FOREIGN TRADE STATISTICS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

S.J. Res. 115

JOINT RESOLUTION TO REQUIRE THAT REPORTS ON IMPORTS INTO THE UNITED STATES INCLUDE THE LANDED VALUE OF ARTICLES IMPORTED, AND FOR OTHER PURPOSES

AND

S. 3522

A BILL TO REQUIRE THE SECRETARY OF AGRICULTURE TO REPORT TO THE CONGRESS EACH YEAR CERTAIN INFORMATION RELATING TO THE IMPORT AND EXPORT OF AGRICULTURAL COMMODITIES

AUGUST 31 AND SEPTEMBER 1, 1966

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

68-666 WASHINGTON : 1966

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FOREIGN TRADE STATISTICS

WEDNESDAY, AUGUST 31, 1966

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

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

Present: Senators Long, Anderson, Talmadge, Williams, and Dirksen.

The CHAIRMAN. Today's hearing relates to the method of reporting statistics of imports into this country and of exports from this country. At present our statistics are kept, basically, on a free-on-board basis. That is, our exports are valued at our border, going out, but our imports are valued at the foreign country's border. Ocean freight and insurance costs are ignored.

On the other hand, most other countries of the world keep their statistics on a cost, insurance, and freight basis. They value both imports and exports at their own border. The transportation and freight charges incurred to get the merchandise to that point is taken into account in determining the value of both their imports and their exports.

The United Nations has recommended that all countries report trade statistics under a uniform method; and the cost, insurance, and freight method used generally by foreign countries—but not by us—was selected by the U.N. as the most appropriate.

The measures before us today—Senate Joint Resolution 115 and S. 3522—call for cost, insurance, and freight reporting of import statistics and for a statistical segregating of U.S. financed or subsidized exports. S. 3522, however, is limited to agricultural commodities.

(S.J. Res. 115 and S. 3522 follow:)

[S.J. Res. 115, 89th Cong., 1st sess.]

JOINT RESOLUTION To require that reports on imports into the United States include the landed value of articles imported, and for other purposes

Whereas many statistical reports of the Departments and agencies on imports into the United States show only the quantity of articles imported or the value of articles imported in terms of their foreign value; and

Whereas a more accurate appraisal of the effect on the United States economy of imports into the United States can be made if such reports also show the value of articles imported in terms of their landed value in the United States; and

Whereas most countries which are parties to the General Agreement on Tariffs and Trade account for the value of imports in terms of their landed value in the respective countries: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the Secretary of the Treasury shall include in all reports on imports into the United States the value of articles imported on the basis of cost, insurance, and freight values, representing the foreign value plus the insurance and shipping charges incident to landing the imported articles at the port of entry.

(b) The Secretary of Commerce shall include in all reports of import statistics published by him the cost, insurance, and freight values of articles imported as reported by the Secretary of the Treasury.

SEC. 2. The Secretary of Commerce shall, in all reports of export statistics published by him, classify exports, not including reexports, by three categories, and shall show, with respect to each category, the value or quantity, or both, of articles exported. These categories shall be (1) total exports, (2) exports of articles the production of which has been subsidized by the Government of the United States, and (3) exports made under Government-financed programs, additionally classified to show the exports under this category which also fall under category (2).

[S. 3522, 89th Cong., 2d sess.]

A BILL To require the Secretary of Agriculture to report to the Congress each year certain information relating to the import and export of agricultural commodities

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Trade Statistics Reporting Act of 1966".

SEC. 2. It is hereby declared to be in the public interest that the Secretary of Agriculture should compile and publish an annual standard reference work containing certain statistical information with respect to the volume and dollar value of this Nation's foreign trade in major agricultural commodities for the preceding calendar year, the trends in United States imports and exports of such commodities, and the effect of such trade upon the balance-of-payments position of the United States.

