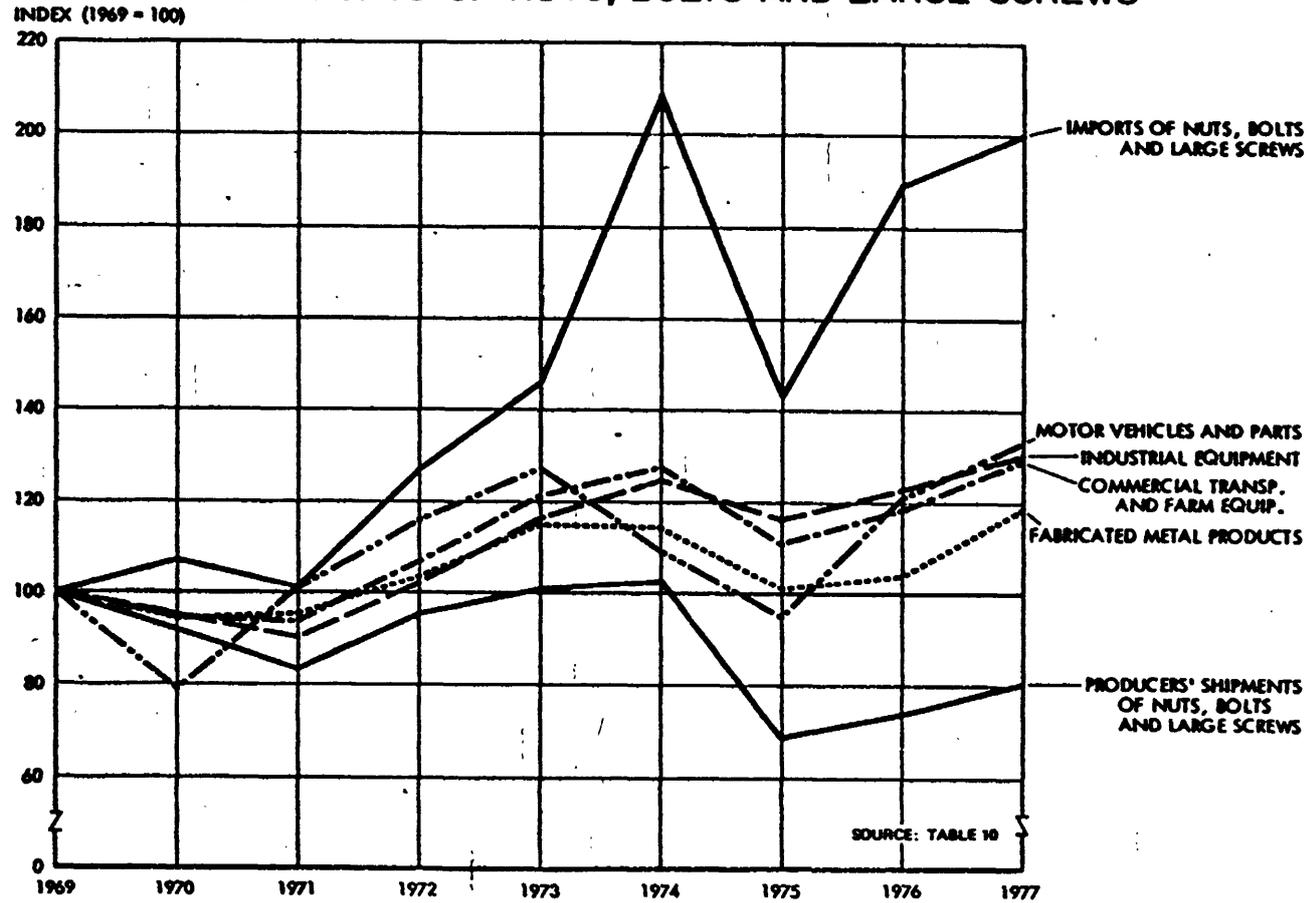


CHART 4

NUTS, BOLTS AND LARGE SCREWS: INDEXES OF IMPORTS,  
EMPLOYMENT AND MAN HOURS WORKED, 1969-1977

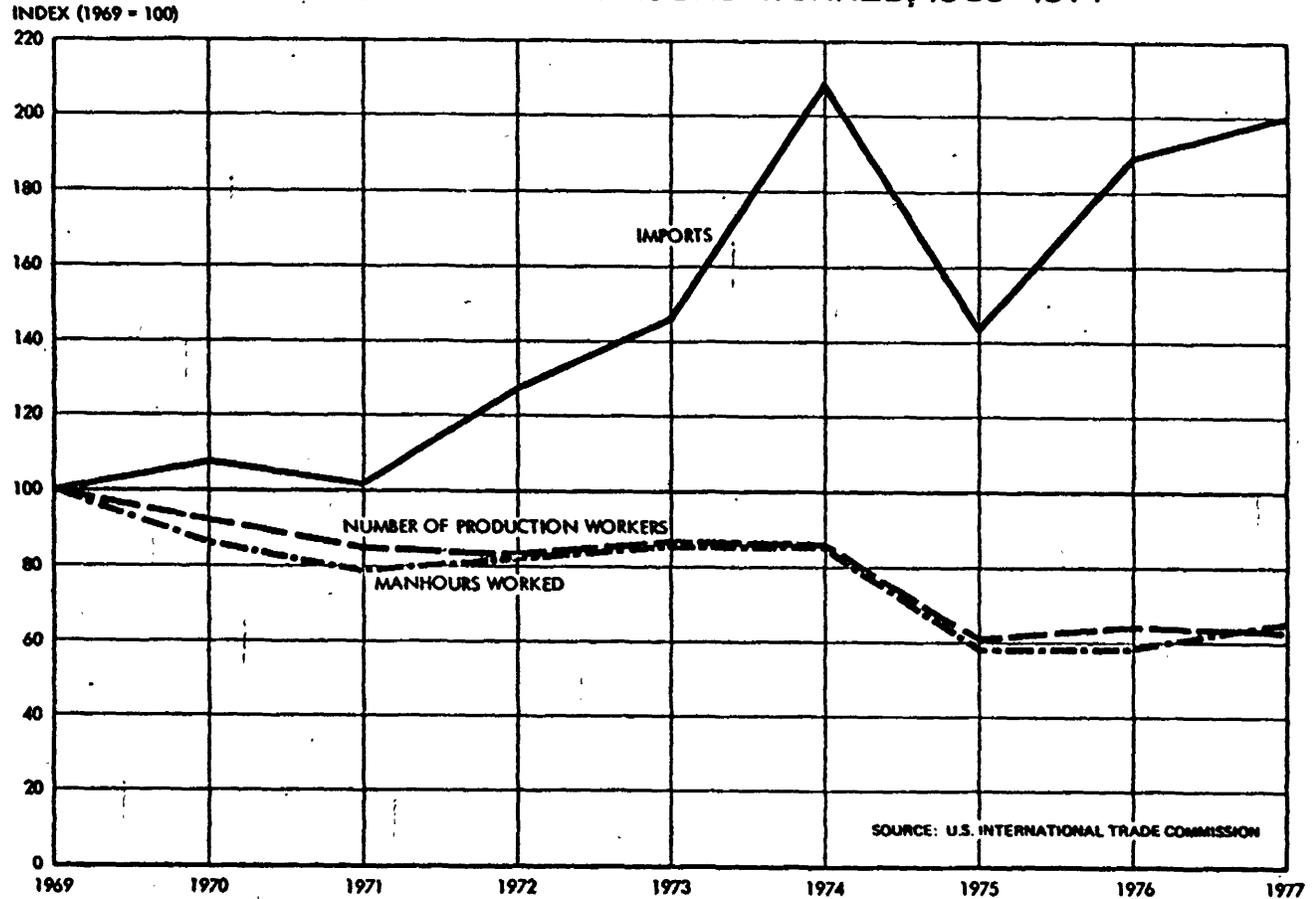
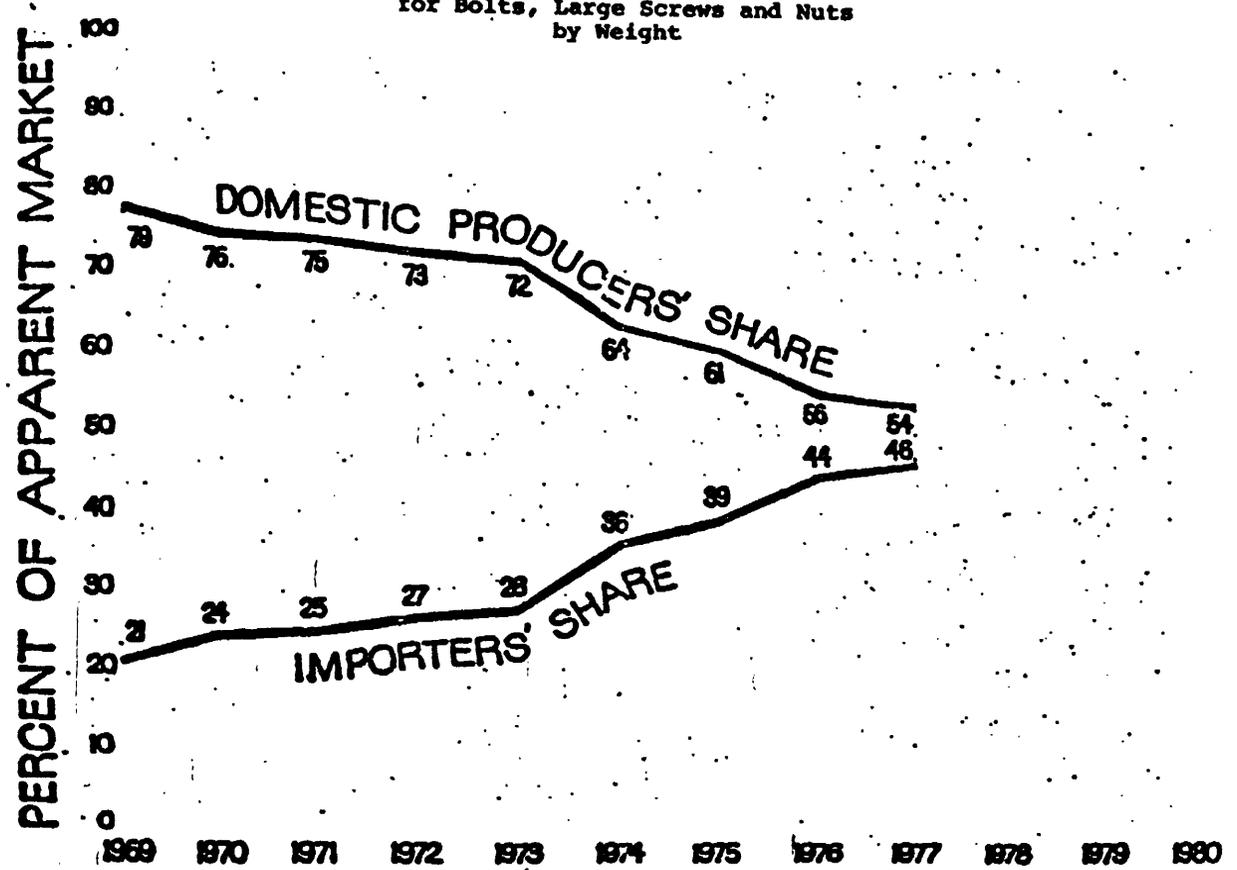


CHART 5

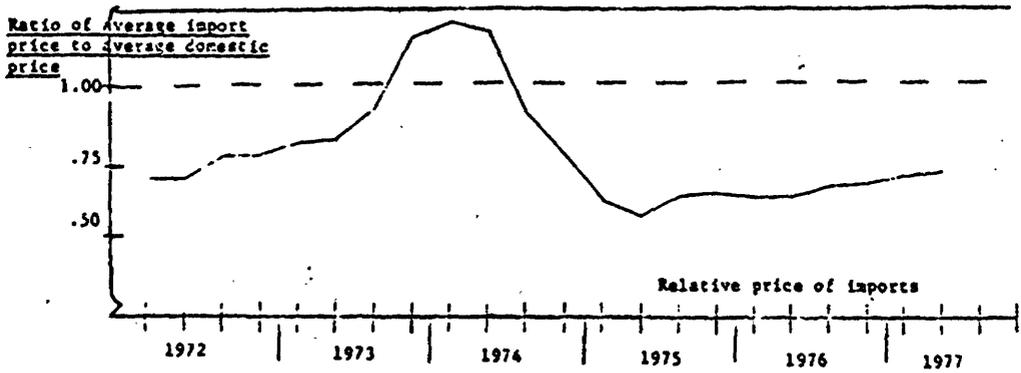
DOMESTIC PRODUCERS' and IMPORTERS' SHARE  
of APPARENT U.S. MARKET

for Bolts, Large Screws and Nuts  
by Weight



## CHART 6

Bolts, nuts, and large screws: Determinants of import demand by quarters,  
January 1972-June 1977



SOURCE: USITC Publication 847, p. A-32

HEARINGS BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE  
OF THE SENATE FINANCE COMMITTEE  
ON NUTS, BOLTS AND LARGE SCREWS

(APRIL 4, 1978)

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APPENDICES

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TO THE STATEMENT OF  
DAVID A. SPOEHR  
ON BEHALF OF THE  
UNITED STATES FASTENER MANUFACTURING GROUP



THE UNDER SECRETARY OF THE TREASURY  
FOR MONETARY AFFAIRS  
WASHINGTON, D.C. 20220

DEC 16 1977

Dear Mr. Feller:

This is in response to your letter of November 17 concerning the potential problem of increased U.S. imports of steel fasteners as an alternative outlet for foreign steel wire rod to avoid the trigger price system for carbon and alloy steel imports.

As Frank Vukmanic has discussed with you and with other members of the steel fastener industry and as our steel report to the President states, we fully recognize the potential problem of product upgrading and the risk that steel fabrications may substitute for the more basic steel products in U.S. imports, as occurred during the quantitative import restrictions on steel mill products imposed in the late 1960s. The Customs Service Task Force implementing the trigger price system will be alerted to these problems. Should sales of fabrications or top-of-the-line items provide significant opportunities for evasion of the intended relief of the system, appropriate action will be taken.

I appreciate your concern over this possible problem and can assure you that we will respond effectively should it occur.

Sincerely yours,

*Anthony M. Solomon*  
Anthony M. Solomon

Mr. Peter Buck Feller  
McClure & Trotter  
Suite 600  
1100 Connecticut Avenue  
Washington, D.C. 20036

# NOTE

THIS MICROFICHE MEETS THE QUALITY REQUIREMENTS OF THE AMERICAN NATIONAL STANDARD FOR MICROFICHE OF DOCUMENTS (ANSI PH5.9-1975).

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OVERSIGHT OF THE ANTIDUMPING ACT OF 1921

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON TRADE  
OF THE  
COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES  
NINETY-FIFTH CONGRESS  
FIRST SESSION  
ON  
THE ADEQUACY AND THE ADMINISTRATION OF THE  
ANTIDUMPING ACT OF 1921

---

NOVEMBER 8, 1977

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Serial 95-16

---

Printed for the use of the Committee on Ways and Means



## STATEMENT OF THE UNITED STATES FASTENER MANUFACTURING GROUP

## SUMMARY

The statement recommends an amendment to close a loophole in the Antidumping Act. That loophole permits raw materials to be dumped by one foreign country in another foreign country where the materials are converted for shipment to the United States market.

## STATEMENT

The United States Fastener Manufacturing Group wishes to bring to the Committee's attention a particular dumping practice that can be harmful to American industries, but which cannot be remedied by the existing provisions of the Antidumping Act.

This practice involves the dumping of raw materials by Country A into Country B, where they are converted to finished products exported to the United States. In that way, manufacturers in Country B are able to obtain raw materials at a lower cost than they could in the absence of such dumping. This enables them to charge a lower price on sales of the finished products in the United States market in competition with the same kind of products made by American manufacturers.

*Taiwanese fasteners a conduit for Japanese dumping of wire rod*

Evidence of this practice was elicited in hearings before the International Trade Commission held on September 29 and 30, 1977, in an escape clause case involving bolts, nuts and large screws (Investigation No. TA-201-27). A witness representing the fastener industry of Taiwan stated that Japanese mills were selling low-carbon steel wire rod (the raw material for most fastener manufacturing) to Taiwanese fastener manufacturers at about 11 cents per pound, CIF Taiwan. Earlier a witness for the American industry presented evidence that Japanese mills were selling low-carbon wire rod for consumption in Japan at an ex mill price of about 13 cents per pound. It is apparent, then, that the wire rod price to Taiwan is a dumping price.

Since a substantial proportion of the fasteners produced in Taiwan are shipped to the United States, the net effect is that Taiwanese fasteners represent a conduit for the dumping of Japanese wire rod in the United States. The principal impact of that dumping practice, however, is on the American fastener producers.<sup>1</sup>

*Loophole in the Antidumping Act*

The Antidumping Act does not provide a remedy for the dumping practice described above. Oddly enough, section 201(a) of the Act is written in terms of a determination:

"That a class or kind of foreign merchandise is being, or is likely to be, sold in the United States or elsewhere at less than its fair value . . ."

We do not know why the phrase "or elsewhere" was included. At first blush it suggests that the situation described herein is covered by the Act. However, the technical provisions of the Act require the price of the imported article (the Taiwanese fasteners) to be compared with the price of such fasteners sold for consumption in the home market (Taiwan) or in third-country markets (or with their constructed value where appropriate). Whether the Japanese steel wire rod is being sold in Taiwan at a dumping price is immaterial. As a result, this type of dumping can be practiced with impunity because of this loophole in the Antidumping Act.

*Suggested amendment*

We believe that this type of third-country dumping of raw materials to be sold in the United States in converted form is an unfair trade practice. We urge the Committee to amend the Antidumping Act to provide an effective remedy against it. A closely analogous precedent for dealing with such converted products appears in the Countervailing Duty Law (19 USC 1363). Some of the language in that law could appropriately be added to the first sentence in section 201(a) of the Antidumping Act (19 USC 1601a), as follows:

"Whenever the Secretary of the Treasury (hereinafter called the "Secretary") determines that a class or kind of foreign merchandise is being, or is likely to be, sold in the United States or elsewhere at less than its fair value, *whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by manufacture or otherwise*, he shall so advise the United States International Trade Commission (hereinafter called the "Commission"), and the Commission shall determine within three months thereafter whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States." (The suggested new material is italicized.)

Conforming amendments would, of course, have to be made in the more technical provisions of the Act.

We hope the foregoing will prove useful to the Subcommittee in its consideration of "the adequacy of the existing statute to deal with the problems of unfair import pricing practices."

<sup>1</sup>It should also be noted that there is no wire rod production in Taiwan.

## APPENDIX C

## HOW JAPAN CAPTURED A MAJOR SHARE OF THE U.S. FASTENER MARKET

About 80% of Japanese fastener exports are sold to customers in the United States. Since 1964, imports of nuts, bolts and cap screws from Japan began to "take off." That growth was, and is, the result of concerted action by the Japanese fastener industry and the Government of Japan. The penetration of the U.S. fastener market was the primary objective of a Japanese master plan apparently adopted in the early 1960's. That plan called for the "hot house" development or "rationalization" of the Japanese fastener industry by means of government-supervised standardization, government-assisted quality control, government-funded acquisition of advanced production machinery, and a whole variety of governmental subsidies and incentives to promote the modernization and export-competitiveness of the industry. That blueprint was described in a publication of the Fasteners Institute of Japan, entitled "Industrial Fasteners in Japan" (1964), as follows:

The government, under Mechanical Industry Development Temporary Measure Law, has set up a plan to install, in 1964, new machines to expedite the progress of fasteners industry. Part of funds required for the installation of new machines will be financed by the government." \* (p. 6)

\* This publication is undated, but the statistical information and export target figures it contains, when compared to another publication of the Fastener Institute of Japan, entitled "Industrial Fasteners in Japan - 1965," suggests the probability that the undated publication was issued in 1964.

This document sets forth officially-ordained export target figures for bolts and nuts for the period April 1964 to March 1965.

The export target figures are prefaced by the following statement:

"The liberalization of foreign trade, set out by Japanese government helped by its policy for encouragement of exports, gives way for increased outflow of fasteners products to foreign countries." \*\* (p. 14)

This document goes on to specify that, under the government's plan to achieve its export targets, a total of 902 machines were to be installed in 1964.