SEC. 3. (a) The Secretary of Agriculture (hereinafter referred to as the "Secretary") shall, not later than February 15 of each calendar year, submit to the appropriate committees of the Congress a report containing the information described in subsection (b) of this section and cause such report to be readily available to all other committees and Members of Congress, to all trade publications, and, upon revest, to any other interested party.

(b) The information to be contained in any such report shall specifically disclose with respect to the immediately preceding calendar year—

(1) the quantity and dollar value of imports into the United States and exports from the United States of each major agricultural commodity;

(2) the extent to which such dollar value reflects or fails to reflect, in the case of each major agricultural commodity, costs attributable to transportation, insurance, and other expenses incident to handling;

(3) the extent to which, in the case of each major agricultural commodity, exports were paid for in dollars, other freely convertible currency, local currency not convertible, funds of the United States Government on a cash or credit basis, or were donations valued without reference to payment;

(4) what effect imports and exports of all agricultural commodities had on the balance-of-payments position of the United States Government; and

(5) the percentage of our total domestic production, in the case of each major agricultural commodity, which was exported; the percentage of the total exports, in the case of each such commodity, which was paid for by each of the methods of financing described in paragraph (3); and the percentage of our total production and consumption, in the case of each such commodity, which was imported.

(c) Such report shall also set forth statistics and other information covering a period of prior years in sufficient detail to show, with respect to each major agricultural commodity, the prevailing trends in the import and export of the different types or classifications of that particular commodity.

(d) The Secretary shall include in such report such other pertinent information as he deems appropriate.

(e) The Secretary shall include in such report the citation of any public laws relevant to the subject matter being discussed.

(f) As used in this Act, the term "major agricultural commodity" shall include, for example, cotton, beef, pork, veal, live cattle, nonfat dry milk, cheese, butter, and poultry; and in providing the information specified in subsection (b) (1) of this section, the Secretary shall give separate statistics for each of those commodities.

SEC. 4. The Secretary shall coordinate the administration of this Act with other departments and agencies of the Government concerned therewith and with interested private organizations; and such departments and agencies of the Government are authorized and directed to cooperate with the Secretary in the administration of this Act, including the coordination of all procedures, forms, and means necessary or appropriate for carrying out the provisions of this Act. The Secretary shall include in his annual report such recommendations for legislation and administrative actions as he determines would facilitate the administration of this Act.

SEC. 5. (a) The Secretary, before submitting to the Congress the report referred to in section 3 of this Act, shall submit such report to the General Accounting Office for examination. The Comptroller General shall examine the report to the extent he deems necessary to certify whether or not—

(1) such report is in conformity with generally accepted accounting principles;

(2) such report accurately reflects the effect of trade in agricultural commodities on the balance-of-payments position of the United States;

(3) except for the initial report, such report was prepared on a basis comparable to that of the previous year;

(4) such report follows the reporting practices and procedures followed by major international trade organizations with which the United States is associated, including the General Agreement on Tariffs and Trade and the Organization for European Cooperation and Development; and

(5) any departure from generally accepted methods of reporting the information contained in such report was coordinated with and approved by the Comptroller General.

(b) The opinion of the Comptroller General with respect to the matters referred to in subsection (a) of this section shall be included in the report.

SEC. 6. Notwithstanding the reporting date prescribed in section 3 of this Act, the Secretary is authorized, in the case of any of the first four annual reports, to postpone the date of submission to any date not later than May 1 if he determines that the report for such year cannot be submitted prior to that date and notifies the Committees referred to in section 3 of this Act in writing of the necessity of such postponement and the reasons therefor.

SEC. 7. The Secretary shall submit the first report under this Act in the calendar year 1967 covering imports and exports during the calendar year 1966.

(Departmental comments on S.J. Res. 115 follow:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., August 9, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to Senator Byrd's request of October 8, 1965, for the views of the Bureau of the Budget regarding S.J. Res. 115, "To require that reports on imports into the United States include the landed value of articles imported, and for other purposes."