The breakdown of that total was as follows:

<u>Number</u>	<u>Name</u>
482	<u>Metal machine tools</u> (including centerless grinders, high-speed lathes, thread rolling machines, and automatic nut tapping machines)
285	<u>Metal machine tools other than the above</u> (including cold headers, hot headers, automatic nut presses, cold nut formers, and trimming machines)
65	<u>Testing equipment</u> (including torsion testing machines, length measuring machines, screw threading testing microscopes, fluorescent flow detector and magnaflux testing machines, and metal composition analyzing apparatus)
70	<u>Other machines</u> (including cold hopping presses, shot blasting and peening machines, and heat treatment facilities)

\*\* Export targets for bolts and nuts in the following 12-month period were published in a report of the Fasteners Institute of Japan, entitled "Industrial Fasteners in Japan - 1965" at p. 12.

The effect of the acquisition and installation of the new machinery described above was both immediate and dramatic. United States imports of Japanese nuts, of iron or steel, jumped by 100% in 1965. Bolt imports from Japan rose by 33%; and cap screw imports from Japan rose by 72% in that year. Implementation of the Japanese master plan produced a rise of some 1,092% in bolt exports to the United States between 1964 and 1974. During the same period, Japanese nut exports to the United States rose by 2,479%; while Japanese cap screw exports to the United States rose by 4,070%.

DEPARTMENT OF STATE

# AIRGRAM

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AmConGen KCBE/CSAKA/YOKOHAMA  
AmConsul FUKUOKA/SAPPORO

PASS FROM : Department of Commerce (6 copies)  
AmConsul NAGOYA

SUBJECT : Japan's Export Promotion Techniques

REF : Nagoya's A-2 of July 19, 1965  
TO 15 Com

1966 MAR 11 12 12

DATE: March 4, 1966

*Japan 9*

*See attached*

*A-1, 7/13/65 for*

*notifications*

SUMMARY

1. FAVORABLE TAX TREATMENT

- A. Reserve for Foreign Market Development
- B. Small and Medium Enterprise Reserves for Foreign Market Development
- C. Special Depreciation Allowances
- D. Reserve for Overseas Investment Losses
- E. Special Exemption for Technical Exports
- F. Entertainment Expenses for Buyers
- G. Tariff Refund for Exporters

2. SPECIAL FINANCIAL TREATMENT

- A. Export Financing System for Cooperatives
- B. Export Bill Trade System
- C. Foreign Exchange Fund Loan System
- D. Japan Export-Import Bank
- E. Overseas Economic Cooperation Fund
- F. Japan Development Bank
- G. Export Promotion Loan System for Designated Smaller Enterprises

3. EXPORT INSURANCE SYSTEMS

- A. Ordinary Export Insurance
  - i. Individual Insurance
    - a. For the Exporter

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Classification Approved by: *[Signature]*

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Page 2 of Nagoya's A-16

- b. For the Manufacturer
- c. Against Increased Costs

ii. Group Floater Insurance

- B. Export Price Insurance
- C. Export Bill Insurance
- D. Export Loan Insurance
- E. Consignment Sale Export Insurance
- F. Overseas Advertisement Insurance
- G. Insurance on Principal of Overseas Investments
- H. Insurance on Interest from Overseas Investments
- I. Distribution Pattern of Export Insurance

4. JAPAN EXTERNAL TRADE ORGANIZATION (JETRO)

- A. Market Research
- B. Advertising of Japanese Export Products
- C. Design Improvement
- D. Credit Investigation Services
- E. Domestic Services
- F. Budget

ANNEX: Japanese Laws Relating to Trade Promotion Activities

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Page 3 of Nagoya's A-16

This report complements Nagoya's A-2 of July 19, 1965 entitled Export Promotion Measures of Local Government, which describes the export promotion measures of local governments in Japan. In addition to the practices outlined in these reports, many manufacturer and industrial associations carry on a variety of export promotion activities on behalf of their members.

#### SUMMARY

The Japanese Government promotes exports by offering a comprehensive system of inducements centering on (1) favorable tax treatment, (2) special financial treatment, (3) a complete export insurance system, and (4) the supporting services of the Japan External Trade Organization (JETRO).

The favorable tax treatment program allows traders a larger than normal tax write-off for export related expenses. Additionally it provides for higher depreciation allowances and grants special concessions in connection with exports of technology and with foreign investments.

Special financial treatment permits banks, cooperatives and individual exporters to obtain loans at low interest rates.

The Government's export insurance program offers nine kinds of insurance protection to exporters against incurring losses large enough to bring on bankruptcy. This insurance system is carried out by the Ministry of International Trade and Industry and covers roughly 80% of any possible losses, local government programs cover an additional 15% of possible losses (see reference).

JETRO supports participation by Japanese enterprises at international fairs and exhibitions by subleasing exhibit space at favorable rates, by bearing some of the shipping and display costs, and by paying part of the cost of returning unsold exhibits to Japan. JETRO also conducts publicity and design improvement activities and a credit investigation service.

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Page 4 of Nagoya's A-16

1. FAVORABLE TAX TREATMENT

Favorable tax treatment measures herein outlined are provided under the Corporation Tax Law (Hojinzei Ho) and the Customs Tariff Law.

(A) Reserve for Foreign Market Development:  
(Kaigai Shijo Kaitaku Junbikin)

Exporters are permitted to account up to <sup>1.0%</sup> 0.5% of their proceeds from exports as a reserve for foreign market development which is considered as an expense for tax purposes, whether it is spent or not. If the exporter is also the manufacturer of the exported product, he may place up to 1.5% of his income from export contracts into this reserve under the same conditions. This provision became effective on April 1, 1964 and will continue to April 1, 1969. These reserves must be written off with equal credits of income in the succeeding five years after their establishment.

(B) Small and Medium Enterprise Reserve for Foreign Market Development:  
(Chusho Kigyo Shijo Kaitaku Junbikin)

A small or medium enterprise which is a member of a commercial or industrial association that has been authorized by the Ministry of International Trade and Industry to accumulate a joint reserve for foreign market development, may count as a tax-deductible expense up to 1.5% of its income from foreign trade, if a like amount is deposited in its association's foreign market development reserve. The association may count the entire amount of this fund as a tax deductible expense if it is actually used to develop foreign markets.

(C) Special Depreciation Allowances:  
(Yushutsu Tokubetsu Shokyaku)

A firm designated by MITI as an enterprise contributing to national export promotion is authorized a special depreciation rate for its plant and equipment. This rate is 80% of the normal rate multiplied by the ratio of export sales to total sales. The maximum multiplier is 2 which occurs when the company has no domestic sales.

This provision of law went into effect on April 1, 1965 and will expire in 1967.

(D) Reserve for Overseas Investment Losses:  
(Kaigai Toshi Sonsnitsu Junbikin)

A firm investing abroad may accumulate a fund equal to 50% of its investments abroad as a reserve against overseas investment losses. The money placed in this reserve is counted as a tax-deductible expense.

This provision went into effect April 1, 1964, and expires in 1969.

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Page 5 of Nagoya's A-16

**(E) Special Exemption for Technical Exports:**

A firm which is exporting technology through licensing, technical assistance contracts or any other form may receive a tax exemption in the amount of either (i) or (ii), whichever is lower:

- (i) 70% of the amount paid for the use of the patent or other technical knowledge (20% in the case of consulting services; 30% in the case of marine transportation).
- (ii) 50% of the income accruing from the above contract.

**(F) Entertainment Expenses:**

A certain percentage of expenses for the entertainment of foreign buyers may be authorized as a tax deductible expense, on a case-by-case basis. Buyers' travel and hotel expenses are not eligible under this exemption.

**(G) Tariff Refund for Exporters:**

Under a recently revised administrative directive of the Finance Ministry (Kanzei Teiritsu Ho, Sekko Rei No. 155, June 22, 1954), exporters and export manufacturers may be refunded a portion of the import duties paid on raw materials and components to be used in the manufacture of products which are subsequently exported from Japan. Beginning October 1, 1965, up to a maximum of 0.5% of the price of the exported product may be refunded. Application for refunds must be made to MITI within two years of the date of the import of the raw materials or components.

**2. SPECIAL FINANCIAL TREATMENT****(A) Export Financing System for Cooperatives:  
(Yushutsu Kyohan Kinyu Seido)**

A cooperative which collects agricultural or marine products from its members for processing and subsequent export may borrow funds from the national government before an export contract is negotiated. This enables the cooperative to raise the working capital necessary to collect and process agricultural or marine products for which production and cargo-loading are often concentrated seasonally, regardless of the date of the export contract.

**(B) Export Trade Bill System:  
(Yushutsu Boeki Tegata Seido)**

At the discretion of the Finance Ministry, an export trade bill drawn by an exporter, with a letter of credit as security, may be discounted at a daily interest rate of 1.3 sen (4.645% per annum) if it qualified for rediscount by the Bank of Japan. This type of bill is called "Saiwari Tekikaku Tegata" i.e. a bill qualified for rediscount.

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i) An unsecured export trade bill may also qualify for a loan from a city bank. If an export trade bill drawn by an exporter after the conclusion of an export contract is qualified for rediscount by the Bank of Japan but is not secured by an L/C, a city bank may loan money against the export trade bill at an interest rate of 1.3 sen daily (5.475% per annum). This type of bill is called "Tanpo Tckikaku Tegata", i.e. a bill qualified for security.

ii) There is no limit under this system, either on the size of the applicant company or on the value of the L/C, but loans cannot be granted more than one year before shipment. The system assists exporters and the export manufacturers by providing funds at lower than usual interest rates for producing, processing, and booking contracted cargoes before shipment.

(C) Foreign Exchange Fund Loan System:  
(Gaikoku Kawase Shakin Kasnitsuko Seido)

The Bank of Japan maintains a fund from which loans can be made to city banks to facilitate the purchase of export bills by foreign exchange banks. When a city bank purchases an export bill that is a time draft, the yen equivalent of the export bill may be loaned to the city bank at an annual interest rate of 2.555%. This allows the city bank to release more funds for the purchase of additional export bills. The normal term for these loans is six months.

(D) Japan Export-Import Bank:  
(Nippon Yushutsu Ginko)

(i) A long term contract for the export of plant equipment, ships, vehicles, etc., may be financed by the Japan Exim Bank (established in 1950) with the cooperation of a city bank. Loans may be granted by the Japan Exim Bank (60%) and the city bank concerned (20%) at annual interest rates of 7% per annum or more for terms of up to ten years.

iii) In special cases, when projects in other nations may contribute to the expansion of Japanese exports, the Japan Exim Bank may make loans directly to foreign governments in connection with economic development projects.

(E) Overseas Economic Cooperation Fund:  
(Kaigai Keizai Kyoryoku Kikin)

This fund was established in 1961 as a government agency to provide loans to Japanese firms engaged in industrial development projects, especially in Southeast Asia. The Fund can loan or invest in projects that the Japanese Government considers worthwhile toward the development of underdeveloped countries and which will accelerate economic interchange between the recipients and Japan. The rate of interest on these loans is 3.5% per annum, or higher, and normal maximum terms are for twenty years. The Fund activities are normally reserved for projects which would be difficult to finance through a city bank or the Japan Exim Bank.

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(F) Japan Development Bank:  
(Nippon Kaihatsu Ginko)

If a private enterprise is considered by the GOJ to be contributing appreciably to national economic growth through foreign trade, and if the modernization of that enterprise is considered important for the growth of the national economy, Japan Development Bank loans may be available to that company for the purchase of new equipment. Firms qualified for this financing are generally capitalized at less than ¥2 billion (\$5.6 million).

(G) Export Promotion Loan System for Designated Smaller Enterprises:  
(Tokutei Chusho Kigyo Yushutsu Shinko Yuhai Seido)

A loan may be granted by the Smaller Enterprise Finance Corporation (Chusho Kigyo Koko) to a small or medium sized firm engaged in the manufacture of export products when that firm needs new equipment either to carry out a long term contract or to improve its production facilities. However, at this time these loans are only granted to 15 industries designated by the Ministry of International Trade and Industry, as follows:

Pottery	Flatware	Imitation Pearls
Metallic Toys	Artificial Flowers	Smoking Articles
Metallic Watch Bands	Fabrics	Umbrellas and Ribs
Pencils	Dyeing and Finishing	Knit Goods
Clothing	Tools	Celluloid and Plastic Articles

1) There is also a Small & Medium Enterprise Equipment Modernization Fund (Chusho Kigyo Setsubi Kindaika Shikin) from which GOJ loans are made available to firms that wish to improve their plant and equipment and/or their technical competence. The loans are available to all industries, but manufacturers of export products are given priority over manufacturers of domestic products.

3. EXPORT INSURANCE SYSTEM

There are nine insurance plans administered by the Ministry of International Trade and Industry under the Export Insurance Law of 1950 (Yushutsu Hoken Ho).

(A) Ordinary Export Insurance:  
(Futeu Yushutsu Hoken)1. Individual Insurance (Kobetsu Hoken)(a) For the Exporter (Yushutsusha Hoken)

Under this plan, the exporter decides how much his losses might be and sets the amount and the terms of insurance coverage. This insurance plan is underwritten directly by the Export Insurance Section of MITI at Tokyo and at all its local bureaus. Unless specifically noted as otherwise, all the insurance plans listed hereafter are administered similarly. Nine risks are covered by this insurance as follows:

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1. Restriction or prohibition of foreign exchange transactions in the foreign country after a contract has been concluded.
2. Restriction or prohibition of imports at their destination.
3. Suspension of foreign exchange transactions because of war, revolution or rebellion in the foreign country.
4. Inability to export to the foreign country because of war, revolution, or rebellion within that country.
5. Suspension of transportation by an accident which occurs outside of Japan.
6. Occurances beyond the control of the beneficiary, such as tariff increases, strikes, or boycotts at the export destination.
7. Restriction or prohibition of exports by the GOJ under the Foreign Exchange and Foreign Trade Administration Law (Gaikoku Kawase Oyobi Gaikoku Boshi Kanri Ho).
8. When the buyer is a foreign government or a public corporation, annulment of an export contract by the insured caused by the revocation of the contract by the foreign buyer or any other act on the part of the foreign buyer which might cause cancellation of the contract.
9. Bankruptcy of the buyer.

Of the above items, 1 - 7 are called emergency risks (Mijo Kiken) and 8 - 9 are called credit risks (Shinyo Kiken). The settlement paid by MITI depends on the risk involved.

When loss is due to an emergency risk, the amount paid to the beneficiary is 90% of the balance after deducting income from resale, unpaid expenses and expected profits from the commodity which the insured was unable to ship, or from the export price which the insured was unable to collect. When loss is due to a credit risk, the amount paid is 60% of the above balance.

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Current premium rates for this type of insurance are:

<u>Term Insured</u>	<u>Sen/¥ 100 of the insured amount</u> (100 sen = ¥1)		
	<u>emergency</u>	<u>Risk Insured</u> <u>credit</u>	<u>emergency + credit</u>
every 2 months or fraction	22.5	5.9	28.4

(b) For the manufacturer (Seisansha Hoken)

Under this plan a manufacturer is insured against a loss due to an exporter's failure either to execute shipment or to collect the price of the manufacturer's cargo because of any of the nine reasons listed in (a) above. The rates and conditions under which this insurance may be issued are the same as for (a) above.

(c) Against Increased Costs (Zoka Hiyo Hoken)

This plan pays for losses caused by rate increases in ocean freight charges and/or marine insurance purchased by the exporter when such increases are the result of a change in the sailing or route schedule on which the export contract was originally based, and when such changes are not made by the contracting parties. This plan also covers restriction or prohibition of exports by the GOJ under the Foreign Trade and Foreign Exchange Laws.

1) To qualify for this plan, the insured must be a person or corporation eligible for the exporter's insurance listed in (a) above. The amount of coverage is determined by the insured. The rate of premium is 10 sen per ¥100 of the insured amount and the term begins six days after the date of the insurance contract and terminates on the day the cargo reaches its destination. Otherwise, the conditions are the same as for (a) above.

ii) The amount of this insurance is either 100% of the insured amount or 90% of the balance after deducting (1) and (2) from (3), below, whichever is lower:

(1) The remainder after deducting the expenses paid or to be paid by the insured for preventing or lessening the loss due to changes in schedule, etc., from the amount he can or will be able to recover by having prevented or lessened his loss.

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- (2) The remainder after deducting the expenses required or to be required by the insured for collecting compensation, if compensation is paid by anyone, from the amount which the insured can or will be able to recover by means of compensation.
- (3) The remainder after deducting the ocean-freight and marine insurance rates in the original contract from the rate increase due to the change of sailing and route schedules, as actually charged the insured.

## 2. Group Floater Insurance (Hokatsu Hoken)

Any Japanese exporters' association may purchase a group insurance policy from the Ministry of International Trade and Industry (MITI) which covers all their members for the risks included under Ordinary Export Insurance (A) above. Nine exporters' associations have concluded this type of floating insurance contract with MITI as of this date, together with the items covered by this insurance which are as follows:

<u>Name of Association</u>	<u>Items Insured</u>
(1) Japan Cotton & Fabric Exporters Association	Cotton yarns and fabrics
(2) Japan Silk & Chemical Fibre Exporters Association	Chemical fibre, yarns and fabric
(3) Japan Wool and Flax Exporters Association	Woolen goods
(4) Japan Textile Products Exporters Association	Textiles and made-up goods
(5) Japan General Merchandise Exporters Association	Footwear
(6) Japan Rolling Stock Exporters Association	Railway vehicles
(7) Japan Machinery Exporters Association	Machines and equipment
(8) Japan Ship Exporters Association	Ships
(9) Japan Electrical Wire Exporters Association	Electrical wire

a. The amount of coverage and the premium rates are fixed by MITI on a case by case basis according to the respective contracts between MITI and the different exporters associations. The risks covered are the same as in (A)-(a) above, but the rate of coverage is 90% of losses caused by emergency risks and 80% of losses caused by credit risks.

b. The amount of coverage afforded by contracts for this type of insurance varies widely. For example, textile goods are insured for 30% of the export price, footwear for 50% and machinery, equipment and ships for 80% of their export prices under the policies now in force.

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c. Group floater insurance offers many advantages to members of associations. It is cheaper, it does not require case by case purchase, there is no limit on the amount of coverage and it becomes effective on request, without the usual five day waiting period required in connection with individual insurance.

(B) Export Price Insurance:  
(Yushutsu Daikon Hoken)

This insurance covers the export price and/or rental cost of equipment, ships, vehicles, or other items designated by the Minister of International Trade and Industry. Additionally, the price or value of technical processes and/or labor services offered under a technical assistance contract may also be insured under this plan. This insurance is underwritten only by the Export Insurance Section of MITI at Tokyo.

- 1) This plan covers losses incurred when the insured is unable to collect the export price in cases where the buyer's payment has been deferred or when the insured is unable to collect rent or the value of services rendered because of any of the following reasons:
  1. Restriction or prohibition of foreign exchange transactions in the foreign country.
  2. War, revolution, or rebellion at the destination.
  3. An accident, outside of Japan, not caused by either of the contracting parties.
  4. Bankruptcy of the contract partner.
  5. The contract partner's delay of more than six months in the settlement of a debt.
- ii) The insured fixes the amount of coverage within limits set at 90% of the export price for tangible items and 80% of the value or contract price for technical or labor services. The term of insurance begins when the cargo is exported or when the technical or labor service begins, and terminates with the final settlement of the account. The basic premium rate is 26.5 sen per 1000 of the insured amount per three months or fraction thereof. The term begins when the cargo is shipped or the technical or labor services offered and terminates with a final account settlement.
- iii) Those above rates are halved if the insured bears an L/C opened by a leading bank or a letter of guarantee for payment

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issued by the foreign government concerned, and again halved if the insured also carries ordinary export insurance noted above (futsu yushutsu hoken).

iv) The maximum loss covered by this insurance is the remainder after deducting (1) from (2) multiplied by (3) as follows:

1. Unpaid expenses and the amount which can or will be collected from the sale of any recovered goods.
2. The price of the exported cargo or the equivalent value in services which the insured was unable to collect.
3. Percent of coverage purchased.

(C) Export Bill Insurance:  
(Yushutsu Tegata Hoken)

This insurance covers the losses of foreign exchange banks which purchase documentary bills that are later dishonored. The system encourages foreign exchange banks to purchase D/A and D/P bills and protects the exporter by exempting him from redeeming bills drawn by him that are later dishonored for reasons beyond his control.