For the reasons discussed in the reports which the interested agencies are making to your Committee, the Bureau of the Budget is opposed to enactment of S.J. Res. 115.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

DEPARTMENT OF AGRICULTURE,
August 31, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to the communication of October 8, 1965, we submit our appraisal of Senate Joint Resolution 115 proposing (1) a supplemental statistical series on U.S. imports showing c.i.f. valuation and (2) a classification of exports by three categories.

The Department does not support enactment of Section 1 of S.J. Res. 115 regarding import statistics, nor can it support enactment of Section 2 pertaining to export statistics, as introduced.

IMPORTS

The proposed c.i.f. valuation of U.S. imports under Section 1 of S.J. Res. 115 would result in the availability of more detailed information. However, in the opinion of this Department the additional burden and expense to the American importer and Government inherent in the proposal are not warranted at this time.

Under the import valuation proposal in S.J. Res. 115, the Secretary of the Treasury would be directed to include in all reports on U.S. imports the value of imported articles on the basis of cost, insurance, and freight (c.i.f.) and the Secretary of Commerce would be directed to include in all reports of import statistics published by him the c.i.f. values of articles imported, as reported by the Secretary of the Treasury. This new statistical series would supplement the present series.

U.S. imports, as now published by the U.S. Department of Commerce, Bureau of the Census, are generally (but not in all instances) valued at the export values in the country of origin. This method of valuation is prescribed in the Tariff Act of 1930, as amended (46 Stat. 708, 52 Stat. 1081, 70 Stat. 943; 946; 19 USCA 1402, 1965 ed.). It is the basic, primary, and principal valuation method for the calculation of ad valorem duties whenever this type of duty is imposed on merchandise to be imported. Thus, freight and insurance charges are excluded.

The export or "f.o.b." valuation of imports is doubly advantageous in international trade analysis: (1) If universally used, a symmetrical or balanced system would result; that is, the exports (which are generally valued f.o.b.) of exporting countries would equal the imports of importing countries, except for the time lag between exportation and importation; (2) imports valued at their export value are better "building blocks" for the construction of balance-of-payment statistics. This valuation method permits freight and insurance services appropriately to be accounted for elsewhere in the balance-of-payment accounts, since such services may have been provided domestically, i.e., by the importing country. Moreover, even if these services are provided by foreign interests and hence require an international payment, such payment is not necessarily owed to the country from which the merchandise came.

Despite the desirable features of f.o.b. valuation, it is appropriate to recognize that in some instances c.i.f. valuation might be more convenient to the importer than f.o.b. valuation. When an importer makes one combined payment, for example, on a c.i.f. basis, that valuation may be more easily available to him than if he has to break it down into its components to determine the cost of insurance and freight and thereby derive f.o.b. valuation.

It must be stressed that the valuation of imports on a c.i.f. basis would have no effect whatever on the balance-of-payment statistics of the United States. The use of c.i.f. valued import data in balance-of-payment statistics would require an additional adjustment, viz. the subtraction of the freight and insurance components from the c.i.f. values, since these components refer to services which very often are not rendered by the country of origin of the imports, as explained above.

EXPORTS

The Department does not support enactment of Section 2 of the proposed legislation which relates to exports, as introduced. Section 2 of the proposed S.J. Res. 115 provides that the Secretary of Commerce shall classify exports, not including reexports, by three categories.

For category (1) of Section 2 of S.J. Res. 115 no change from present procedures is required as total exports are classified in U.S. trade statistics summaries.

Category (2) refers to "articles the production of which has been subsidized by the Government of the United States." The scope of this category is not clear. It could refer to those commodities only the production or general marketing of which (in contrast to marketing for export) is subsidized by direct Government payments. Moreover, the word subsidy carries an undesirable connotation. The public declaration by our Government that it "subsidizes" the production of articles may give rise to the impostion of countervailing or anti-dumping duties against our products in foreign markets. As far as export assistance payments are concerned, this Department, in *Foreign Agricultural Trade of the United States*, periodically publishes statistics of agricultural exports classified in terms of such assistance payments. Thus, after appropriate clarification of category (2), the imposition of the reporting burden proposed for that category is unnecessary.