- 1) This insurance guarantees payment to the holder of documents, including a draft accompanied by an airway bill or a parcel post receipt, so long as the bill is drawn by an exporter against an export cargo. A clean bill would not be insurable.
- ii) To date 63 banks, including nine foreign banks (Bank of America, First National, Hong Kong and Shanghai Bank, Netherlands Bank, Banque de l'Indochine, 2nd Chartered Bank, Mercantile Bank, Chase Manhattan Bank and Continental Bank), have contracted with MITI for Export Bill Insurance floater policies. An exporter who wishes to benefit from this insurance plan must sell his documentary bills to one of the 63 banks. This insurance enters into force when the bank requests MITI to insure a bill.
- iii) Prior to purchasing bills, MITI requires a credit report on the drawee of the bill which is submitted by one of the 63 participating banks. If the drawee is a foreign government, agency, or public corporation, a letter of certification is submitted instead. Once a drawee has been registered with MITI, insurance can be granted on later bills which may be thenceforth purchased without again consulting MITI. Risks covered by export bill insurance include:

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- (a) Cases in which the foreign exchange bank cannot be paid by the drawee of a documentary bill on its due date because:
1. The drawee has refused to accept the goods, including cases when the drawee has deferred receiving the goods for more than six months after the date of the bill.
  2. Presentation of documents is impossible due to the drawee's absence or some other unavoidable reason.
  3. The drawee has become insolvent before presenting the documents or before the bill matures.
- (b) Cases in which the purchasing bank is compelled to repay a bank which has issued an acceptance at the latter's recourse because of the drawee's failure to pay.
- iv) With regard to both (a) and (b) there are no restrictions concerning reasons for a bill being dishonored. However, unlike the individual insurance (kobetsu hoken) in (A)-1 or the export price insurance (yushutsu daikin hoken) in (B), the maximum insured amount is 80% of the face value of the bill.
- v) Premiums are paid to the National Treasury by policyholders but in practice the cost of this insurance is charged to the drawer of the bill. The premium rate for a sight bill is 23.4 sen per ¥100 of the insured amount. The other rates are:

Sen/¥100 of the insured amount  
(100 sen = ¥1)

Term (no. days)*	AFTER-SIGHT BILL		FIXED-DATE OR AFTER-DATE BILL	
	D/A	D/P	D/A	D/P
10 days or fraction	47.4	25.7	43.2	23.4

\*NOTE: The term means the period from the sight to the due date of the after-sight bill and from the purchase date to the due date of the fixed-date or after-date bill.

- vi) The amount paid to the bank when a documentary bill is dishonored is 80% of the balance after deducting the amount collected by disposition of the cargo or any other means. Any bank which is reimbursed by this plan loses the right of recourse against the exporter.

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- vii) This insurance system requires the foreign exchange bank to absorb 20% of the loss. However, there are various local systems that allow local governments to take on an additional 15% of the burden. (See Nagoya's A-2 of July 19, 1955).

(D) Export Loan Insurance:  
(Yushutsu Kinyu Hoken)

This plan covers bank losses resulting from the borrower's failure to repay an export loan. Under this system, MITI has concluded contracts with 83 banks which allow these banks to insure funds loaned against bills or loans through bill discounting. The use of these loans is limited to the following cases:

- (a) Funds needed by an exporter or by an export manufacturer for the execution of an export contract.
  - (b) Funds needed by the producer of agricultural, forestry, marine or livestock products, or by the manufacturer of sundry goods or other items as designated by the Minister of International Trade and Industry, when these items are promised for future export delivery. Prior approval of this type of transaction by MITI is required.
- i) Premium rates are 21.6 sen per ¥100 (100 sen = ¥1) of the insured value of the bill per two months or fraction thereof from the date of the loan by bill or the date of discount to the due date. The bank pays the premium to the National Treasury and may charge 2/3 of the premium to the borrower.
  - ii) The amount paid to the insured (the bank) when the borrower becomes unable to ship the contracted cargo or to collect the price of the cargo is 60% of the balance after deducting the amount which was collected by the bank at a later date from the amount which the bank could not collect on the due date of the bill.

(E) Consignment Sale Export Insurance:  
(Itaku Hanbai Yushutsu Hoken)

This system covers the exporter's losses when a cargo is shipped on consignment and the exporter cannot collect the expenses of export and/or "on the spot" sales. Collection for losses stemming from the failure of the consignee to remit the cost of goods is covered elsewhere. Accordingly, this insurance plan does not cover losses through non-delivery of the cargo or through credit risks. The premium is ¥1.8 per ¥100 of the insured amount.

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- 1) Although under this plan anyone can be the insurer, the beneficiary must be the original consignor. Accordingly, the exporter who receives merchandise on consignment from a manufacturer and re-consigns it to a foreign firm cannot be the beneficiary of Consignment Sale Export insurance.
- ii) The insurer sets the amount according to his estimate of possible losses. However, the insurer is required by MITI to estimate his sales and expenses at the time he applies for insurance. Expenses include the cost of production, processing, cargo-booking, shipping and inspection charges, warehousing charges at the destination, consignee's commission, and any other expenses chargeable to the consignor. The insurer also sets the maturity date of the consignment contract and the value of each unit of the cargo.
- iii) This kind of insurance covers 80% of the remainder after deducting (a) through (d), below, from actual expenses which may not exceed estimates made at the time the insurance contract was concluded. Computation is based on:
  - (a) The price of the cargo sold during the consignment contract. This price is equivalent to the unit sale value noted in (ii) multiplied by the quantity sold, regardless of the actual sales receipts.
  - (b) The remainder from the proceeds accruing from the disposal of the unsold cargo after its return to Japan, less expenses for its return shipment and disposal. The unsold portion of any consignment exports must be reshipped to the consignor within three months after the maturity date of the consignment contract. This period may be extended to 12 months at MITI's discretion.
  - (c) The balance of proceeds from disposition of the unsold consignment cargo outside Japan after the maturity date of the original consignment contract. Disposition of such cargoes outside Japan is subject to approval by the Minister of International Trade and Industry.
  - (d) The expenses required for the shipment and re-sale of the initially refused consignment cargo. Should any of the above time limits be exceeded or if the cargo is re-sold outside of Japan without approval of MITI, the insurance contract is void.

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**(F) Overseas Advertising Insurance:**  
**(Kaisai Kokoku Hoken)**

This insurance plan covers advertising costs when the projected export volumes for a product are not reached following an overseas promotional campaign. Coverage is up to 50% of advertising costs in direct proportion to the ratio between the anticipated export volume and the actual export volume of a given product. For example, if 25% of the export goal is not reached, 12½% of the advertising costs would be reimbursed to the beneficiary.

- i) Anyone may be the insurer but the beneficiary must be the party directly responsible for initiating and bearing the expenses of advertising abroad.
- ii) Products to be insured under this plan must bear a distinctive brand name, trademark, or some other designation that the product was made in Japan. Accordingly, raw materials, farm products and the like cannot be insured under this plan. Yarn and fabric, textile goods, footwear, ships, rolling stock, machine equipment, and other products as designated by MITI may be advertised by demonstration as well as other means.
- iii) Advertising expenses defined here consist of:
  - (a) Expenses incurred by advertising in newspapers, magazines, radio, television, catalogs, movie film, slides, or by means of the export of samples, displays, etc.
  - (b) Cost of overseas market research, including sending market survey teams abroad and/or having research work done by foreign firms.
  - (c) Expenses required for bidding on international projects, including bidding on public works projects of foreign governments.

The following activities are not insurable under this plan:

- (a) Advertising within Japan
- (b) Advertising solely in connection with international bids or with overseas sample shows.
- (c) Advertising through sending a mission abroad whose activities include more than just advertising.
- (d) Advertising through the use of pocket notebooks, calendars, cut-samples, and the like when they are sent as a courtesy to foreign customers.

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- (e) Advertising by sending samples to individual persons.
- (f) Advertising in an area where the import of the advertised article is significantly restricted by the local government.
- iv) Before issuing the insurance, MITI examines the advertising plan for its suitability to the article and the advertising area to be covered, the advertising methods and rates and the period of time it would take to recover the expenses involved.
- v) Within the 50% limitation, the amount insured is fixed by the insured. Premium rates are ¥3.07 per ¥100 of the amount insured.
- vi) To understand the complicated method of calculating payments to beneficiaries under this plan, the reader is requested to keep in mind the following definitions:

\*1/ Export Area:

The area to which MITI has approved export of the product concerned. For this insurance, advertising is generally considered to be limited to a stated export area, except under unusual circumstances.

\*2/ Period of Recovery:

The minimum period during which the amount of export sales required to recover advertising expenses is expected, with 12 months as the maximum. The period of recovery begins three months after the commencement of advertising.

\*3/ Rate of Recovery:

The percentage obtained by dividing advertising costs by the remainder after deducting the basic export amount (\*6/) from the minimum export amount (\*5/) from which the advertising costs can be recovered.

\*4/ Standard Rates of Recovery:

Standard rates of recovery are fixed as follows:

Cotton yarn and fabric. . . . . 4.5%  
 Chemical fibers, yarns and fabrics. . . . . 8.9%

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Wool yarns and fabrics. . . . .	7.6%
Pottery . . . . .	0.3%
Industrial pharmaceuticals. . . . .	7.6%
Oils and paints . . . . .	3.2%
Soda. . . . .	6.0%
Edible oils . . . . .	5.3%
Precision machinery and instruments . . . . .	8.3%
Communications equipment. . . . .	7.4%
Electrical machinery and equipment. . . . .	6.1%
Other machinery and equipment . . . . .	4.3%
Automobiles . . . . .	5.2%
Bicycles and motorcycles. . . . .	5.2%
Metal products. . . . .	3.7%
Glass . . . . .	11.2%
Cement. . . . .	13.5%
Chemical fertilizers. . . . .	5.5%
Drugs and cosmetics . . . . .	7.5%
Paper and pulp. . . . .	7.3%
Rubber products . . . . .	4.2%
Condiments. . . . .	4.4%
Others. . . . .	6.3%

\*5/ Minimum Export Amount:

When there has been a shipment of the advertised product to the export area, the basis for computing minimum export amount is the average value of the exports of the advertised product over the preceding two years in proportion to the period of recovery, multiplied by the appropriate standard magnification factor, among those listed below:

Average Range Preceding 2 Year's Exports (¥ 1 million)

Standard Magnification Factor

Export value was less than 1		4.0
More than 1	Less than 2	3.9
" 2	" 3	3.8
" 3	" 4	3.7
" 4	" 5	3.6
" 5	" 6	3.5
" 6	" 7	3.4
" 7	" 8	3.3
" 8	" 9	3.2
" 9	" 10	3.1
" 10	" 15	3.0
" 15	" 20	2.85
" 20	" 30	2.71
" 30	" 40	2.57
" 40	" 50	2.44
" 50	" 60	2.32
" 60	" 70	2.20
" 70	" 80	2.09

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"	80	"	90	1.99
"	90	"	100	1.89
more than 100				1.70

Example: The minimum export amount will be ¥36 million if the total value of exports over the preceding two years was ¥24 million and if the period of recovery is 12 months, with 3 being the fixed standard multiplier for exports of ¥10 - ¥15 million.  $(¥24 \text{ million} \times \frac{12 \text{ mos.}}{24 \text{ mos.}}) \times 3 = ¥36 \text{ million.}$

\*6/ Basic Export Amount:

The value of a cargo to be exported, with or without advertising, during the period of recovery. This is calculated in three ways:

1. When there has been no shipment of the cargo to the export area in the last two years, the basic export amount is zero.
2. When there has been shipment, without advertising of the product to the export area during the previous two years, the basic export amount is the result of the period of recovery in relation to the last two years' exports multiplied by actual exports. Thus ¥24 million  $\times \frac{8 \text{ mos.}}{24 \text{ mos.}} = ¥8 \text{ million.}$
3. When there has been shipment with advertising to the export area in the last two years, the basic export amount is the remainder after deducting A from B below, equivalent to the period of recovery:
  - A. The amount of the previous two years' advertising expenses divided by either the rate of recovery or the standard rate of recovery, whichever is lower.
  - B. The amount of cargo shipped in the preceding two years.

Example: The basic export amount would be ¥5 million if the amount shipped in the preceding two years was ¥20 million with advertising costs of ¥200,000, if the proposed rate of recovery were 2.5%, the standard rate of recovery ( $\frac{2}{100}$ ) were 2%, and the period of recovery were twelve months.  $¥20,000,000 - (200,000 \div 0.02) \times \frac{12 \text{ mos.}}{24 \text{ mos.}} = ¥5,000,000$

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\*7/ Renewed Basic Export Amount:

The price of the advertised cargo expected to be exported during the period of renewed recovery (\*8/). This is equivalent to the original basic export amount multiplied by the ratio of the proposed period of renewed recovery to the original period of recovery (\*2/).

\*8/ Period of Renewed Recovery:

The period during which the effect of the advertising is expected to continue, even after the termination of the original period of recovery. The normal period allowed is six months, during which additional recovery of the original advertising expense is allowed.

\*9/ Rate of Renewed Recovery:

The ratio of the advertising costs to the minimum amount of export required to recover the above advertising costs. Incidentally, this percentage is equal to the original rate of recovery.

- vii) The amount paid to the beneficiary under this plan is the balance after deducting (a) through (b) below from the actual advertising expenses incurred under the advertising plan approved by MITI, multiplied by the ratio of the projected export volume to the actual export volume.
- (a) The remainder after deducting the basic export amount from the proceeds obtained or to be obtained for the cargo during the period of recovery. In other words, the export amount increased by the immediate effects of the advertising multiplied by the rate of recovery.
  - (b) The proceeds from the disposition of samples, exhibition facilities or other properties and/or rights acquired incidentally to the advertising.
  - (c) Any amount obtained as compensation for physical damage to the advertising materials.
- viii) After the settlement has been made, beneficiaries are requested to refund to MITI a certain percentage of the later export proceeds arising from the immediate effects of the advertising campaign. The formula for the amount to be refunded to MITI by the beneficiary is (a) X (b) + (a) X (c) explained below:
- (a) The balance after deducting the renewed basic export amount from the income obtained or to be obtained for the value of the cargo exported during the period of renewed recovery.

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- (b) The rate of renewed recovery (19/).
- (c) The ratio of the projected export volume to the actual export volume.

H.B. There have been no instances in which Overseas Advertising Insurance has been issued.

(G) Insurance On the Principal of Overseas Investments:  
(Kaigai Toshi Ganpon hoken)

This plan covers stocks and partnership assets of foreign organizations. The purchase of foreign stocks and assets must have the approval of MITI and the purchase must contribute appreciably to Japan's international balance of payments.

- 1) This insurance is underwritten only by the Export Insurance Section of the Ministry at Tokyo. Its normal maximum term is 15 years, but may be extended if a long period of plant construction is planned. The insured must estimate the probable annual dividend for each year and set the amount of stock or assets to be insured. The premium rate is 47.9 sen per ¥100 of the insured amount, per annum (.76%).
- ii) Risks covered by this plan are:
  - (a) Confiscation of the purchased stock by a foreign government.
  - (b) Dissolution of a foreign corporation due to damage caused by war, revolution, rebellion, riot or civil disturbance, or from the infringement of the rights or interests necessary to the conduct of its business, caused by a foreign government.
  - (c) Losses incurred when the stock of a dissolved corporation is sold before the re-opening of the corporation, provided the corporation has been out of operation for at least six months prior to the sale of the insured's stock.
- iii) The loss covered is 75% of the balance after deducting (a) through (c) below, either from the net assets, the stocks, or shares, at current market value, or from their original purchase value, whichever is lower.
  - (a) 50% of the dividends paid on the stocks or shares. If these were less than the estimated amount of dividends when the contract was signed, the estimated amount is deducted.

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- (b) The amount collected from activities which may have reduced the loss.
- (c) The amount obtained or to be obtained by any reparations such as compensation by means of national bonds or installment payments, for the amount expropriated by the foreign government. However, the amount in (c) is paid the beneficiary by MITI if the reparation is not paid by a foreign government for the following reasons:
1. Confiscation or freezing of funds.
  2. Restriction, prohibition, or suspension of foreign exchange transactions. (Only when reinvestment is not feasible).
  3. Impossibility of refund by national bonds.
  4. Cancellation of payments.

(E) Insurance On the Interest from Overseas Investments:  
(Kaigai Toshi Rieki Hoken)

The subjects, underwriter, and the premium of this insurance plan are the same as those in (G) above. The term of insurance is ten years. This insurance covers losses to investors when the remittance of dividends on overseas investments to Japan becomes impossible for more than one year because of:

- a) Restriction or prohibition of foreign exchange transactions in a foreign country.
  - b) Suspension of foreign exchange transactions by war, revolution, or rebellion in a foreign country.
  - c) Control of dividends by a foreign government or related agency.
  - d) Cancellation of approval for the remittance of dividends or non-performance of guaranteed remittance by a foreign government.
  - e) Confiscation of dividends by a foreign government.
- i) The amount covered by this insurance is 75% of the balance after deducting (a) through (d) below from the amount of the missed dividends:
- (a) Expenses for which payment later became unnecessary.
  - (b) Expenditures in the foreign country from dividend funds which could not be sent to Japan.
  - (c) Amounts which were capital investments in overseas companies by virtue of actually being used for the

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establishment or increase in the capital of a corporation closely affiliated with, or a subsidiary of the investing Japanese corporation.

- (d) Amounts accrued through actions taken to reduce losses.

(1) Distribution Pattern

The following table shows the distribution pattern of these insurance plans during the period January - November, 1964:

<u>Kind of Insurance</u>	<u>Number of Contracts</u>	<u>Insured Amount</u> <u>\$ 1000</u>
(1) Ordinary export insurance	214,917	307,208,284
(2) Export price insurance	998	121,507,468
(3) Export bill insurance	64,621	62,393,047
(4) Export loan insurance	155	1,174,352
(5) Consignment sale export insurance	14	29,151
(6) Overseas advertisement insurance	0	0
(7) Insurance on the principal of overseas investments	24	1,095,897
(8) Insurance on the interest from overseas investments	2	3,969
TOTAL:	220,731	499,505,970

4. JAPAN EXTERNAL TRADE ORGANIZATION (JETRO)

JETRO was established on July 25, 1958, as a special government owned corporation. That it has since become the core of Japan's trade promotion activities is evidenced by the fact that in JFY 1965, JETRO was allocated ¥3,244 million, or 62% of MITI's budget for trade support activities. Outlined below are the major trade promotion activities undertaken by JETRO.

A. Market Research:

Overseas facilities owned and operated by JETRO, at present, include 14 trade centers, 5 machinery centers, and 40 offices. Also, there are 27 stations managed jointly by JETRO and private domestic industrial groups. These 86 installations employ 500 Japanese and 180 local employees. Market reports prepared by these overseas posts are sent to JETRO's Home Office from whence they are distributed to government and private business circles in the daily "Trade Bulletin" (Tehusho Koho), in the monthly "The Overseas Market" (Kaigai Shijo), and in other periodical publications.

- 1) JETRO's market and marketing research is conducted either at the request of MITI and/or the Foreign Office, or at the request of individual firms, public corporations, or manufacturers and exporters associations. In each case, a research plan

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is set up by JETRO and the organization requesting the survey. Usually a local overseas research company carries out the survey and prepares a report. JETRO assumes that local firms rather than official agencies have the better sources of information with regard to any impending restrictions which could affect products in which it is interested. JETRO also collects information material published abroad, as well as samples of foreign made products which compete with Japanese exports.

- ii) Some of the market survey teams dispatched abroad by private Japanese industry are partly subsidized by JETRO, depending on the team's mission, the significance of its survey, and the extent of its contribution to national export promotion. JETRO also bears a part of the travel and hotel expenses of persons officially dispatched by manufacturers or exporters associations for market surveys on condition that it be given access to their reports and the results of their investigations.
- iii) JETRO has posted specialists in the United States, West Germany, Hong Kong, and Venice, to promote exports of agricultural, forestry and marine products. Promotion is geared to circumstances; for example, the San Francisco specialist handles only plywood, and the Long Beach and Venice offices promote only frozen tuna. JETRO's activities closely parallel those of the U. S. Department of Commerce overseas.