With regard to category (3), exports under Government-financed programs are periodically reported in the above publication of this Department. These statistics require improvement in quality and timeliness. We feel, however, that Section 2 of S.J. Res. 115 is not the vehicle to achieve such improvement.

Our interest is more specific than the identification in export statistics of Government-financed programs as a group, as proposed in category 3 of Section 2 of S.J. Res. 115. The diversity of these programs makes it desirable to report at least six specified Government-financed programs, data on which are now compiled and published by the Economic Research Service. In our present statistical program, the sum of exports under these six operational programs is considered to be equal to "Government-financed exports." Total exports minus the sums of the six specified Government program exports are considered "commercial exports." The Economic Research Service also reports as a portion of "commercial exports" short and medium-term credits for agricultural exports extended by the Export-Import Bank and the Commodity Credit Corporation under its credit sales program. The present reporting program is imperfect because of (1) time lags between the accounting for exports under specified programs and the time of exportation at which total exports are enumerated and (2) differences in valuation between total exports, as evaluated by the Bureau of the Census, and specified program exports, as evaluated by the operating agencies in charge of the various programs. The Economic Research Service of this Department has formulated proposals for a joint study with the Bureau of the Census of the feasibility of reporting "Food for Peace" program exports and commercial exports by the Bureau of the Census.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration program.

Sincerely yours,

ORVILLE L. FREEMAN,
Secretary.

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., July 11, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of this Department with respect to S.J. Res. 115, a joint resolution "To require that reports on imports into the United States include the landed value of articles imported, and for other purposes."

The first section of the joint resolution would require (a) the Secretary of the Treasury to include in all reports on imports into the United States the c.i.f. value of articles imported, and (b) the Secretary of Commerce to include in all reports of import statistics published by him the c.i.f. value of articles imported as reported by the Secretary of the Treasury. Section 2 of the resolution would further require the Secretary of Commerce, in all reports of export statistics published by him, to classify exports by three categories. These categories would be (1) total exports, (2) exports of articles the production of which had been subsidized by the Government of the United States, and (3) exports under government-financed programs, additionally classified to show the exports under this category which also fall under category (2).

The Department of Commerce favors the collection and publication of foreign trade statistics which can be used in a more meaningful analysis of the impact of foreign trade on the U.S. economy. If applied in an appropriate manner, import data on a c.i.f. basis (their landed value) could be useful for limited statistical purposes unrelated to balance of payments analysis. However, we feel that S.J. Res. 115 in requiring that the Secretaries of Treasury and Commerce provide in all reports on imports into the United States the value of articles on the basis of both their foreign value (as presently reported) and their landed value is not desirable or necessary. The benefits of completely duplicating the collection and reporting of import statistics, as proposed in S.J. Res. 115, would not be commensurate with the costs. These costs involve burdens both to agencies responsible for collecting, verifying, and publishing import statistics and to those engaged in import trade. The lack of comparability between the benefits of S.J. Res. 115 and its cost is emphasized by the fact that it is possible through an independent statistical estimating program to derive import statistics on a c.i.f. basis. While it would not be possible to develop such import statistics in detail by commodity classification and by country, as are available from present reports on imports, it is possible to provide sufficient detail to satisfy the needs of most users of such statistics.

In view of the importance accorded reports on our balance of payments position, both in this country and abroad, it should be noted that the availability of import data on a c.i.f. basis would in no way alter our balance of payments account. The f.o.b. valuation of imports in balance of payments analyses used by this country is internationally recognized as correct. Countries reporting imports on a c.i.f. basis must presently adjust their merchandise trade data to exclude the value of freight and insurance in preparing their annual submission on balance of payments to such international bodies as the International Monetary Fund. The inclusion of all payments of ocean freight and insurance charges in the U.S. balance of payments would be highly inaccurate and confusing because a part of these services are supplied by U.S. firms and to that extent do not involve international financial transactions. Moreover, the present balance of payments procedures of providing for ocean freight services separate from merchandise transactions assure correct allocation by country of the merchandise payments and ocean freight services. Such allocation also recognizes that the country supplying the merchandise is often not the same country that is supplying the ocean freight services.

For slightly different reasons, this Department feels that the enactment of section 2 of S.J. Res. 115 respecting export statistics would not be desirable or necessary. Various government agencies regularly issue trade reports that reflect, in large measure, the export information required by this section of the resolution. In addition, on the basis required by the resolution, the information on exports related to various domestic and international programs may not be readily available, if available at all, to the exporters at the time of the export declaration. Some information required by the resolution could not be made publicly available at the time regular reports on exports are made due to security restrictions under the Department of Defense Military Assistance Program.

Since matters concerning the reporting of foreign trade statistics are somewhat complex and have serious implications, as indicated in S.J. Res. 115, there is attached a more detailed explanation of our position on the resolution. The Department of Commerce further notes that the Finance Committee on February 9, 1966, directed the Tariff Commission, pursuant to section 332 of the Tariff Act of 1930, to make an investigation of the methods of valuation used by the United States and its principal trading partners to determine the duty applicable to imports. It would appear that this investigation will also provide an opportunity to appraise the differences in methods of valuing imports for statistical purposes. Should the Committee have questions on the matters covered in the supplementary memorandum or desire further information on any other points in connection with the bill, this Department stands ready to cooperate fully.

For the above reasons, however, the Department of Commerce does not favor the enactment of S.J. Res. 115.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

ROBERT E. GILES,
General Counsel.

Enclosure.

MEMORANDUM TO SUPPLEMENT STATEMENT OF THE OBJECTIONS OF THE DEPARTMENT OF COMMERCE TO THE ENACTMENT OF SENATE JOINT RESOLUTION 115

The Department of Commerce feels that the issues raised by the introduction of S.J. Res. 115 merit a full statement of the Department's views. Moreover, the implication of the requirements of the resolution for the reporting of foreign trade statistics of the United States are both substantial and complex. The following paragraphs deal separately with section 1, import statistics and section 2, export statistics.

Requirement of Senate Joint Resolution 115 on the Reporting of Import Statistics

There has been much discussion over the years on the preferable method of valuing imports for duty purposes. Since the United States values imports mainly on the basis of foreign value for duty purposes it has been recognized that the lack of information on the landed value of United States imports is a handicap in certain applications of import trade statistics. In fact, the Department of Commerce has considered on several occasions in the recent past a project to develop import values on a cost plus insurance and freight basis, known generally as a c.i.f. basis. The need for developing such values, and the expressed demand for this information, however, have not to date appeared great enough to justify the conclusion that this work should be done in preference to or to the detriment of other more clearly necessary and more widely supported statistical services.

Dual Reporting of Import Values—Problems and Priorities

The collection and reporting of the value of imports on a c.i.f. basis, in addition to the current f.o.b. basis, would add greatly to the cost and burden to the government and to importers. The Bureau of the Census believes the additional cost and complexity of processing the extra field of data—the c.i.f. value—for each transaction on a continuing basis would be substantial. This is particularly true in light of the fact that the import statistics program is already at the saturation point in terms of the present Bureau of Customs entry form and the Census tabulating procedure. For shipments consisting of numerous commodities, the import entry form is very crowded. The addition of another field of information might require a complete redesigning of both the entry form and the tabulating procedures unless some other item of information were dropped. It is true that the difficulties of collecting and processing a duplicate set of import values for each transaction discussed here represent mainly technical problems. Their solution, however, involves important considerations of priorities in the selection of the type and nature of the import statistics to be presented by the government.