#### B. Advertisement of Japanese Export Products:

JETRO's Trade and Machinery Centers carry out on-the-spot advertising for Japanese export products through the standard media of press releases, television, movies and publications. Additionally during JFY 1965, JETRO was scheduled to participate in 28 international or special fairs, including 7 in the United States, and to hold 55 exhibitions at the Trade and Machinery Centers, of which 14 are in the United States. JETRO participates in foreign sponsored exhibitions, usually reserving large blocs of floor space for Japanese exhibitors for which it bears 75% of the rental costs. Exhibitors are expected to pay 25% of the exhibit rental costs as well as freight and handling charges for the exhibits. When unsold exhibits are returned to Japan, JETRO pays the repacking costs and the exhibitor pays the shipping expenses. JETRO also offers floor space in its own exhibit halls to private Japanese firms at a rate of \$500 per 10 day period.

- i) In order to create a better understanding of the Japanese economy and industry and to advertise Japanese export products generally among overseas customers, each year JETRO conducts all expense paid tours to Japan for influential business leaders and journalists from many countries.
- ii) Occasionally, JETRO promotes Japan's newest and most advanced medicines and medical equipment in the more advanced nations of the world by donating these products gratis to foreign hospitals and laboratories.

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C. Design Improvement:

To improve Japanese export product design, JETRO sends five or six designers to America and Europe every year for up to one year of study. It pays 50% of the visitor's travel and boarding expenses as well as the tuition for his study. Design students are selected by JETRO from among those with three or more years of experience as designers with private firms. They are sent to first class art schools, universities, or special design institutes on condition that on their return, in the capacity of official advisors, they make their services available to their industry in general for one year, in addition to resuming their normal employment.

D. Credit Investigation Services:

JETRO has concluded a special long term contract with Dun & Bradstreet, Inc., under which individual Japanese firms may use D & B's credit services by paying JETRO a fee of ¥3000 per reference. This service is much less expensive than it would be on an individual basis, and is much like the U. S. Department of Commerce's WTR service.

E. Domestic Services:

JETRO has its own trade consulting offices in 20 major cities in Japan for the guidance of and general service to individual firms that trade overseas. Libraries at the Tokyo Head Office and 11 branches throughout Japan are open to the general public.

F. Budget:

JETRO's detailed over-all budget schedule is not publically available, but its total budget for JFY 1965 is estimated at ¥6 billion. Of this amount, ¥3244 million is attributable to the MITI appropriation and the rest to subsidies from local governments, exhibition fees, membership fees, sales of publications, and miscellaneous receipts. Its nationally appropriated funds are distributed as follows:

	JFY 1964 BUDGET ¥ 1000	JFY 1965 BUDGET ¥ 1000
Trade centers and other overseas facilities	881,527	1,095,015
Exhibitions and fairs	765,527	882,294
Export promotion services for specific industries	300,048	354,606
Overseas advertisements	281,614	308,202
Foreign market research	99,428	188,569
Information centers	51,316	116,585
Special survey for import restrictions	65,378	78,810
Design improvement	33,970	35,700
Other expenses	159,022	184,433
TOTAL:	2,637,669	3,244,214

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ANNEX: Japanese laws relating to trade promotion activities:

Corporation Tax Law - Hojinzei Ho	Law No. 20, 1947
Export Insurance Law of 1950 - Yushutsu Hoken Ho	Law No. 67, 1950
Customs Tariff Law - Kanzei Teiritsu Ho	Law No. 42, 1954
Execution Act - Kanzei Teiritsu Ho Seko Rei	Act No. 155, 1954

  
Richard E. Snyder  
American Consul

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Senator RIBICOFF. The next panel will be Herbert Liebman, Frank Gerbig, and Hyman Schatz.

**STATEMENT OF HERBERT LIEBMAN, PRESIDENT, A. L. LIEBMAN & SONS**

Mr. LIEBMAN. My name is Herbert Liebman. I am the president of A. L. Liebman & Sons, Inc., a small distributor of fasteners and hardware and most of the fasteners we sell are imported.

I want to thank this committee for giving me the opportunity to speak before them today.

I did come down really only to tell of my experience with my business, but I did want to make one point in light of the testimony that has been given. I heard several of the previous speakers comment with reference to the U.S. defense position regarding the number of industrial fasteners that go into aircraft.

Since this is a hearing regarding large bolts and nuts of iron and steel, it seems to me that of half a million fasteners that go into aircraft, it should be pointed out that, almost without exception: A, they are not of iron or steel but of aluminum or light metals; and B, are primarily rivets.

Now, with reference to my own experience, we bought, for the first time, in 1949, fasteners of foreign manufacture. We bought wood screws in England and we bought them because they were priced slightly below the lowest American market price, and we wanted to come into the screw business and no American manufacturer whom we approached would give us a price that would permit us to sell at levels to which they were selling to those people who were users of the product whom we would have liked to make customers of.

Historically, the American manufacturer had never been distributor-oriented, nor is he to this day. Over the years, as the Japanese entered the market, we transferred our purchases from the English to the Japanese and we have been selling fasteners to other companies, but the bulk of the fasteners we sell are Japanese.

It is our circumstance as a small company with a total payroll of 10 that if that market for the ordinary, garden variety of fastener, which is the bulk of the import from Japan, and most of which is presently not available today from American manufacturers who have put this business aside in favor of heavier product and specials, that we would, in my opinion, be forced to change our operation and switch to other products in the hardware business, or go out of business, within a period of 2 years.

Senator RIBICOFF. It is your contention that the product that your company sells is not even made in the United States?

Mr. LIEBMAN. No, I did not say that. I said that very little of it is made in the United States, very little of it.

Senator RIBICOFF. Do they have the fasteners that you talked about in their line? Can they manufacture them?

Mr. LIEBMAN. Some of them they do have, yes.

Now, in addition, I believe that what will happen if you impose on top of the dollar devaluation that has occurred and that has effectively raised, since September, the price of those fasteners that my company buys by between 22 and 30 percent, you are going to

find a terrible price inflation and you are going to find a shortage of materials.

Why a shortage of materials? Because the American manufacturing group, including those who preceded us this morning, have given up, to a large extent, the manufacture of such products as we are buying overseas.

Thank you.

[The prepared statement of Mr. Liebman follows:]

#### STATEMENT OF HERBERT LIEBMAN

My name is Herbert Liebman. I am the President of A. L. Liebman & Son, Inc., a fastener and hardware distributor and importer with offices and warehouse at 34-36 65th Street, Woodside, New York. I also speak for Metropolitan Fastener Distributors Association, a past president of which I am. This is an association of approximately 90 fastener distributors in the Metropolitan New York area. My company has been engaged in the sale of fasteners since 1949. At the time it entered the fastener business it did so by purchasing from England what were the first foreign fasteners to be imported into the United States since 1940. It purchased foreign screws because the prices quoted by American manufacturers to our company did not permit it to be a competitive seller against those manufacturers or the few large distributors in the fastener business at the time. Since 1949, as a result of the availability from abroad of standard fasteners, a vast distribution network has grown throughout the United States of fastener distributors like my company giving employment to thousands of persons and filling a role in the market of serving the users of small quantities of fasteners in bulk and in packages, many of whom represent less than ideal credit risk and whom the American manufacturers were not and are not prepared to serve.

Presently fastener distributor companies like mine are serving primarily a market of small manufacturers with prompt deliveries of a vast assortment of fasteners out of inventory maintained in great variety and at considerable expense. They and we are assuming credit risks that the fastener manufacturer will not. All this has been possible because of the import of standard foreign fasteners. The American manufacturer's policy was to ignore the necessity of distribution. Distributors were left with the leavings—small volume buyers and poor credit risks. There is no reason to believe that a manufacturer who has nothing to stock will change this practice.

Were there to be a cutoff of supply or reduction of supply, the writer's experience leads him to believe that the following would happen:

(1) The price of the limited quantity of imported fasteners would rise immediately by virtue of competition for them including the competition of American fastener manufacturers who themselves are buyers of large quantities of foreign fasteners.

(2) American manufacturers' prices would rise in proportion and thus an inflationary spiral would be created.

(3) There would be a shortage of standard fasteners which are the bulk of imported fasteners and which American manufacturers do not produce in quantities sufficient to satisfy the market.

(4) Many distributors would by virtue of such price rise and their commitment to printed price lists suffer financial loss and hardship. Further, by being deprived of imported standard fasteners, most would be unable to remain in business for any length of time. I believe that more than half the fastener distributors presently in business would be out of business within two years. So, too, would many of their customers who are small manufacturers who would lose their only source of standard fasteners.

(5) The major service fastener distributors render is quick from stock service, and since American manufacturers have elected to manufacture only against orders to be produced at the time such orders are placed, and pursue a policy of not stocking inventories, many of my customers would be unable to continue in business since they lack the resources and marketing skills that would permit them to buy in advance the quantities manufacturers presently require for production. Further, the nature of their finances and production methods compels them to place fastener orders as orders for their products are received.

(6) My own company, without foreign fasteners, would be forced out of the fastener business after the bulk of its present inventories are exhausted, and I believe this would be within 18 months to two years.

There have been recent developments in the fastener industry which underscore the wisdom of the President's decision not to restrict imports. Foreign fastener prices have risen 20 to 25% since December 31, and are still rising. Dollar devaluation as well as increased steel prices overseas have made it less than economical to import certain standard fastener items. If the free and fair flow of merchandise is permitted to continue, I believe that the market will continue to make the adjustments it has in the past and in which the domestic manufacturers have been so successful, as exemplified by their earnings record.

**STATEMENT OF FRANK R. GERBIG, JR., PRESIDENT, UNITED STATES FASTENER CORP.**

Mr. GERBIG. Mr. Chairman and members of your subcommittee, I do appreciate this opportunity to speak before you and to give you some thoughts and opinions that I have relative to the request to overrule the President in his denial to the request of the International Trade Commission for an increase in duties on certain bolts, nuts, and screws over 0.24 inch in diameter. I will refer to these items as fasteners, if I may.

I am president of United States Fastener Corp. and we have four warehousing operations in Michigan with our headquarters in Detroit. My company has been in business for over 45 years as a fastener distributor. The past 25 years has been engaged in the buying and selling of imported fasteners as well as domestically produced fasteners.

In the past 5 years, the percentage of imported fasteners purchased accounts for 79 percent against domestically produced fasteners of 21 percent. These figures dramatically illustrate the importance of imported fasteners to my business economic status.

We employ approximately 210 people and represent, I feel, a segment of the industry which has not been adequately considered or understood in these duty determination hearings. It is not generally realized that the fastener distribution industry employs as many, if not more, employees than the U.S. manufacturing group and because our employees are either unskilled or semiskilled, any reduction in imports would create a tremendous loss of jobs throughout the fastener distribution industry.

In fact, each of more than 4,000 independent fastener distributors rely on imported fasteners, could be put out of business or have their business hindered completely in a matter of months if the Trade Commission recommendation for higher duties becomes law.

In the period of 1973 and 1974 when world demand created a shortage of imported fasteners, the domestic fastener manufacturer had proved, very significantly, that they were unable to satisfy the demand for all types of fasteners and an acute shortage developed with domestic prices increasing in some cases, from 75 to 100 percent and delivery schedules delayed for months.

It was during that period that the fastener distributor realized beyond doubt that the domestic manufacturers favored the OEM end users and would probably never again be a major source of supply to the distributors.

My company, if not for the imports at that time, would have practically ceased operation, not only because of the lack of supply, but also due to their excessive prices required by the domestic

manufacturers. I think it is very important to note that fastener imports are a vital means of maintaining price stability in a market dominated by a very few large fastener manufacturers.

The fastener industry reporting increased sales, and representing the most profitable of all reporting fabricated metal products producers and all reporting manufacturing corporations in my estimate does not require relief from the Trade Act of 1974.

Mr. Chairman, I would like to deviate a few moments, if I may, to make a brief statement to clarify some of the figures which have been presented by Senator Glenn and by the domestic industry.

First: Reference has been made to the fact that imports of fasteners have now reached 44 percent. I had just handed to me a table from which the figures are taken. That figure represents the quantity, or pounds. The accompanying table shows imports by value to have actually declined by 24 percent to 22 percent for the full year 1977.

Of these dollar values of imports, the domestic manufacturers account for 22 to 25 percent of that total dollar import and, therefore, as an imputed basis required by the Trade Act, the producer imports must be included in the domestic market sales, which on an adjusted basis places imports at only about 17 percent on a dollar volume basis.

Second: I would like to point out that the ITC revised figures of April 1978 show that the year 1977 represented the second largest ever in dollar value of shipments by the domestic industry.

Mr. Chairman, I feel also that the relief warranted at the time of the application by the U.S. fastener manufacturing group and the investigation of the U.S. International Trade Commission is not presently warranted. Approximately 75 percent of all fastener imports have come from Japan in recent years.

Because of the decline in the dollar to the yen, imports in Japan are now, for all practical purposes, eliminated and, therefore, the basis for the application for the U.S. fastener manufacturing group is presently moot.

Since December 1977, Japanese fastener prices have increased from 20 percent to 30 percent. Any further restrictions on fastener imports could further harm the fastener distribution industry that would ultimately result in shortages, higher prices for fastener and user.

Senator RIBICOFF. Thank you.

[The prepared statement of Mr. Gerbig follows:]

**STATEMENT OF FRANK R. GERBIG, JR., PRESIDENT, UNITED STATES FASTENER CORP.**

United States Fastener Corporation, of which I am President, is located in the City of Detroit, State of Michigan. We have been engaged in business for over 45 years, both as an importer and a distributor of lag screws and bolts, bolts (except mine-roof bolts), and bolts and their nuts imported in the same shipment, nuts, and screws having shanks or threads over 0.24 inch in diameter, all of the foregoing of iron and steel, provided for in items 646.49, 646.54, 646.56, 646.63 and 646.79 of the Tariff Schedules of the United States (TSUS) and all hereinafter referred to as "fasteners." The purpose of this statement is to support and substantiate the position of the President of the United States as set forth in His Memorandum of February 10, 1978. "Determination Under Section 202(a) of the Trade Act; Bolts, Nuts and Large Screws of Iron or Steel."

First, let me explain the position of my company which is an importer-distributor of fasteners. As an importer-distributor, we import fasteners primarily from Japan and Canada and we also sell fasteners purchased from domestic fastener manufacturers. Over the past five (5) years, our imports have averaged 71% percent of our purchases and our domestic purchases 29% percent of our purchases. We are a service company and at all times have on hand for prompt delivery to all segments of U.S. industry, as many as 50,000 different kinds and sizes of fasteners. As a distributor, we must:

- (a) Depend on our manufacturing sources of supply;
- (b) Be able to purchase at reasonably competitive prices; and
- (c) Make our profit on the small margin which ultimate users are willing to pay for the availability and service which we provide.

If we are either cut off from the availability of product or our purchase price of fasteners is excessive, we and all other distributors, would cease to exist. Therefore, it is of utmost importance that any "protectionism" for the United States Fastener Manufacturing Group not only be thoroughly justified, which fact in our opinion has not been reasonably established, but must also be considered in light of the adverse effect thereof on the distribution portion of the fastener industry.

Only in the most extreme cases should the assistance contemplated by Section 202(b)(1) of the Trade Act of 1974 be applied. The present position of the United States Fastener Manufacturing Group certainly does not present an extreme case establishing a basis for designating it a "seriously injured domestic industry." Even the facts in the hands of the United States International Trade Commission at the time of its "Report to the President," December 8, 1977, supports the position of the President rather than a finding that the fasteners are being imported into the United States in such increased quantities as to be a substantial cause of serious injury or the threat thereof. The position of the President should be accepted and the duties recommended by the Committee set aside for the following reasons:

(a) United States Fastener Manufacturing Group has not incurred nor are they threatened with "serious injury" because of increased quantities of imports of fastener products. In fact, the Commission's finding actually reflect the existence of a vigorous growing domestic manufacturing industry, growing both in quantity of sales and percent of profits. In the case of profits, the Commission's finding establish the United States Fastener Manufacturing Group as being significantly higher in profits than all other reported fabricated metal product producers and all manufacturing corporations. If this industry qualifies for "protection" under Section 202(b)(1) of the Trade Act of 1974, the gates are open, all metal products producers are entitled to similar protection.

(b) Provision for import relief would significantly increase the cost of fasteners to manufacturers of end user products in the United States. This fact can be no more clearly demonstrated than by current history itself. As the Commission Report clearly states "domestic prices remained quite stable in 1972, increased about 15 percent during 1973 and then surged upward throughout 1974, rising 75 percent in that year. Why was such a raise possible? Because world demand limited the availability of imports of fastener products and without the competitive effect of sufficient import products in the domestic market, inflationary domestic prices immediately took hold. Eliminate or substantially reduce the amount of imports of fasteners by means of increased duties, without price controls, inflationary pricing will result the same as during the period 1973-1975.

(c) A decline in employment in the fastener industry does not support increased duties on imported fasteners. While the domestic fasteners industry has suffered a decline in employment of approximately 25% between 1972 and 1977, the decline in this portion of the industries' business is substantially the same as the decline in the number of employees engaged by the same manufacturers in the production of other products manufactured by them. The decline in employment in the fastener portion of the industry, at a time when its sales and profits are increasing, is therefore not directly and solely the result of increased imports but obviously must be attributed, at least in part, to improved technology. The incentive for continuing technological improvements should never be minimized by elimination of competition, even foreign competition, by application of government restraints.

The findings of the Department of Labor show that the areas of employment wherein the majority of domestic fastener manufacturers are located have unemployment rates below national averages, making possible and probable the absorption of any reduction in employment by domestic fastener manufacturers which

might be the result of imports. In the case of my company, United States Fastener Corporation, being located in Detroit, Michigan, an area of high rate of unemployment for unskilled and semi-skilled labor, absorption by other industries is most unlikely. This is true of many other distributors located in high unemployment areas. One further and important point on employment. The fastener distributor organization employs as many, if not more individuals, than the domestic manufacturers of fasteners employ. Distributors employment, for the most part, consists of unskilled labor for material handling and packaging. Therefore, a substantial reduction in employment by distributors which would result from a reduction of imports by government action would mean the production of more fastener products by high production machines without any substantial increase in labor usage and the elimination of a substantial part of the large unskilled and semi-skilled labor force, employed by distributors.

(d) A very important point not touched upon in statistics or otherwise is the effect of the proposed duty increases and the consequent reduction of imports upon distributors such as ourselves, United States Fastener Corporation. Immediately, our ability to be competitive with domestic manufacturers at the original equipment level would stop, thus forcing us:

To reduce our present employment of 210 people to perhaps less than 100 in line with projected business based upon less imports.

To reduce the approximately 400,000 sq ft of warehouse and office space to what would be required to handle a lesser amount of business.

Deny our many customers a quality product at competitive prices.

Force us to increase prices to whatever customers we have left in line with the prices that would be established by the domestic manufacturers.

Relegate our business to a "hardware store status" in a localized region, serving only maintenance and repair requirements, and perhaps very small bulk needs of our customers.

Obsolete thousands of dollars worth of machinery and equipment presently owned and consisting of trucks and trailers, quality control apparatus, packaging machinery, bulk carton equipment, lift trucks, storage racks and bins, etc. Very little of our multi-million dollar assets would be required in the conduct of our business.

The effects of the proposed increased duties on United States Fastener Corporation will be the same on all distributors and, in fact, could result in the elimination of distributors generally from the industry and the elimination of the competitive elements now present in the market because of a reasonable volume of imports and a healthy distributor organization.

(e) Because of the strength of the United States Fastener Manufacturing Group, the law of supply and demand and the economic factors of the marketplace should be allowed to continue without government intervention, particularly at a time when the United States Government is proposing more free trade and fewer trade barriers. A specific example of effect of the economic factors is the present relationship of the yen to the U.S. Dollar. Three-Fourths of the total fastener imports in recent years have come from Japan. Because of the decline of the dollar, we presently are not purchasing from Japan and in fact, this economic fact alone would, in my opinion, render the application of the United States Fastener Manufacturing Group completely moot at this time.

In summary, it is my opinion as President of United States Fastener Corporation, engaged in business of both importing and distributing fastener products for 45 years, that the United States Manufacturing Group is healthy, growing, and profitable without any protection from imports. I recognize the intent of Section 202 (b)(1) of the Trade Act of 1974 and concur that in certain cases, assistance is proper thereunder. The President's recent order in the case of citizen's band radios meets all requirements. In that case, imports had reached 91% of the domestic market thereby, for all practical purposes completely eliminating domestic producers. In the case of domestic fastener industry, imports represent only about 18% of domestic consumption and furthermore the manufacturers themselves in 1976 were responsible for 20 to 25% of all fastener imports. United States industry may not be able to share the domestic market with foreign imports on a basis of 9% for itself and 91% for imports, but it should be able to compete without government protection, having 82% of the market itself and imports only 18%. This is particularly true of United States industry which must acknowledge that much of its success and growth is attributable to its export business. United States industry cannot expect complete protection from foreign competition without incurring retaliatory treatment from foreign countries. Total or majority domination of the domestic markets by foreign imports justifies relief under Section 202 (b)(1)

of the Trade Act of 1974, and should not result in retaliation, whereas minor participation by imports in the domestic market, such as 18% thereof, as in the case of imported fasteners, the present subject of consideration, merely provides for healthy competition, better availability of product at less inflationary prices and any action by the United States government to reduce or eliminate such minor competition could certainly be looked upon unfavorably by the exporting countries and result in retaliation.

**STATEMENT OF HYMAN SCHATZ, SALESMAN, CONSOLIDATED BOLT & NUT CO.**

Mr. SCHATZ. Mr. Chairman, my name is Hy Schatz. I am director of marketing for Consolidated Bolt & Nut Co. in Los Angeles. We are a moderate sized company doing sales in the neighborhood of \$3.5 million.

I am also the cofounder and current president of the Los Angeles Fastener Association whose 78 members employ over 2,000 employees. I too wanted to bring to the attention of the committee the statement said earlier about the fasteners going into aircraft. All those fasteners are made of high aluminum alloy titanium and other high strength metals and have no relevancy here at all.

We are here today, I hope, to look at the overall economic picture and not just one segment. Once before protectionists were asking for high tariffs and what happened there was the retaliation from around the world that helped lead to the Great Depression. I hope not to see that happen again.

We are asking Japan to buy more and more from us, but what incentive does she have if we put this high restriction in front of her?

As was said earlier, the constant drop in the value of the dollar has brought the prices from Japan up to a point where they are almost on a par with the domestic prices and our need for a tariff is not there.

Even though our business is great, the rest of the world does not have confidence in our economy and most of that is due because we are doing so little to affect our spiraling inflation. By stopping any more tariffs which, I do feel, will bring about higher costs, we will go a long way to stop the inflation.

If you grant this bellweather industry the higher tariffs, we will be setting a precedent, I feel. We have already granted relief to some other industries. If all of the rest of the industries who do have some sort of impact by imports will be back here asking for relief also and it will be a never-ending request for higher and higher tariffs.

It has to stop somewhere and we would like to ask you to stop it now.

By granting the higher tariffs, I think the manufacturers will accomplish what they want and that is a reduction in imports. A reduction in imports will create the shortage.

Shortages will mean unemployment not only to the jobbers but to the consumer. Our consumer is the OEM manufacturer. Through all of this discussion and in the previous hearings I have yet to hear any assurances from the manufacturer that they will continue selling to jobbers once the tariff is imposed and once their threat of foreign competition is eliminated.

The little businessman, who is the backbone of our economy looks to the jobber. Not every manufacturer buys in 50,000 and 100,000 and a million piece lots. The bulk of the little manufacturer buys in 5,000, 10,000, 15,000, and 25,000 piece lots. This is true, at least as I see it, in the Los Angeles area.

Without the stocking jobber who, as in our own case, we stock parts from a 00 all the way up to a 3-inch diameter, 38 inches long. We have fully threaded rods 12 feet long. We are diversified.

Many of these manufacturers are only interested in selling their individual product and the little man who has to shop through a half a dozen places or maybe a dozen places to get what he wants when he is getting it at one location now. Right now, deliveries are running from 8 to 20 weeks. If we stopped the imports, deliveries will go to 6 months or longer. This happened in the early 1950's when there were very little imports.

At that time, deliveries were as much as a year and longer, and then again, in 1973 and 1975, there were shortages. The manufacturers, some of whom are in this room, cut off the jobbers on the west coast entirely. They have taken orders and they refuse to fill them.

Other manufacturers would only take orders on items that they had produced before and many manufacturers would not accept new costs even from the jobber or from the small consumer. They just were not big enough for them.

So you see, the jobber and the small consumer have had no choice but to go out of business.

And there is another segment of the economy that would be affected, and that is the ports where all of the fasteners come into. If there are no imports, many of the ships that come into places like Seattle, Los Angeles, Houston, New Orleans, New York and all the rest of the ports would not have the revenues they are getting from the dockets fees. There would not be the need for longshoremen and other freight handlers because there would be less freight to handle. Why should they suffer because of the higher tariffs asked by a segment of the economy that is doing a considerable amount of importing themselves?

So we ask you not to go along with the higher tariffs.

Mr. Chairman, many of the problems in the fastener industry we feel today is brought on by themselves and that there have been excellent profits. We hear of profits today of 7.6 percent. It does not seem like much, but we are also told that that 7.6 percent is being done on only 50 percent of total capacity production. If they get the full production, what will their total profits be then, because their costs are all covered now.

I suggest that many of these companies did not invest in capital equipment and high-speed equipment, that they should have. There are many pieces of equipment that they are developing and using overseas that we are not using domestically.

I feel that there is a more positive way to give relief, if relief is needed, and that is to grant some form of tax relief on capital investment, not only in the fastener industry but the other industries too.

Higher tariffs may give some relief in the short run, but the effect on the overall economy will be affected adversely in the long run, creating higher prices and loss of employment.

Mr. Chairman, I would like to say that I think we are the greatest. We have the know-how, we have the skill, we have the expertise, the best management, the best-trained employees, but we are in a rut. Everyone expects the Government to do it for us.

Let's get back to the true concept that made America, and that is the free enterprise system. Let's do it ourselves. No more handouts, no unnecessary tariffs. That is the most efficient way, our way, the way we know how to do it best, and I ask you to sustain the decision to withhold the higher tariffs.

Thank you.

Senator RIBICOFF. Thank you, gentlemen. Your entire statements will go into the record as if they were read.

Thank you very much.

[The attachments to the testimony of Hyman Schatz follow:]

CONSOLIDATED BOLT & NUT Co.,  
Los Angeles, Calif., April 3, 1978.

HON. ABRAHAM RIBICOFF,  
Chairman, Trade Subcommittee, Senate Finance Committee, Dirksen Senate  
Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: As marketing director for Consolidated Bolt & Nut Company, and also as president of the Los Angeles Fastener Association I have first-hand experience in the problems faced by fastener distributors and fastener consuming original equipment manufacturers who are our customers. Any duty or quantity restriction on imported fasteners will seriously damage the business and investment of distributors and result in unwarranted increases in cost and lack of supply of fasteners to users across the country. The specific reasons for my view are set out in my attached letter to President Carter dated January 12, 1978.

I appreciate the opportunity to appear before the Subcommittee, and urge you to uphold the President's determination.

Very truly yours,

HY SCHATZ,  
Director of Marketing.

Enclosure.

CONSOLIDATED BOLT & NUT Co.,  
Los Angeles, Calif., January 12, 1978.

JAMES CARTER,  
President of the United States,  
The White House, Washington, D.C.

MR. PRESIDENT: Maimonides in the 12th Century told us if we are not aware of our past, we will repeat our mistakes in the future. It appears we have either forgotten our past or have not learned from it.

In the late 1920's the Protectionist were screaming for high and higher tariffs. Because higher tariffs were granted, shortly thereafter, many of our products were no longer acceptable overseas. This was one of the causes that led to the crash of 1929. Today our industries again are crying for help. The steel companies rather than modernizing their plant so they can be competitive prefer using older methods and get tariff protection against foreign competition. The Government granted that protection. The steel companies having rid themselves of foreign competition proceeded to raise their prices 5-7%, supposedly because they had higher costs. What higher cost? They are taking advantage of their favorable position.

Now the Industrial Trade Commission has recommended a 30% tariff hike on fasteners. Some of manufacturers are claiming they are being hurt by imports. Strangely enough many who are yelling foul are importing themselves. All of them have had profitable years.

There are several questions that must be asked and answered:

1. Why did the jobbers go to imports in the first place?
2. What happened during the Korean War?
3. What happened during the shortages of 1973-75?
4. What will be the impact on the distributors?

5. What will the impact be on our foreign relation?
6. What will the impact be on our Gross National Product?
7. Is there an alternative?

Prior to the Korean War there were virtually no fasteners being imported into the United States. At that time the manufacturers of screws and bolts were selling the distributors at the same price as they were to O.E.M. accounts or at best they were given a 10% discount to work on. That is 10% to cover the jobbers cost to warehouse, pay salaries, rent, and the usual expenses. No company can work on 10%. As a business man you know for yourself that most companies have overhead cost factors of 25% on up. The only way the distributor could stay in business was to buy in larger quantities and sell in smaller lots, thereby taking advantage of quantity pricing differentials. When the Korean War broke out, domestic deliveries went to one year and longer. You had to have a DO or a DX rating in order to have a priority delivery. These were two factors which lead to having other sources of supply. Today almost twenty-eight years later, these same manufacturers still have an anti-jobber policy and would like to see them put out of business. The proof being when we're all hit with shortages in 1973-1975, many of the larger manufacturers of fasteners refused to fill orders they had taken from jobbers and would take no new orders from any of them. Hundreds of thousands of dollars were lost by the distributors because they had to fulfill their commitments somehow. The jobber paid what ever price he had to, just to be able to come up with the parts. Our company lost several good accounts because we were unable to deliver on special items that we had placed with the manufacturers. Our only remedy at the time was the courts, but that would have been too slow and too costly a solution.

We have been given no assurances from the manufacturers that they will continue selling jobbers if a high tariff makes importing prohibitive. There are over 1500 distributors in this country, I question how many will remain in business after one year, especially the smaller companies which need the imports for them to be able to compete at all.

Prior to the Great Depression, country after country retaliated by putting restrictive barriers on our products. Are we prepared to go this round again? We are trying to get Japan to buy more of our produce. If we place large restrictions on her what incentive does she have to buy more from us?

At the present time, with the large number of imports, deliveries from American manufacturers, depending upon the commodity, is running 8 to 20 weeks. If a high restrictive tariff is put into effect then imports will drop drastically. Local deliveries will surely become extended to six months and longer. With an attitude "if I want it tomorrow, I'll order it tomorrow," many companies will shut down because they will not have screws to assemble their products. This will lead to lay-offs and possibly total plant closures as happened during 1973-1975.

No matter what some of the manufacturers may claim they do not have the physical capacity to increase their production with their present obsolete equipment to meet the needs of industry. Delivery on new cold heading equipment today is one year and longer. With a demand for more equipment and for more scarce parts the only thing that will happen will be prices will become more inflated. Many small O.E.M.'s will not be able to pay the higher prices and will be forced out of the market, both the employer and the employee will become unemployed.

Screws, bolts, and nuts may seem like simple products, but they are really precision made items. It takes great skill to manufacture them. You can check the want-ads in any newspaper where fasteners are made. There is always an ad for cold header operators. It takes at least three years to train a journeyman operator. Therefore, its not just hiring bodies off the street and adding another shift.

Mr. President, as you can see, granting a high tariff may give the fastener manufacturers some relief in the short run, but our economy will be hurt far greater in the long run by having inflated prices due to the lack of competition and a drop in overall production due to a shortage of fasteners.

There is a solution whereby the manufacturers of not only fasteners but who are harassed by imports and that is to have some form of tax relief if they invest in new high speed equipment rather than machinery which is averaging over twenty years and working out of buildings fifty years old.

With twenty-eight years of experience in the industry and as Cofounder of the Los Angeles Fastener Association, please feel free to call on me at once if there is any other information you need prior to your making your determination.

Very truly yours,

HY SCHATZ,  
Director of Marketing.

CONSOLIDATED BOLT & NUT Co.,  
Los Angeles, Calif., April 5, 1978.

DEAR MR. CHAIRMAN: I have reflected further on my statement forwarded to you under date of April 3 with regard to the question of whether the President's decision of February 10, 1978, on imported fasteners should be overridden. I would like to supplement that statement with the attached which is summarized as follows:

1. Historical perspective of imports;
2. Domestic manufacturers' anti-jobber policy;
3. Recent developments in the industry demonstrate the wisdom of the President's decision.

Very truly yours,

HY SCHATZ,  
Director of Marketing.

Enclosure.

SUPPLEMENTAL WRITTEN STATEMENT OF HY SCHATZ

My name is Hy Schatz. I am the Director of Marketing for Consolidated Bolt & Nut Company, in Los Angeles, California. I am also the Co-founder and current President of the Los Angeles Fastener Association which has 78 regular and associate members. Because some of our members are manufacturers, I am here to represent Consolidated Bolt & Nut only. We are a stocking distributor of screws, bolts, nuts, washers and other threaded products which pertain to our industry. We are a moderate-size company with sales of over \$3,500,000. (We employ between 30-35.) Our Company is celebrating its 20th year of business this year. Last Saturday marked my 28th anniversary.

The International Trade Commission has recommended a 30 percent tariff hike on all fasteners. Some domestic fasteners manufacturers are claiming they are being hurt by imports; strangely enough, many who are claiming foul are importing themselves. All of them have had and are having profitable years.

Some domestic fastener manufacturers are trying to put distributors out of business. Prior to 1955 there were virtually no fasteners being imported into the United States. At that time the manufacturer of screws and bolts were selling the distributors at the same price as they were to OEM accounts or at best they were given a 10 percent discount to work on, if they were sold at all. That is, 10 percent to cover the costs of the jobber to warehouse, pay salaries and commission, rent and the usual expenses. No company can work on 10 percent. Most businesses have an overhead cost factor of 25 percent or more. The only way the distributor could stay in business was to buy in larger quantities and sell in smaller lots, thereby taking advantage of quantity pricing differentials. They were prevented from accepting large quantity orders. During the period from the fall of 1950 to 1955 there was a shortage of fasteners. Domestic deliveries went to one year and longer. These were some of the important factors which went into having alternative sources of supply from abroad.

Then and now almost 28 years later, these same fastener manufacturers still have that same anti-jobber policy and would like to see distributors put out of business. The proof being when we were hit with shortages in 1973-1975, many of the larger manufacturers of fasteners refused to fill orders they had taken from jobbers and others would take no new orders. Hundreds of thousands of dollars were lost by distributors because they had to fulfill their commitments somehow or have their orders cancelled by their customers. The jobbers paid whatever price they had to, just to be able to come up with the parts. Our company lost several good accounts because we were unable to deliver on standard, but not imported parts. Our manufacturers refused to deliver and the others would either not accept an order for items they had not made for us before, or just would not accept any new accounts. Our only remedy at the time was the courts, but that would have been too slow and too costly a solution. It did, however, force us to start importing items we had not imported before.

We have been given no assurances from the manufacturers that they will continue selling jobbers if a high tariff makes importing prohibitive. The loss of this source of supply would cause shortage again. I believe the opposite will be true. There are over 4,000 distributors in this country. I question how many will remain in business after one year, especially the smaller companies which need the imports to be able to compete at all.

Prior to the Great Depression, country after country retaliated against our restrictive tariffs by putting equally restrictive barriers on our products. Are we prepared to go this round again? We are trying to get Japan to buy more of our produce and other products. If we place large restraints on her, what incentive does she have to buy more from us? Senator Moynihan who was our Ambassador to

India knows how badly that country needs every dollar of trade it can get. Their fastener industry is in the developing stages. Any prohibitions we should install could play havoc with her economy. Do we wish to jeopardize our already strained relationship?

At the present time, even with the large number of imports, deliveries from American manufacturers, depending upon the commodity, are running 8 to 20 weeks. If a high restrictive tariff is put into effect then imports will drop drastically. Local deliveries will surely become extended to six months and longer. Most companies do not have the where-with-all to forecast their needs six months or longer. It also prevents them from making engineering changes because they are committed for parts that may be over a year before they are received and used. There are also the small companies that are unable to maintain an inventory control system. They usually place their order at the time they run out. If that stocking jobber is not there to take care of his needs, he is out of business also. He can't wait six months for a production run. How about the consumer whose needs are less than production run quantity? Where does he go if the jobber disappears? The bulk of the manufacturers do not carry the diversified stock the jobber does; some carry no stock at all and produce for the order only. Many of the manufacturers have minimum orders of \$100.00 or more. Most jobbers have a very small minimum order or no minimum at all. Many of these small OEM companies will have no choice but to go out of business because they can't afford to buy large quantities.

No matter what some of the manufacturers may claim, they do not have the physical capacity to increase their production with their present obsolete equipment to meet the needs of industry. That is the reason of the backlog. They have made profit for many years, but have not reinvested adequately enough in new competitive high speed cold headers. They have the attitude if it runs let it run. If the manufacturers start ordering new equipment now, the demand will drive up the price for them which will result in higher costs to the consumer, and add to the inflationary spiral.

Since September of 1977, the price of imported fasteners have increased from 15 to 40 percent or more mainly due to the drop in the value of the dollar. This has had an equalizing effect. Adding a high tariff to the already increasing cost to the distributor will in all likelihood make for wind-fall profits for the domestic manufacturers. When the steel industry was recently granted relief from imports, instead of taking advantage of their price differential they immediately raised the cost of steel 5-7 percent. The ink was not yet dry on the contract signed in the coal industry settlement. Not one pound of coal was delivered, yet steel companies increased the price of the product to where it outraged the nation. What assurances do we have that the domestic manufacturers of fasteners won't raise their prices also when they are not confronted with competition?

The Iron & Steel Institute publication dated 2/10/78, gave their preliminary report that the United States produced 124.7 million tons of steel in 1977. The Industrial Fastener Institute reported on November 22, 1977 in Purchasing Magazine that 14 percent of all steel went into the manufacturers of fasteners. That means that over 27 billion pounds of screws, nuts and bolts were produced domestically. The 704 million pounds that were reported as being imported in 1976 in press release No. 262 on 2/10/78 by Ambassador Strauss is only 3 percent of what we are using. If the usage were only 5 percent of the total tonnage produced, it would still be 12.47 billion pounds, the 704 million imported pounds would represent only 5.6 percent of total usage.

Gentlemen, as you can see granting a high tariff may give the fastener manufacturers some relief in the short run, but our economy will be hurt far greater in the long run by having inflated prices due to the lack of competition and a drop in overall consumer production due to a shortage of fasteners.

There is a better solution for manufacturers of not only fasteners but other products which have also felt the impact of imports. That is to have some form of tax relief so that they can invest in new high speed equipment rather than continuing to use machinery averaging over 20 years old and working out of buildings 50 years old.

I strongly believe that any manipulation of pricing in the market by increased duties would hurt everyone in the long run, therefore, I ask you to sustain the decision of the President and turn down the request for high tariffs. Let us get back to the concepts of Adam Smith. We have the know-how, the competitive ability to be the best, we must get out of the rut of asking the government to do for us what we should be doing for ourselves. No more hand outs, no more tariffs, let's get on with producing parts better, faster and more efficiently.

Thank you.

Senator RIBICOFF. Our next witnesses will be John Sheehan and John Oshinski.

Mr. OSHINSKI. Mr. Chairman, my name is John Oshinski. I am a legislative representative with the United Steelworkers of America.

Jack Sheehan, the legislative director, was to present our statement on behalf of our union and the thousands of members we represent in this industry and in allied industries. Regretfully, Jack Sheehan cannot make it and, if you please, I would be his substitute and present a summary statement.

Senator RIBICOFF. All right.

Mr. OSHINSKI. Appended to our summary statement is a full statement, which we would ask to have included in the record.

Senator RIBICOFF. Without objection, the full statement will be included in the record, as if read.

Mr. OSHINSKI. Thank you, Mr. Chairman.

#### **STATEMENT OF JOHN L. OSHINSKI, INTERNATIONAL REPRESENTATIVE, UNITED STEELWORKERS OF AMERICA**

Mr. OSHINSKI. Our union urges that the industrial fasteners industry and the union workers attached to it be protected from the serious injury which, according to the ITC, is resulting from the import penetration. We seek a congressional resolution that Congress not approve the Presidential action to reject the ITC recommended remedies.

There are three important situations which we think this committee ought to evaluate as it makes its choice as to whether to report a resolution to override the President's decision to reject the ITC recommendation, that relief from imports be extended to the industrial fasteners industry which has been found injured as a result of imports.

One is the support for section 201 procedure. I am sure that there are some on the committee who are sure that a freer trade policy is in the best interests of the country both in terms of economic and political advantages.

Nevertheless, when the 1974 act was passed to fulfill that trade policy, the Congress recognized that unreasonable injury might occur and that there was need of a mechanism to respond to such a situation.