The additional reporting requirement would greatly increase the burdens to importers. At the time the customs entry form is to be filled out, the necessary information may not be available readily, if at all, to the importer. For instance, where freight and insurance charges are aggregated in one sum for an entire shipment involving several different kinds of commodities, the allocation of these costs among the various classifications of commodities would present great difficulties. The trend toward containerization, i.e., an increasing volume of small shipments being consolidated in one container under one freight billing, further magnifies the problem of allocating transportation and insurance costs on a detailed commodity-by-commodity basis. While such problems as these might be surmounted, it is felt that alternative means of deriving c.i.f. values should be considered.

Customs verification of import valuations is vital to the reduction in the incidence of fraudulent undervaluation of merchandise subject to ad valorem or compound rates of duty and to the maintenance of the accuracy and validity of the statistical data. The burden of verifying a second set of values for each item would cause a time lag in the preparation and publication of our trade statistics. This Department feels that such a time lag could prove detrimental by delaying both government and business decisions based, in part at least, on such reports.

Import Valuation—Historical Background; Practices of Other Countries; U.N. Recommendation

The value reported in U.S. import statistics, historically (since 1832) has reflected the f.o.b. value required by law to be reported for customs purposes. (See sections 402 and 402(a) and subsection 484(e) of the Tariff Act of 1930, as amended, and section 301 of title 13 of the U.S. Code.) These statistics are compiled from copies of customs entries. Similarly, the import statistics of other countries of the world also reflect their respective customs valuation requirements. While Canada, Australia, Venezuela, South Africa and a number of other countries besides the United States use f.o.b. valuation of imports for customs and statistical purposes, most countries use some form of the c.i.f. (cost plus insurance and freight) basis of valuation. Thus, the difference between the basis of valuation reflected in the import statistics of the various countries simply reflects an historical development of different valuation bases required for customs purposes. It does not necessarily represent a decision as to the valuation basis that would be considered preferable for statistical and analytical purposes if such statistics were independent of customs valuation.

The United Nations has recommended the use of c.i.f. values at *summary statistical levels*, as one among many other steps which must be taken to achieve international comparability in trade statistics. Undoubtedly, the choice of c.i.f. as the valuation basis for imports was influenced by the recognition that most countries have long employed that basis, and, therefore thar far fewer countries would be compelled to undergo readjustment of their statistical procedures.

Furthermore, the United Nations has shown an awareness that differences in method of valuation are not the only obstacles to international comparability of trade statistics. Among other significant problems in achieving comparability are differences in the treatment of in-transit trade, differences in timing, coverage, concepts of commodity classification and discrepancies in county-by-country allocations of trade movements. Thus, the U.N. has not felt it necessary to recommend that f.o.b. countries supply c.i.f. data at below the detail of the 3-digit level of the SITC. (Approximately 177 groupings of commodity classifications). For purposes of international comparisons, trade data in the further detail of the different national classifications is not considered generally useful. C.i.f. estimates at the summary (3-digit SITC) level could be derived from present f.o.b. values by the use of appropriate factors developed statistically. Thus, the U.N. recommendation for c.i.f. values to improve international comparability could be met without the costly and burdensome effort that would be imposed on importers and the government by the requirement of S.J. Res. 115.

Balance of Payments Considerations; Import Trade Analysis.

In balance of payments analysis, f.o.b. valuation is internationally recognized as correct and c.i.f. countries must presently adjust their merchandise trade data to exclude the value of freight and insurance in preparing their annual statistical submissions to the International Monetary Fund. It is inaccurate to include all payments of ocean freight and insurance charges in the balance of payments, because a part of these services may be supplied by the importing country itself, and to that extent such payments do not represent an international transaction. Thus, the application of c.i.f. values to all U.S. merchandise imports would overstate the magnitude of our foreign payments. Under present U.S. balance of payments procedures, merchandise transactions and ocean freight services are carried in separate accounts, with the latter item adjusted to exclude freight payments to domestic carriers. This procedure, in addition, provides for the correct country allocations of merchandise and freight payments respectively, recognizing that the country supplying the merchandise is often not the same country that is supplying the freight (and insurance) services.