In addition, the Congress, concerned that rigid protection might prevail if no relief system was incorporated in the act, liberalized the escape clause provisions of the 1962 Trade Expansion Act. It was a commitment that, where injury was found, relief would be forthcoming.

Such relief could either be import moderation or readjustment assistance.

The instrument for making the economic finding and recommending the form of relief is the International Trade Commission. While the Congress should certainly be concerned that the ITC is not exercising its responsibility in an arbitrary and capricious manner, it should be determined that the role and function of the ITC not be undermined.

The determination of injury under the 1974 act is not a mere political decision but an economic one. Hence, the Congress quite rightly established an economic agency to make determinations of injury.

Our union, the United Steelworkers of America, appears before you today not to redevelop the case of economic injury, but to elicit, once again, the political and legislative decision which established the ITC in the first place. We seek now the political decision to support the ITC which the Congress created and to reiterate the commitment that our trade policy can be responsive to injury if it does occur.

It is true that the ITC's decision of economic injury is not the final determinant. The Congress did give the President the right to reject relief because of other considerations.

But the Congress shares that final decision with the executive branch. We do not think there are overriding political and economic factors which justify the denial of relief. We do think that a pattern of rejection of ITC decision will threaten the viability of that agency and render meaningless the commitment of Congress as embodied in section 201 to provide relief when injury has been found.

In our appended statement, Mr. Chairman, we allude to the determination made by the President in regards to the high carbon ferrochrome industry where the ITC likewise found injury and suggested, say, a level of 30-percent duty for that impacted industry and the President likewise refused that decision.

Two: Support for steel antidumping enforcement. While there has been hesitancy and even opposition to the trigger price mechanism as a means of implementing the antidumping laws, there seems to be a consensus that dumped steel shall not enter our markets. Now, whether an expedited procedure should be followed or not, any administrative prohibition against dumped steelmill products can be violated by accelerating the import of fabricated steel products.

Steel rods have a trigger price, but not industrial fasteners. Testimony was given during the steel hearings that injury was occurring in this sector.

If the ITC recommendations are not upheld, then the relief will be a clear signal to our trading partners that the antidumping relief for steel can be vitiated by the introduction of other fabricated steel products. Thus, our union, which has already sought the assistance of the Congress against last year's surge of steelmill products, requests that you not allow the current initiative against steel imports to be undermined. A twofold problem can develop if the ITC recommendation is rejected. A: If industrial fasteners imports continue to increase, there will be a loss in steel production at a time in which we are attempting to expand steel production. B: The fastener industry, which must purchase either domestic steel or imported steel at the trigger price, will not be able to compete with imported fasteners, as has been discussed earlier today.

A charge can, therefore, be made that, by enforcing the antidumping provisions of the 1974 act against dumped steel, another domestic industry must not be injured—or must be injured. The sensible response is to accept the findings of the injury and concur in our recommendation for relief of the fastener industry.

Three: Support for the injured workers. The union has always maintained that it prefers jobs to unemployment compensation. Now, if you deny the ITC-recommended relief, the only alternative left to workers is to obtain and exhaust their TRA benefits. And then what happens? That unanswered question is the political and legislative issue before this committee. We feel that unemployment is a domestic consideration which overrides any foreign political consideration.

The ITC shows a drop of 26 percent in the last 4 years, or some 4,400 workers displaced, and most of those, Mr. Chairman, have been members of the Steelworkers.

Since 1969, over 7,000 jobs were lost, again, most of those jobs lost were steelworker members. We do not argue today the economics of the import penetration. Instead, we plead for the viability of the section 201 system of escape clause relief which was enacted to allow our trade policy to be more flexible, to be more humane.

The ITC has the responsibility to determine the economic consequences. Having done so, it should not be rejected.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much.

[The prepared statement of Mr. Sheehan follows:]

TESTIMONY OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR,  
UNITED STEELWORKERS OF AMERICA

I. SUMMARY STATEMENT

Our union urges that the industrial fastener industry and the workers attached to it be protected from the serious injury which, according to the ITC, is resulting from import penetration. We seek a congressional resolution that Congress not approve the Presidential action to reject the ITC recommended remedies.

There are three important considerations which, we think, this committee ought to evaluate as it makes its choice as to whether to report a resolution to override the President's decision to reject the ITC recommendation that relief from imports be extended to the industrial fastener industry which has been found injured as a result of imports.

(1) *Support for section 201 procedure*

I am sure that there are some on the committee who feel that a freer trade policy is in the best interest of the country both in terms of economic and political advantages. Nevertheless, when the 1974 Act was passed to fulfill that trade policy, the Congress recognized that unreasonable injury might occur and that there was needed a mechanism for responding to such situation. In addition, the Congress, concerned that rigid protection might prevail if no relief system was incorporated in the Act, liberalized the escape clause provisions of the 1962 Trade Expansion Act. It was a commitment that where injury was found relief would be forthcoming. Such relief could be either import moderation or readjustment assistance. The instrument for making the economic finding and recommending the form of the relief is the International Tariff Commission (ITC).

While the Congress should certainly be concerned that the ITC is not exercising its responsibility in an arbitrary and capricious manner, it should be determined that the role and function of the ITC not be undermined. The determination of injury under the 1974 Act is not a political decision but an economic one. Hence, the Congress quite rightly established an economic agency to make the determinations of injury. Our union appears before you today not to redevelop the case of economic injury, but to elicit once again the political—the legislative—decision which established the ITC in the first place. We seek now the political decision to support the ITC which the Congress created and to reiterate the commitment that our trade policy can be responsive to injury if it does occur.

It is true that the ITC's decision of economic injury is not the final determinant. The Congress did give the President the right to reject the relief because of other consideration. But the Congress shared that final decision with the executive branch.

We do not think that there are overriding political and economic factors which justify the denial of relief. We do think that a pattern of rejection of ITC decision will threaten the viability of that agency and render meaningless the commitment of Congress, as embodied in Section 201, to provide relief when injury has been found.

*(2) Support for steel antidumping enforcement*

While there has been hesitancy and even opposition to the trigger price mechanism as a means of implementing the antidumping laws, there seemed to be a consensus that "dumped" steel should not enter our markets. Whether an expedited procedure should be followed or not, any administrative prohibition against dumped steel mill products can be violated by accelerating the imports of fabricated steel products. Steel rods have a trigger price but industrial fasteners do not. Testimony was given during the steel hearings that injury was occurring in this sector. If the ITC recommendations are not upheld, then the denial of relief will be a clear signal to our trading partners that the antidumping relief for steel can be vitiated by the introduction of other fabricated steel products. Thus our union, which has already sought your assistance against last year's surge of steel mill products, requests that you not allow the current initiative against steel imports to be undermined. A two-fold problem can develop if the ITC recommendation is rejected.

(a) If industrial fasteners imports continue to increase, there will be a loss in steel production at a time in which we are attempting to expand steel production.

(b) The fastener industry, which must purchase either domestic steel or imported steel at the trigger price will not be able to compete with imported fasteners. A charge can, therefore, be made that by enforcing the anti-dumping provisions of the 1974 Act against dumped steel, another domestic industry must be injured. The sensible response is to accept the findings of injury and concur in the recommendations for relief for the fastener industry.

*(3) Support for the workers injured*

The union has always maintained that it prefers jobs to unemployment compensation. If you deny the ITC relief, the only alternative left to workers is to obtain and exhaust their TRA benefits. And then what? That unanswered question is the political and legislative issue before this Committee. We feel that unemployment is a domestic political consideration which overrides any foreign political consideration. The ITC report shows a drop of 28% in the last four years or 4,400 workers displaced. Since 1969, over 7,000 jobs were lost. We do not argue today the economics of the import penetration. Instead, we plead for the viability of the Section 201 system of escape clause relief which was enacted to allow our trade policy to be more flexible—to be more humane. ITC has the responsibility to determine the economic consequences. Having done so it should not be rejected.

## II. FULL STATEMENT

Mr. Chairman, my name is John J. Sheehan. I am Legislative Director of the United Steelworkers of America. The United Steelworkers of America appears here today as a party of interest because our union represents for collective bargaining purposes, a significant number of workers employed in the domestic industrial fastener industry.

In addition, our union appeared as a co-petitioner in TA-201-27, conducted under Sec. 201 of the Trade Act of 1974, before the International Trade Commission, where we outlined the adverse impact on employment of our members in this industry and requested relief from the rising levels of imports. Most importantly, the USWA appears here today to concur in the resolution before this Committee in not approving the action of the President in his recent determination, under Sec. 203 of the Trade Act, which rejected the ITC remedy. Thus, we ask the Committee to support and adopt the congressional resolution which would reverse the negative action of the President in denying import relief to the industry and its workers.

In enacting the escape clause provision in the Trade Act of 1974, Congress specifically provided this area of relief for industries which need the relief for orderly adjustment to protect against serious injury due to the free trade policies of our government.

When an industry or workers feel grievously injured due to our national trade policies and we seek legislative relief, we are instructed by the Congress or the Executive Branch, to avail ourselves of the already available escape clause provisions. We are told that if we meet the tests that the Congress has set forth through the ITC, that then we shall receive relief. In that regard, Congress did

statutorily set relatively exacting standards or measurements to determine injury based on or emanating from our trade policies. The Act also provided a series of remedies and relief corresponding to the extent of such determined injury. With such explicit remedies Congress was moving the trade issue from one of a largely political context to a policy where objective analysis was determinative. With regard to the industrial fastener industry, we contend that the President has completely disregarded the stated Congressional intent, first by refusing to recognize the extent of serious injury to that industry, and second by refusing to implement, to any degree, relief recommended by the ITC. Industry injury had been determined by comparative objective economic standards, and a remedy has been crafted and measured by the extent of such determined injury. But the President did not use the same standards in implementing the relief recommended.

Either the escape clause section of the Act will be operated to ascertain injury and to prescribe relief on an objective basis as the Congress had intended, or it will operate as largely a political exercise with little regard or attention to the objective facts. Neither industry nor labor will wish to engage in such expensive and futile exercises.

If the will and intent of Congress will be so undermined as is happening presently, then the Congress, failing to curb such political interference (as it has the obligation and opportunity to do in this case), will be asked to draft new legislation, certainly more restrictive, with more effective provisions to enable industry and labor to gain relief.

Of particular and perhaps paramount concern to our union, is the effect of the Presidential failure to implement the ITC remedies and the interpretations of the foreign manufacturers of those steel products which are not directly covered by the trigger price system.

We commend the Administration for its expeditious implementation of the anti-dumping laws through the imposition of the trigger price system, and hope for its success in restraining penetration of basic steel mill products. But we view with grave apprehension the effects on fabricated steel products which are not directly covered by the trigger price system and hence allows that mechanism to be skirted. That is precisely the reason we ask Congress to reverse the decision in this case, to send a clear message that we intend to enforce our laws and regulations against dumped levels of imports, whether in basic steel mill products as well as in those products "down stream" in the steel process, such as bolts, nuts, screws, valves, tools, machinery, cutlery, rail, etc.

We differ with the President's stated reasons for denial of relief to the fastener industry in several important areas; among them are:

(1) That the import relief levels would have produced an inflationary effect which would have caused unemployment in other U.S. industries.

Present levels of duties of these products are as low as one or two mills per pound. The increase prescribed would have a very small or negligible effect on the total cost of good which use nuts, bolts, and screws. The President developed no factual basis to support his contention that inflationary impacts would ensue.

(2) The President indicated that the reemployment prospects for unemployed fastener workers is "fair" because these workers are located in areas with unemployment rates below the national average. This argument is incredible. As we noted, unemployment among our members in this industry is at a high level and is increasing as evidenced by recent press reports and contacts with responsible officials at plant operations. This industry employs highly skilled workers with wages and fringe benefits of pensions, vacations, etc., not readily obtained or recouped with another employer. For instance, with a reported 1,300 workers idled from Bethlehem Steel since 1975 in the Lebanon, Pennsylvania labor market, the likelihood of securing replacement jobs elsewhere is dim. Most of these industrial areas are already heavily impacted by unemployment. In order to achieve a national and regional higher level of employment, the President should protect the jobs in this industry.

(3) The President indicated that imposition of import relief would invite retaliation from our trading partners. This again is a presumption and is highly speculative. Our trading partners have erected many trade barriers to our products, and this relief should not effect retaliation in view of the level of imports in those products—55% of consumption. This is a very high penetration.

We respectfully request that the Committee override the President's action and concur and support the resolution before it.

The ITC, as we know, on December 8, 1977, after a six-month investigation, did affirm in its report to the President, that the industry was indeed seriously injured or substantial threat of serious injury existed to that industry.

*Statutory requirements met*

The ITC investigation concluded, in the majority, that all the statutory criteria had been met with respect to an affirmative finding of such injury, namely that: (1) imports had increased; (2) such rising levels of imports were causing, or threatened, serious injury; and (3) these imports presented a substantial cause of serious injury to the domestic industry producing like or competitive products.

*Rising imports*

In arriving at such determination, the ITC assessed that U.S. imports had increased to near the 800 million pounds mark (774 million pounds in 1976), up from 535 million pounds in 1975 and 704 million pounds in 1976. On a comparative basis for the past nine years imports rose from 372 million pounds in 1969, representing 25% in 1976—again rising at the rate of 20% in the first half of 1977 over the like period of 1976. Thus, the statutory requirement has been met with respect to rising imports.

*Serious injury*

Employment in this capital-intensive industry likewise considerably decreased. In 1969 the total number employed was over 20,000. In 1977 less than 13,000 were employed. The United Steelworkers of America had some 6,000 members in this industry certified by the Department of Labor for adjustment assistance benefits. Many of these workers have not returned to work. Indeed, more workers are being added to the unemployment rolls. Thirteen hundred members remain idle at the Lebanon, Pennsylvania, bolt plant of Bethlehem Steel. Two hundred workers at the Lanham Bolt plant in East Chicago, Indiana, are idle. Russell, Burdsall and Ward (RBW) plant at Rock Falls, Illinois, with over 200 already idled, announced further cutbacks involving 23 more workers this past week. Another 100 will be laid off at Coraopolis, Pennsylvania. Recent checks of unemployment in Birmingham, Alabama, show Lamson and Sessions Company having over 100 members laid off, and Vulcan also is having about 100 members laid off. We note that ITT-Harper is laying off some 50 workers in the Hudson River Valley, New York, area and at its Morton Grove, Illinois, operation 350 workers have been laid off. While many of the workers received trade adjustment assistance benefits, a considerable number of them otherwise eligible were denied these benefits because of unnecessarily restrictive provisions which operated to deny them benefits promised by Congress in the Act, and in whose interest we recently testified before this Committee.

While this Committee recently moved to act on the TRA section of the Trade Act and did correct some of the restrictions, it fell short in addressing all the necessary revisions in that section. According to reports from the industry, profits in the industry showed a marked decline, with a number of the producers reporting operating losses and some of them going out of business or otherwise terminating production. While profits are being maintained in certain segments of the industry, this Committee should realize that it is precisely those segments of the industry, where profits have declined and unemployment increased, for which relief is being sought. For instance, the automotive fasteners which the President's message indicated would not be injured is not within the scope of this relief action. Hence, statements about its welfare are not relevant to the lack of economic well-being in the rest of the industry. Operating levels in the nonautomotive section continued to slide to about 50% capacity.

The statutory criteria were met with regard to substantial injury. The ITC determined that imports were a substantial cause of injury.

We have cited these details to emphasize the factual state of the industry which finds itself in a circumstance for which Congress mandated relief in the enactment of the Trade Act. Congress empowered the ITC to assess these circumstances on a studied or objective basis. The ITC has done so and has recommended relief.

Pursuant to Section 201(d)(1) the Commission prescribed levels of increased tariffs necessary to remedy the serious injury. Such levels were ad valorem duty rates of 30% in the first and second years, with a reduction to 25% in the third year and 20% in the fourth and fifth years respectively.

There is an amazing parallel of the Fastener Industry with that of the case of the domestic high carbon ferrochrome industry (HCF). Both are highly capital intensive and both are technologically efficient with skilled work forces.

That industry also sought relief in the Section 201 escape clause provision when its very existence was threatened by the flood of imports from foreign sources, largely South Africa.

The ITC again determined that such quantities of high carbon ferrochrome (HCF) were being imported as to be a substantial cause or threat of serious injury to the domestic industry. To counter-balance such import penetration the Commission recommended the imposition of rates of duty to be increased by 30% the first and second years, reducing to 25% the third year and dropping to 20% the fourth and fifth years. The small domestic industry consisting of five firms saw import levels increase from 44,000 tons in 1972 to over 107,000 tons in 1976.

The President, in the HCF issue, noting that only about 1,000 U.S. workers' jobs were imperiled, rejected the duty increase, or the imposition of orderly marketing agreements, or any other form of relief. According to the President, there would have been an adverse inflationary impact if the full ITC remedy were put into effect. Reliable economists, however, indicated that if full duty were assessed the cost of a ton of stainless steel would rise less than 1½ to 2%, based on the use of 110,000 tons of new HCF needed to produce the one million tons of steel. Thus, the total cost to the economy would have been about \$22 per ton of stainless steel which sells at \$15.00 per ton to preserve jobs and a needed industry.

In our view the facts developed in the ferrochrome escape clause action portray a classic example of offshore producers taking advantage of our market by attempting to drive an important industry out of business in order to obtain a monopoly advantage. The President, however, failed to use objective criteria in setting aside the ITC recommendation, but, in our judgment, leaned to political considerations in his rejection.

We mention this case not only because of its merits but because there may be evolving a pattern in which ITC findings and recommendations may be rejected by the Executive Branch. If that pattern takes hold, then the escape clause provisions are meaningless and Congress' commitment to moderate injury is voided.

Senator RIBICOFF. The committee will stand in recess.

[Thereupon, at 12:35 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

[By direction of the chairman, the following communications were made a part of the record:]

#### STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, the hearing today on the President's decision to reject the International Trade Commission's recommendation for import relief for the domestic steel fastener industry is crucial. I firmly support the ITC's findings and I believe that the Administration's decision is a serious mistake both for the fastener industry and for our overall trade policy.

In enacting the Trade Act of 1974, it was the intent of Congress to design a series of safeguards and remedies for American industries which had been severely injured by foreign imports. Producers who believed their industry was being impacted by imports could petition the International Trade Commission for relief. The ITC's recommendations would then go to the President for review and final executive decision. In the current case the President has made his decision not to aid the industry and it is now up to Congress to overrule him.

On December 7, 1977, the International Trade Commission found in favor of the fastener industry's petition. The ITC concluded that the industry had suffered substantial injury from imports, and that the facts of the case clearly necessitated import relief. Import penetration had increased from approximately 21% of the domestic market in 1969 to 45% in 1977, employment fell during the same period by 36% from 68,400 workers to 53,400, and the industry is currently operating at only 50% of capacity. My own state of Pennsylvania, which alone produces over one-half billion dollars worth of nuts, bolts and screws yearly, has 54 fastener plants employing over 7,000 workers. The state has been hard-hit by the flood of imports; thousands of Pennsylvania workers have lost their jobs.

But not only the American workers and producers in the steel fasteners industry have been injured. Our ability to respond in the event of a national emergency may have been severely impaired. Steel fasteners are such a vital and essential product that we cannot fail to maintain an adequate domestic source of supply. We cannot afford to become dependent on foreign supplies, and we must insure free access to an adequate supply of American fasteners.

In addition, the Treasury Department's recent imposition of reference prices for steel imports will aggravate the situation by effectively increasing input costs for the domestic steel producers who import raw materials. These producers, faced with competition in the domestic market from imported fasteners, cannot increase the price of their fasteners to reflect cost increases without adversely affecting their competitive position. If this continues, it could mean even more serious problems for an already severely injured industry. It is not the purpose of the Trade Act to come to the aid of industries only after they are dead. We must anticipate these problems and act promptly.

For these reasons, I believe that the President's decision to deny the import relief recommended by the ITC is a grave mistake. The arguments used by the Administration to justify its action—possible inflationary repercussions, possible protectionist retaliation by importing nations, and the number of jobs which could be lost in other industries—are weak and do not make a convincing case that the ITC's decision was misguided.

What particularly concerns me is the argument that we might face foreign retaliation. In my view this possibility is much less important than maintaining our firmness and credibility with our trading partners. We must keep in mind that our credibility and leverage in multi-lateral trade negotiations depends on our past record in enforcing the laws we have enacted, and on our willingness to stand firm in support of our principles. There is no doubt that our position is severely weakened when foreign nations realize that much of our trade legislation, including Section 201 of the Trade Act, remains a paper tiger. Every recommendation of the International Trade Commission on import relief since the Trade Act of 1974 became law has been altered or rejected by the Administration with the single exception of specialty steel. So long as we send this kind of signal to our trading partners—that we don't intend to enforce our laws or act aggressively in support of our trade principles—we will make no progress in obtaining international agreement on the kinds of trading relationships we would like to see.

It is not my intention to make a plea for across the board protectionism. What is really needed, of course, is better adjustment procedures in all nations, but this takes time and planning. Until we reach that point, industries which are impacted by imports and which suffer through decreased profits, worker layoffs, and reduced plant capacities, must be assisted. It is precisely the purpose of Section 201 of the Trade Act to provide such industries with temporary relief and with the necessary room to recover and regain their health.

I believe that the particulars of the steel fasteners case demonstrate that the industry needs temporary relief from fastener imports, and it is our duty to provide that relief by overriding the President's decision. I urge the committee to support S. Con. Res. 66.

STATEMENT OF  
DONALD R. CHURCH  
CHAIRMAN OF THE BOARD  
CHURCH AND CLARK, INC.

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

RE SENATE CONCURRENT RESOLUTION 66

APRIL 4, 1978

\* \* \* \* \*

Mr. Chairman:

Church and Clark, located in Dallas, Texas, is a manufacturer of fastener products, primarily of two types: carbon steel foundation bolts (85 percent of our business) and continuously threaded low carbon steel rods (15 percent).

Our foundation bolts are used in residential and commercial concrete foundations to bolt down wood and steel framing and equipment.

I started a small company to produce foundation bolts for distribution in the southwest during 1957. At that time the selling price of the most popular size, 1/2" x 8", (80 percent of the usage) was 8 cents each. My

cost was 5 1/2 cents each. By 1961, the Japanese and Belgians saw the potential volume in the item and their importers were offering this same bolt to my customers for 4 1/2 cents each.

I was also a manufacturers agent at the time I started this company. However, I spent five years of hard work repaying the losses of over \$100,000 created by thinking that the imports may not be here to stay. I followed them down in price as best I could until it was a lost cause. I sold off the equipment for peanuts. Threading equipment was not in demand, and imports had taken over a large portion of the volume in standard bolts in the previous five years. I was forced to close the business, but fortunately was able to do so without bankruptcy because of my income as a manufacturers agent.

From 1961 through 1969 I brokered foundation bolts to smaller dealers. By 1970 the selling price of imports was back up to over 7 cents each. The larger American manufacturers had discontinued producing these 1/2" x 8" bolts because they were not profitable. We acquired more modern, more efficient equipment and with minimum wage labor we were able to build our company through distribution to smaller type accounts, who could not anticipate their needs by buying from importers. By 1974, importers were bringing these bolts into the ports, stocking them and offering them with very little mark-up over future foreign shipments.

Survival for us is a matter of finding nooks and crannies around the country, where the customers either are not aware of imports or cannot buy

the quantity necessary to get the freight costs down. Through hard merchandising we sell pool truck loads sometimes to six or seven accounts stopping in five states before final destination.

Each year we have had to continue selling the "football" of this part of the fastener business, the market for which is dominated by importers. We cannot sell on either coast, and seldom sell the larger distributors, because of the price of imports. We have continued to fight for this business because our debts were up and without the volume we would not cover our obligations. To replace the volume lost to imports, we started quoting the type of foundation bolts used in plant construction and began making "all thread" rod. ("All thread" rod had been imported below domestic costs, but the American mills started competing with imported rod and we and other American producers were able to get back into the market.)

The foundation bolts used in residential and light commercial building remain dominated by imports. We estimate the market in the U.S.A. for foundation bolts for residential construction to be \$25 to \$30 million. Light commercial construction accounts for about another \$10 million. We estimate that India, Japan, Taiwan, and Korea have over 60 percent of this business. Many of our American manufacturing competitors have quit making this product and have started importing. In 1977 our share of the market was approximately \$2.5 million. In 1978 we predict we will drop a million dollars or more in sales. Our 1977 net profit after taxes was 2.3 percent of sales, which obviously is much too low to permit any new investment in equipment. Our

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customers in Chicago, St. Louis, New Orleans, and Houston and elsewhere advise us that the price of Indian imports is 22 percent under us. And, we have not yet raised our prices to recover the increase in domestic rod prices resulting from the implementation of the trigger price system. The 30 percent duty recommended by the International Trade Commission was made before trigger prices were established. The trigger price on rod, our basic new material, without higher duties on fasteners, puts us in an impossible cost squeeze. Our costs of production are up 15 percent, but we can't raise our prices.

In the past 30 days, a major importer, whose name would be familiar to many of us interested in this case, called us. A native Indian, an employee of the importer, was speaking. He said, "Mr. Church, we have known that you are a major supplier of foundation bolts in this country, and we are sure that you will not be able to compete in the future with imported bolts. We would like to encourage you to find other uses for your equipment and let us import your needs from India. We would offer you a territory." This same person has since visited our offices and has made repeated attempts by phone since, to encourage us to concede.

Were we to succumb to such an arrangement we would be forced to:

- (1) Lay off approximately 60 employees.
- (2) Idle \$1/2 million worth of equipment.
- (3) Replace over 10 million pounds of America made steel, our raw material requirement last year, with imports in the form of finished goods. This would lay off American steelworkers.

- (4) Be at the mercy of an importer whose business is predicated on purchasing from overseas at prices below the reach of American manufacturers giving work to fewer Americans. We would be sending American dollars to countries whose manufacturers and workers are already subsidized by their governments.

I urge the members of this Committee to support Senate Concurrent Resolution 66 and give the import relief we deserve under your legislation, the Trade Act of 1974.

**CANADIAN FASTENERS INSTITUTE**

One Yonge Street, Toronto, Ontario M5E 1J9 Telephone (416)363-7261

March 30, 1978.

Senator Abraham Ribicoff,  
Chairman,  
Senate Finance Sub-Committee on Trade,  
United States Senate,  
Washington, D.C.,  
U. S. A.

Senator Ribicoff:

We are very appreciative of this opportunity to present the views of the Canadian Fastener Industry before the Senatorial Hearing being held on the "determination of the President not to provide import relief under section 203 of the Trade Act of 1974 to the domestic industry producing bolts, nuts, and large screws of iron or steel".

Our view is that the working relationship, between your country and ours, in the fastener industry is indeed a "particular" one and we feel an important factor to be considered in the deliberations of the hearing.

The attached information describes the relationship in detail and is provided with the thought that it will assist the Sub-Committee in its work.

Thank you,

Peter G. Garneau,  
Manager.

PGG/mlr

Attachment



**CANADIAN FASTENERS INSTITUTE**

*One Yonge Street, Toronto, Ontario M5E 1J9 Telephone (416)363-7261*

**A STATEMENT DESCRIBING THE PARTICULAR RELATIONSHIP  
BETWEEN THE CANADIAN FASTENER INDUSTRY AND  
THE AMERICAN FASTENER INDUSTRY**

**PREPARED FOR THE INFORMATION**

**OF**

**SENATOR ABRAHAM RIBICOFF  
CHAIRMAN  
SENATE FINANCE SUB-COMMITTEE ON TRADE  
U.S. SENATE, WASHINGTON, D.C.**

**WITH REGARD TO**

**THE PUBLIC HEARING ON THE DETERMINATION OF  
THE PRESIDENT NOT TO PROVIDE IMPORT RELIEF  
UNDER SECTION 203 OF THE TRADE ACT OF 1974  
TO THE DOMESTIC INDUSTRY PRODUCING BOLTS, NUTS,  
AND LARGE SCREWS OF IRON OR STEEL, TO BE HELD  
COMMENCING APRIL 4, 1978**

**March, 1978**

MEMBERSHIP LIST

D.E. Sudinger, Gen. Mgr.,  
Canada ITW Limited,  
67 Scarvsdale Road,  
Don Mills, Ontario  
M3B 2R2

A. Paulin, President,  
Capital Metal Industries,  
Div. of H. Paulin & Co. Ltd.,  
61 Milne Avenue,  
Scarborough, Ontario  
M1L 1K4

L.E. Gasley, Vice President,  
Marketing,  
Automotive Hardware Ltd.,  
55 Brown's Line,  
Toronto, Ontario  
M8W 3B4

M. Harling, Vice President,  
Industrial Fasteners Ltd.,  
Box 970,  
Marieville, Quebec  
J0L 1J0

C.C. Smith, Man. Director,  
Linread Canada Limited,  
P.O. Box 540,  
Guelph, Ontario  
N1H 6L1

J.D. Loveridge, President,  
Morrow Screw & Nut Co.,  
390 Thomas Street,  
Ingersoll, Ontario  
N3C 3K1

D.P. Lepore, Gen. Mgr.,  
F.L. Robertson Mfg. Co.,  
97 Bronte Street,  
Milton, Ontario  
L9T 2N8

C. Westwood, Mgr., Fasteners,  
Sidbec-Dosco Limited,  
P.O. Box 67, Station A,  
Montreal, Quebec H3C 2R4

R.H. Clayton, Sales Mgr.-Fasteners,  
The Steel Co. of Canada Ltd.,  
100 King Street W.,  
Hamilton, Ontario  
L8N 3T1

J.W. Wing, President,  
Thomson (Canada) Rivet Co. Ltd.,  
P.O. Box 760,  
Gananoque, Ontario  
K0H 1R0

R. Olinoski, Vice President  
Venture Screw Mfg. Co.,  
Div. of Fastener World Ltd.  
555 Denison Street,  
Markham, Ontario  
L3R 1C8

M.J. Tragakis, Vice President,  
Farmer & Bulloch,  
Div. of Textron Canada Ltd.,  
15 Clarence Street,  
Gananoque, Ontario K0H 1R0

T.J. McNeill, Gen. Sales Mgr.,  
Industrial Screw & Machine Works Ltd.,  
5445 Pare Street,  
Montreal, Quebec  
H4P 1R1

G. Dregar, Vice President,  
Trans-Union Fastener Group,  
Meadowvale Corpn. Centre,  
Plaza One, 2000 Argential Road,  
Suite 303,  
Mississauga, Ontario L5M 1P7

R.A. Kiddey, President,  
Triad-Triumph Limited,  
320 Attwell Drive,  
Rendale, Ontario M9W 5B7

INTRODUCTION

The Canadian Fasteners Institute is a trade association of principal Canadian manufacturers of fasteners and was founded in 1953. It is the spokesman for member companies representing over 90% of the Canadian production of the fasteners covered by the recent U.S. International Trade Commission recommendation.

US/CANADA-FASTENER TRADE

The Canadian Fasteners Institute respectfully submits that the bilateral trade in fasteners between the United States and Canada (as opposed to the one-way flow of fasteners into the United States by all other fastener exporting countries) should be sufficient reason for preferential treatment to the Canadian fastener industry. The more so when statistics (1) reveal an average annual surplus of over fifty million dollars (\$50,000,000) in favour of American fastener producers through the period 1973-1976 (approximately fifty-eight million dollars (\$58,000,000) annually 1975-1976). Needless to say, this two-way trade in fasteners between our two countries is highly favourable to American fastener producers and has brought many benefits to it and to industries dependent upon it. Far from injuring their American counterparts, Canadian fastener manufacturers provide their American customers (who in many cases have branches in Canada or export their manufactured products to Canada) with a reliable source and service of quality fasteners in a stable and consistent manner. Concurrently, American fastener manufacturers share in Canadian market growth. The economies of scale made possible by this unique two-way flow greatly benefit the North American fastener industry and consumers.

Manufacturers and customers on both sides of the border consider North America as a single market where the fastener producing companies sell to the same customers on both sides of the border in many cases. They share common associations in trade organizations and manufacture all of their products to identical standards on similar tooling and auxiliary equipment, most of which is produced in the United States. Canadian workers are organized into the same international unions as in the United States, are paid comparable wages and are granted similar working conditions. Other costs, such as energy, transport, tooling and packing are basically the same, as in the cost of raw material, which is purchased from a similar combination of captive, other domestic, and import sources.

The single industry concept has been recognized by the Capscrew and Special Threaded Products Bureau, which, on June 14, 1973, submitted a request to the Ways and Means Committee of the United States House of Representatives urging "that Canadian manufacturers of screws and special threaded products be considered as belonging to the special category of North American manufacturers who are not undermining the welfare of the United States threaded fastener manufacturers". (2)

- (1) Appendices A. and B.
- (2) Appendix C.

We have also noted that at a public hearing of the International Trade Commission in Cleveland, Ohio, on April 10 and 11, 1975, Mr. H.E. Geissler, Vice-President of Lamson & Sessions Company, in referring to large increases to imports of fasteners, unfair competitive practices and possible monopoly at the expense of the American consumer, clearly exempted Canada from these charges and said that American fastener products are quite capable of "holding their own" with our "neighbours up north" (Canadian fastener producers). In fact, in its Report to the President dated December 9, 1977 based on the hearings in Washington on September 29 and 30, 1977, USITC Commissioner Italo H. Ablondi stated: "It is difficult to reconcile how U.S. imports from Canada can be specifically considered a cause of serious injury to the domestic industry when the United States enjoys such a sizable trade surplus with Canada in such articles." (3)

#### LABOUR

It is pertinent that one of the co-competitors of the U.S. I.T.C. was the United Steel Workers of America. The substantial majority of Canadian product affected by the I.T.C. recommendation is produced by Canadian members of the U.S.W.A. We do not believe the U.S.W.A. would wish to see their Canadian associates seriously injured by the selection of a method of control of Asian imports that adversely and unduly affects Canada.

#### THE U.S. INTERNATIONAL TRADE COMMISSION RECOMMENDATION

The I.T.C. reported to the President that imports, primarily from Japan, are a substantial cause of serious injury, or the threat thereof, to domestic producers.

The Commission's own staff study of possible remedies addresses itself exclusively to Japanese imports as evidenced by its assumption of extra lead times on imports, and by its use of only Japanese costs in the regression equations.

The same study concludes that a duty rate of 40% would result in a reduction in 1978 imports of 150 million pounds. However given the large price differential between American and Asian fasteners (which is almost always more than 30%), it cannot be assumed that the recommended duty rate of 30% would result in an appreciable reduction in the overall volume of imported fasteners.

U.S. imports of Canadian fasteners (exclusive of trade under the Auto Parts Trade Agreement) total approximately 60 million pounds or 8% of all U.S. imports. Canada's unique similarity with the U.S.A. cost base for labour and materials render it entirely incapable of competing in the face of a 30% rate of duty.

- (3) United States International Trade Commission Report on Investigation No. TA-201-27 under Section 201 of the Trade Act of 1974, December 1977, page 16-17

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The net effect of implementation of the I.T.C. recommendation will be to virtually eliminate Canada as a source. However, such a result would not reduce the volume of fasteners imported into the United States; the bulk of fasteners formerly imported from Canada would then be picked up by Asian manufacturers, whose low prices will enable them to absorb a 30% duty rate and still be lower-priced than the American producers. The effect on other exporting nations would be nominal. The Canadian Fasteners Institute does not see how this can possibly be considered a viable U.S.A. solution to the injury determination.

Faced with the loss of its American market, and with an already overwhelming deficit in fastener trade with the United States the Canadian fastener industry would have no alternative but to concentrate solely on supplying the Canadian market and seek appropriate protective measures from the Canadian Government in order to survive. We submit that this sort of protectionism on both sides of the border is not in the interest of either the American or Canadian fastener producers and consumers or in the interest of our common goals of reliance on North American industry for materials which are vital to our mutual defence.

## APPENDIX A

United States Fastener Imports

	<u>From All Countries</u>	<u>From Canada</u>	<u>% Canada of Total</u>
TSUSA	646.4920	Lag Screws or Bolts of Iron or Steel	(thousand Gross)
1969	1,698	4	0.3
1970	2,035	2	0.1
1971	1,269	38	3.0
1972	2,299	10	0.5
1973	2,772	16	0.6
1974	2,094	2	0.1
1975*	7,184	33	0.5
1976*	19,347	20	0.1
TSUSA	646.5400	Bolts, and Bolts & Nuts Imported in same shipment	(thousand lb.)
1969	123,252	15,051	12.3
1970	125,089	15,772	12.6
1971	128,904	20,346	15.8
1972	157,253	24,815	15.8
1973	166,609	26,932	16.2
1974	226,493	30,073	13.3
1975	160,643	15,299	10.9
1976	194,369	19,370	10.0
TSUSA	646.5600	Nuts of Iron or Steel	(thousand lb.)
1969	165,661	4,935	3.0
1970	176,062	5,946	3.4
1971	163,613	5,448	3.4
1972	194,812	5,487	2.9
1973	215,525	6,791	3.2
1974	301,613	8,724	2.9
1975	203,038	3,165	1.6
1976	230,390	12,461	5.4
TSUSA	646.6320	Cap Screws of Iron or Steel With Shank or Thread Diameter Over .24"	(thousand Gross)
1969	13,182	539	4.1
1970	14,289	332	2.4
1971	11,416	503	4.4
1972	16,294	883	5.5
1973	19,601	1,433	7.4
1974	35,968	2,402	6.7
1975*	170,361	22,098	13.0
1976*	243,987	26,241	10.8
TSUSA	646.6340	Screws of Iron or Steel with Shank or Thread Diameter Over .24" NPS	(thousand Gross)
1969	4,102	172	4.2
1970	5,135	167	3.3
1971	5,417	108	2.0
1972	7,303	203	2.8
1973	6,931	402	5.8
1974	7,018	643	9.3
1975*	11,568	653	5.7
1976*	16,381	542	3.3

\* Unit changed to thousand lb. effective 1975

APPENDIX B  
U.S./CANADA FASTENER TRADE  
(\$ MILLIONS)

Under the Automotive Parts Trade Agreement:

	<u>U.S. Imports</u> <u>From Canada <sup>1.</sup></u>	<u>Canadian Imports</u> <u>From U.S.A. <sup>2.</sup></u>	<u>U.S. Surplus</u>
1973	17.7	39.5	21.8
1974	18.1	46.4	28.3
1975	18.3	50.2	31.9
1976	30.7	62.2	31.5

General fastener products (APTA trade excluded):

	<u>U.S. Imports</u> <u>From Canada <sup>3.</sup></u>	<u>Canadian Imports</u> <u>From U.S.A. <sup>4.</sup></u>	<u>U.S. Surplus</u>
1973	17.8	42.2	24.4
1974	43.6	53.7	10.0
1975	22.0	52.2	30.2
1976	28.1	51.0	22.9

Total fastener trade:

	<u>U.S. Imports</u> <u>From Canada</u>	<u>Canadian Imports</u> <u>From U.S.</u>	<u>U.S. Surplus</u>
1973	35.5	81.7	46.2
1974	61.7	100.1	38.3
1975	40.3	102.4	62.1
1976	58.8	113.2	54.4

1. U.S. Bureau of Commerce catalogue IM 146, tariff item 646.7900
2. Statistics Canada special tabulation cross referencing tariff items 95002-1, 95004-1, and 95006-1 (APTA) with commodity classes 465-06 through 465-49 covering screws, bolts, rivets, washers and nuts.
3. U.S. Bureau of Commerce catalogue IM 146, tariff items 646.4920, 646.4940, 646.5100, 646.5300, 646.5400, 646.5600, 646.5800, 646.6320, 646.6340, 646.6500, 646.7000.
4. Statistics Canada "Trade of Canada-Imports" catalogue.

APPENDIX C

FRANCIS BERTILLI BUREAU, INC.  
 (ADMINISTRATIVE STAFF)  
 GEORGE P. BYRNE, JR.  
 Secretary  
 ROBERT M. BYRNE  
 Technical Director



*Cap Screw  
 and  
 Special Threaded Products Bureau*

231 MADISON AVENUE, NEW YORK, N. Y. 10017 212 661-3090

June 14, 1973

John M. Martin, Jr., Esq.  
 Chief Counsel, Committee on Ways and Means.  
 United States House of Representatives  
 1102 Longworth House Office Building  
 Washington, D. C. 20515

Subject: Supplement to Statement of George P. Byrne, Jr.  
 Before the Ways and Means Committee,  
 United States House of Representatives on  
May 21, 1973

Dear Mr. Martin:

As representative of the Cap Screw and Special Threaded Products Bureau, the membership of which includes manufacturers of cap screws and special threaded products, located both in the United States and Canada, I respectfully request and urge that no changes in H.R. 6767 be recommended by the Ways and Means Committee of the House of Representatives which would in any way upset the Automotive Trade Agreement between the United States and Canada, or any trade relationship with our good friends who manufacture screws and special threaded products in Canada. We also respectfully request and urge that when H.R. 6767 is discussed by the Ways and Means Committee in its Executive Session that Canadian manufacturers of screws and special threaded products be considered as belonging to the special category of North American manufacturers who are not undermining the welfare of United States threaded fastener manufacturers.

In accordance with our conversation with your office today, please add this letter to my statement (title page attached), before the Ways and Means Committee on May 21, 1973.

Yours very truly,

*George P. Byrne, Jr.*  
 Secretary

GFB/rn

the following is an excerpt from the United States International Trade Commission Report on Investigation No. TA-201-27 under Section 201 of the Trade Act of 1974, December, 1977..... pg:16

largest fastener-consuming market in the United States and its production has vastly increased compared with production during the 1975 investigation. Furthermore, this important market is supplied almost exclusively by U.S. producers. In addition, 7 to 8 percent of U.S. shipments are captive shipments produced solely for intracompany use.

Under section 201(b)2(a) the Commission is also required to investigate significant unemployment or underemployment within the domestic industry. Despite somewhat lower levels of employment after 1975, it appears that many firms have experienced difficulties in hiring skilled laborers. Nevertheless, man-hours worked have increased from 26.5 million in 1975 to 29.6 million on an annualized basis for the period January-June 1977. The increased productivity noted in our 1975 investigation continues to date.

The Commission also investigated other economic factors which have a bearing on the question of serious injury.

The domestic industry has not only maintained but increased its sizable export market. U.S. exports of bolts, nuts, and large screws of iron or steel increased from 172 million pounds in 1975 to 197 million pounds in 1976. During January-June 1977, exports amounted to 106 million pounds, 6 percent greater than in the corresponding period of 1976. The value of exports increased from \$101 million in 1975 to \$107 million in 1976. The value of exports during January-June 1977 was 10 percent higher than in the corresponding period of 1976. It should be noted that whereas U.S. imports of Canadian articles totaled \$58 million in 1976, U.S. exports to Canada amounted to \$91 million during the same year. It is difficult to reconcile

The following is an excerpt from the United States International Trade Commission Report on Investigation No. TA-201-27 under section 201 of the Trade Act of 1974, December, 1977.....PG: 17

how U.S. imports from Canada can be specifically considered a cause of serious injury to the domestic industry when the United States enjoys such a sizable trade surplus with Canada in such articles.

It should also be noted, in 1976, 20 to 25 percent of all imports of bolts, nuts, and large screws were sold to or imported by U.S. producers or their wholly owned distributors.

Since the last investigation, U.S. producers' shipments increased from 1.0 billion pounds in 1975 to 1.1 billion pounds in 1976. U.S. producers' shipments registered 596,000 pounds during January-June 1977, 11 percent higher than in the corresponding period 1976. These improvements in shipments have occurred despite a sizable decline in U.S. producers' inventories, which had fallen from 308 million pounds in June 30, 1975, to 215 million pounds on June 30, 1977.

#### Conclusion

All the available data reveals that conditions within the domestic industry have not changed to the extent that would warrant a different determination. In the absence of change conditions to the contrary I am constrained to affirm my 1975 determination that increased imports of bolts, nuts, and large screws of iron or steel are not a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported articles.

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111

April 4, 1978

**ALLIED INTERNATIONAL-**

AMERICAN EAGLE TRADING CORP.

77 PURCHASE STREET • RYE, NEW YORK 10580 • (914) 967-5700

STATEMENT OF ERIC COHN

Senator Ribicoff and the members of the International Trade Committee:

I thank you for the opportunity to present our thoughts at this hearing. My name is Eric M. Cohn and I am employed by the Allied International-American Eagle Trading Corporation in Rye, New York, who employs 80 Americans. This firm imports bolts, nuts and screws from all over the world. In a sense of full disclosure I wish to state that my firm is partially owned by two American fastener manufacturers, and in addition I wish to state that I personally own stock in one American bolt factory. I also should point out that some of our best customers are domestic factories.

In my opinion, President Carter did the right thing in refusing to raise the duties. I know it was politically unpopular but it was the right decision.

Testimony before the Trade Commission has indicated the domestic factories employ over 13,000 workers. Additional testimony furnished by Federal Screw Works of Detroit, Michigan, and others at the hearings on 201-27 indicated that there is a shortage of skilled workers, that the workers will not move to new areas. Against this background, I wish to point out to the Committee that there are 4,000 American distributors employing perhaps 20,000 Americans in the United States and perhaps 100 importers employing another

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1000 Americans, all of whom rely on imports and need their jobs as much as the American workers employed in the bolt and nut factories.

The duty increases suggested by the Trade Commission will raise our selling prices some 24% on average and this does nothing but cause more inflation in our economy. The domestic factories have stated in their original petition to the ITC and to the STR office that the duty increase was not enough. Nothing will be enough for the high cost producers, and no protection is needed by cost efficient producers. At the risk of being redundant we must point out that the fastener industry as a whole is making a higher profit than any other metal fabricating group in these United States.

I have never appeared before the Congress, confining my efforts to appearing without counsel before the Trade Commission. The Trade Commission figures and studies, in my opinion, are sound, informative and well done. The conclusions of several Commissioners are not supported by documentation in the same report. The solution to the problems of the American industry lies in help from the Congress in two ways:

1. Fast write off for new plant and machinery
2. Moderation of governmental interference in the manufacturing operation from OSHA on down.

**ALLIED INTERNATIONAL**

With these two relief measures the good can progress. What the industry needs is new plants, not a crutch!

If the ITC recommendation comes into effect by a Congressional override, our own inventories would be worth about 25% more. Despite this I maintain it is bad for the consumer, terrible for the distributors who have never been adequately serviced by the domestic industry and damaging to the economy of the United States.

If the imports are too high, all the domestic factories have to do is stop importing and go back to work with what available labor they can find. Such an action on their part would reduce the imports below the 1975 level since the Commission found that domestic producers account for 20% to 25% of all sales of imported fasteners. The fact is that the Japanese have raised their yen prices some 12% since the ITC hearings and the Foreign Exchange added another 15%. The Japanese are facing higher costs and this will solve the economic problem a lot better than an intervention by the Congress or the Trade Commission.

Most of the discussions have been about Japan and the U. S. But there are other countries involved. I would like to point out that the recommendations of the Trade Commission have an effect on these countries which I am sure the Congress would not like to have:

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1. CANADA: This country imports from the United States more fasteners than they export to us. A duty increase would quickly cause the Canadians to stop importing fasteners from our country.
2. INDIA AND OTHER THIRD WORLD COUNTRIES: These small manufacturing complexes are just getting started and the imposition of a 30% duty just about knocks them out of the market altogether. Why give them money if you are going to cut off their ability to sell us?
3. MAINLAND CHINA: This country is just starting to export fasteners to the United States and an additional duty will certainly inhibit their desire to buy from us.

As Congressmen, I realize you have an obligation to help your constituents, but the two remedies I have suggested will do a lot more for them than an override. New tariff barriers are not in the national interest.

This is substantially the same testimony I have given the other body. However, I must add that this industry is a "collusive" one, or in simpler terms, an industry that has a tendency to fix prices. They are under a consent decree with the Department of Justice. By denying them relief in 1975 the Trade Commission forced them to compete a little more. Last month the head of their industry received a jail sentence and fine for price fixing in another one of his capacities. It is my honest feeling that if they get relief they will not only raise prices to cover their costs, and reasonable

**ALLIED INTERNATIONAL-**

profits, but they will once more cartelize their prices as they have done in years back and if they do violate the Sherman or the Clayton Act, it seems to me it will be on the backs of the House and the Senate for overriding the President's decision.

Thank you for giving me the opportunity to appear before you.

## STATEMENT OF THE AMERICAN IRON AND STEEL INSTITUTE

The American Iron and Steel Institute, an association of 64 domestic producers of iron and steel accounting for approximately 94 percent of domestic raw steel production, herewith submits its views to the Subcommittee on International Trade of the Senate Finance Committee regarding the February 10th decision of the Administration not to provide import relief under the provisions of section 203 of the Trade Act of 1974 to domestic producers of bolts, nuts and large screws of iron and steel.

The fastener industry is an important steel consumer which, according to the Office of the Special Representative for Trade Negotiations, obtains 75-80 percent of its steel requirements from domestic producers. We are thus concerned about the industry's well being and the fact that import relief was denied despite the finding of the International Trade Commission (ITC) that imports are presently or potentially a substantial cause of injury to its domestic firms and workers.

We are generally concerned that the Administration has passed judgment on import relief without due regard to the findings of the ITC. On one hand, under the provisions of the Trade Act, the Commission is required to determine import injury based on criteria more lenient than existed previously. On the other hand, the Administration's decisions need not reflect the desire of the Congress to grant expanded relief. Under these circumstances, we believe the Administration should substantiate decisions in far greater detail than it did in the February 20th announcement, in those cases in which it rejects the recommendations of the ITC.

The metal fastener case serves as a warning to all U.S. industry. No matter how solidly the case is built for relief from imports, our trade laws can be readily rendered inoperative by an Executive Branch decision to ignore the ITC's recommendations for relief.

The metal fastener decision is especially significant to the U.S. steel industry. When imports capture a large and growing share of the market for steel fabricated products which were previously produced in the United States with domestic steel, we lose valuable customers. The loss of downstream, fabricated steel markets has particularly ominous overtones in conjunction with the operation of the Trigger Price Mechanism which is designed to prevent unfairly marketed steel imports from entering the U.S. market beneath Japanese production costs. One of the most obvious ways for foreign producers to circumvent the Trigger Price Mechanism is to ship steel to the United States in the form of downstream, fabricated products which are not covered by trigger prices. Since steel fabricators are a major market for basic steel products, the U.S. steel industry is seriously concerned about this problem. The loss of domestic fabricated steel markets to downstream steel imports could significantly undermine the relief provided to the U.S. steel industry under the Trigger Price Mechanism. By rejecting import relief for fasteners, the Administration has given notice to foreign producers that they can adopt with impunity a strategy of shipping increased fabricated steel imports to the United States in effect circumventing the Trigger Price Mechanism.

We would like to express support for the Treasury's expedited national security investigation under section 232 of the Trade Expansion Act of 1962 which was authorized in light of a recent Federal Preparedness Agency staff study indicating inadequate domestic fastener productive capacity to meet wartime mobilization requirements. The United States should continue to emphasize the strategic importance of adequate productive capacity to meet basic materials requirements for national security considerations.

Finally, we wish to express our support for Senate Concurrent Resolution 66 which would disapprove the Administration's decision transmitted to the Congress on February 10, 1978 not to provide restraints against imports of fasteners.

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STATEMENT OF DAVID J. STEINBERG, PRESIDENT OF THE U.S. COUNCIL FOR AN  
OPEN WORLD ECONOMY

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest.)

It is generally believed that Congress has two options in responding to the President's rejection of tariff increases on fastener imports—to override or not to override the President's decision. I propose a third option if Congress believes that the Administration has not adequately concerned itself with the problems of the fastener industry—namely, reject override but ask the Administration to concern itself incisively with the real problems of this industry through a coherent industry-adjustment strategy, to the extent that government help is needed.

The President has properly rejected the ITC's recommendation of import relief, but has improperly neglected the advisability of a thorough assessment of the industry's real problems and needs, of its ability to find solutions to the serious difficulties of many of its members, and of the extent to which government policies materially affecting the industry's ability to adjust may unfairly be impeding such an adjustment effort. Although the Trade Act explicitly and implicitly requires the ITC to conduct such an investigation of the petitioning industry's adjustment efforts and adjustment problems so as to provide the President with essential material he needs in making decisions on section 201 cases that reach him, the Commission has not done so in this case or, to my knowledge, in any case. For Congress to override the President in the case now under review, and put into effect the huge tariff increases recommended by the ITC, would compound the shortcomings of both the Commission's performance and the President's performance in this matter. It would be a highly simplistic approach to the industry's problems and the nation's needs. It would hardly reflect responsible Congressional concern with the need to find constructive solutions that truly serve the enlightened interest of both the industry and the nation.

One of the many issues that need thorough evaluation in the coherent policy approach I have proposed is the extent to which government controls over imports of fastener production inputs may have caused, or will cause, serious problems for the fastener industry. Import quotas on stainless steel are one such example; the trigger-price system affecting imports of other steels is another. These import restraints could well lead (the quotas on stainless steel may already have led) to increased imports of fasteners themselves. If Congress sees some logic to raising tariffs on fasteners in order to offset the implications of import controls on semi-finished steel for imports of finished steel products (in this instance, fasteners), it had better get ready to apply such logic to the whole progression of finished imports using steel. This is a disastrous route. Congress would be better advised to ask the President to assess the implications of steel import restraints for the fastener industry and, where necessary, modify these import controls where they tend to harm domestic fastener production. Such modifications belong in a coherent policy of constructive assistance to the fastener industry. Simple override of the President's decision in the fastener case will not induce the constructive approach that is needed in such matters.

By the same token, the 232 national-security investigation now in process concerning fastener production does not adequately address the national-security dimensions of this industry's situation. It only addresses the question of whether imports of fasteners impair the national-security capability of this industry. It does not address the whole question of the industry's ability to meet defense needs. If there is a finding of impairment under 232, import control to correct the impairment is the only action the trade legislation requires. But this is hardly an incisive approach to the national-security issue. Among other things, it would omit the corrective action needed in our steel import controls. Such corrective action belongs in a coherent policy to correct deficiencies that may be found in the mobilization base, just as it is needed in a strategy calculated to find solutions to the overall problems of this vital industry.

In short, don't override the President's rejection of tariff increases on fastener imports. Send the case back to the White House and the ITC, and insist that they do the kind of job that urgently needs to be done.

**THE INTERNATIONAL TRADE COMMISSION IS NOT ADEQUATELY  
ANALYZING THE IMPACT OF IMPORTS**

A STATEMENT SUBMITTED TO THE COMMITTEE ON FINANCE  
UNITED STATES SENATE,

APRIL 27, 1978

By David J. Steinberg, President, U.S. Council for an Open World Economy)<sup>1</sup>

The International Trade Commission's analyses of alleged serious injury to an industry from import competition reveal virtual neglect of an area of inquiry which is not only essential for proper evaluation of such cases under the import-relief provisions of the Trade Act of 1974 but is in fact required of the Commission by that legislation. Attention to this area of inquiry was for a long while totally absent. It is now, at best, only cursory.

<sup>1</sup>The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest.

Under Section 201(b)5, the Commission, "for the purpose of assisting the President in making his determinations" in import-relief cases where it has found serious injury to have occurred or to threaten, is required to "investigate and report on efforts made by firms and workers in the industry to compete more effectively with imports." In its commentary on this requirement, the Senate Finance Committee's report on the "Trade Reform Act of 1974" (page 122) states: "The escape clause is not intended to protect industries which fail to help themselves become more competitive through reasonable research and investment efforts, steps to improve productivity and other measures that competitive industries must continually undertake."

Proper investigation and evaluation in this regard implicitly call for Commission inquiry (and Presidential judgment in the escape-clause cases that reach him) on (a) the problems encountered in the industry's adjustment efforts, and (b) the extent to which government domestic policy (statutes, regulations, etc.) may be unfairly impeding industry efforts to adjust successfully to foreign competition. To the extent that such impediments exist, they should be corrected. Such reforms belong in a coherent policy of constructive government assistance to an ailing industry, regardless of what government action may be taken concerning the imports in question. An industry-wide adjustment strategy—over and above adjustment assistance (as the program is now defined) to particular firms and workers—is one of the options the President may choose (in our view, it is the basic course of action he should choose) in addressing the problems and needs of an industry that has been seriously impacted by imports. The Trade Act does not explicitly provide for it, but nor does the Act prevent it.

It is essential that the President be fully apprised of all aspects of the industry problem on which he is required to make a decision. Full compliance with Section 201(b)5 of the Trade Act should consequently be a significant part of the Commission's report to the President and of the Commission's statutory obligation to assist him in his responsibilities under Sections 202 and 203 of the Act.

Escape-clause cases provide a vehicle (albeit not the only one or the best) for diagnosing the real problems and needs of industries whose weaknesses have been exposed by the serious difficulties which foreign competition may pose. It should be used effectively to foster sound solutions to the serious problems of these sectors of our economy, and in ways that advanced the total public interest. It has rarely if ever been so used. Because of these and other deficiencies in our policy apparatus, the government reacts to symptoms without acting on the illness in all its aspects. Where serious injury to an industry has been affirmed, the policy options are not limited to import restriction (which is industry-wide) and/or "adjustment assistance" (which, as now defined in government policy and practice, relates to individual firms, workers and communities). Full compliance with Section 201(b)5 would help both the Commission and the President determine the extent to which industry-wide remedies (of which import restriction is only one and the least desirable) are justified.

NATIONAL ASSOCIATION OF PLASTIC FABRICATORS,  
Washington, D.C., April 5, 1978.

Mr. MICHAEL STERN,  
Staff Director, Senate Committee on Finance, Dirksen Senate Office Building,  
Washington, D.C.

DEAR MR. STERN: Enclosed is our statement, as substantial fastener users, concerning (S. Con. Res. 66), the nuts-and-bolts issue.

We hope that you will include our viewpoint in your report to the Senate Finance Committee.

The National Association of Plastic Fabricators fully supports the President's decision to veto the recommendation of the U.S. International Trade Commission. We believe that the Senate, too, should take the side of the consumer and refuse to grant the additional tariff requested by the domestic fastener industry.

Sincerely,

JILL M. WETRICH,  
Executive Director.

Enclosure.

Thank you, Mr. Chairman and members of the International Trade Subcommittee, for the opportunity to present the view of the consumer concerning the importation of nuts, bolts and screws of ferrous materials. We, the consumers of substantial numbers of these fasteners, are concerned with the actions of this Subcommittee regarding (S. Con. Res. 66), providing for import relief to the domestic fastener industry.

The members of the National Association of Plastic Fabricators are fabricators of decorative plastic laminate surfacing materials. Finished products include countertops, kitchen cabinets, furniture, toilet compartments, doors, casegoods and wall panelings. Fasteners play a part in the selling price as well as the quality of these finished goods.

Some of the fasteners used in this small, independent-company industry are bought domestically. However, a majority of the hardware is imported from Italy, Germany, Japan and Scandinavia. The cost of identical fasteners produced domestically is much higher and, indeed, in many cases, prohibitive. In fact, many types of fasteners are not even manufactured domestically.

This being the case, would an increased tariff on imported fasteners induce domestic manufacturers to expand their product line? We think not. Certain types of fasteners would continue to be unavailable domestically and cost even more to import than previously, with no benefit whatever to domestic manufacturers.

As an example: a major fastener to our members is the draw bolt or tight-joint fastener. This fastener is used by virtually all reputable countertop fabricators at the joint of the mitre corner. Draw bolts are produced in very limited amounts in this country and, as a result, many are imported from Japan. The Japanese bolts are currently reasonably priced and top manufacturers use them economically and efficiently. Add on your 30% tariff increase and the countertop manufacturers will take another look at the need for these fasteners. The market potential will drop; American fastener manufacturers will pull out and those fabricators who continue to employ this additional structural insurance will be forced to revert to the highly-taxed import source. Again, nothing will be gained for the domestic fastener manufacturer and a great deal will be lost by the users.

Fastener distributors will be forced by this tariff increase to buy imported products at a higher price and, therefore, take a lower rate of profit or increase their selling price. This may or may not result in the switch to domestically produced hardware. There is no guarantee that the new tax will result in greater consumption of domestic goods. Some importers will simply go out of the fastener business, causing us, the users to search for other sources. And small fabricators do not buy in large enough quantities to buy direct from domestic manufacturers. The cost of each item is expanded even more and then, maybe we don't need so much quality, after all.

You see, gentlemen, a certain portion of the finished product price is allocated for the fasteners and hardware. The fabricator may be forced by cost to lower the quality or change the type of fastener if the price gets out of line.

The American economy is based on competition, healthy competition, be it domestic or foreign. U.S. manufacturers should find a means of producing competitively priced goods for consumption both here and abroad. We feel that this additional tariff would be unfair to the users of fasteners and to the American consumer. We ask that you review those points which the President found to be relevant and find, as he did, that this additional burden to the American consumer is unwarranted.