In balance of trade analysis—the net balance between United States merchandise exports and imports—either c.i.f. or f.o.b. valuation can be used. C.i.f. valuation, of course, might be considered preferable for this purpose because it values imports at the same point as that reflected for exports—the ports and borders of the United States. However, use of c.i.f. for balance of trade purposes involves the over-valuation of payments and misallocation by country cited in the balance of payments discussion above. In any event, an important feature in balance of trade analysis and the formulation of trade policy decisions is in the measurement of *changes in the movement* of the balance over time periods. For this reason, the accuracy of import data, and the consistency of their construction as a statistical series for comparable measurement of short or long term trends, appear far more important than the particular basis of valuation, whether c.i.f. or f.o.b. If c.i.f. data are preferred for this type of analysis, they could be estimated on the basis of the regularly compiled f.o.b. data with appropriate consistency over time.

For commodity analysis of the impact of imports on the domestic economy, c.i.f. values might be considered preferable to f.o.b., but would still understate the true price of an imported commodity in the internal U.S. market. The c.i.f. value, it should be noted, excludes such cost factors as inland U.S. freight, agents' commissions, and tariffs.

Existing Legal Authority Provides Freedom of Planning for Statistical Needs

Legal authority already exists for the collection and reporting of import trade statistics on a c.i.f. basis. Furthermore, present statutes provide the necessary authority for providing any foreign trade statistical service that is deemed necessary or appropriate. A significant step in assuring clear authority for reporting of a well-integrated United States trade statistical program was the enactment in 1962 by Congress of Public Law 87-826 (13 U.S.C. 301). This Act freed the planning and administration of the program from the then existing outdated, confusing, and sometimes conflicting legal provisions which had grown up over a long period of years. It substituted a delegation of authority to the Secretary of Commerce to enable him to plan a meaningful statistical program, both as to content and as to data collection methods and reporting requirements, in full light of changing statistical needs and changing business practices.

S.J. Res. 115 would require that particular types of the information *must* be collected, and would prescribe by law certain features which *must* be incorporated in each report of import statistics. This would appear to be a step backward toward individually legislated program features and reporting requirements. Enactment of the resolution would unnecessarily restrict the flexibility of the Secretary in carrying out the responsibilities placed upon him by existing statutes in providing a meaningful, coordinated statistical program.

Alternative Proposed for Obtaining Appropriate C.I.F. Values

For the reasons stated above, the approach called for by S.J. Res. 115 for developing information on the c.i.f. value of imports does not appear practicable. Import statistics on a c.i.f. basis, which would be sufficiently precise for any statistical service currently deemed necessary or appropriate, can be produced by means of a statistical estimating project. It is possible, by means of a survey, to obtain freight and insurance costs on a sample of shipments and to drive constants, in percentage or value terms, which would then be applied to adjust presently reported f.o.b. values to a c.i.f. basis. Periodic sample surveys would be required to update the constants for changes over time. The Department of Commerce would, of course, develop a specific proposal for such a project if it is deemed desirable.

Requirements of S.J. Res. 115 on the Reporting of Export Statistics

S.J. Res. 115 requires the compartmentalization of U.S. exports into two subcategories which will identify (1) shipments of articles the *production of which has been subsidized* by the U.S. Government, and (2) export shipments *financed* by the U.S. Government. These objectives present difficulties of definition and implementation.

Problems of Definition and Implementation

In identifying a "subsidized" item, the question arises as to whether the finished product which incorporates a subsidized raw material (e.g., textiles and clothing made from cotton) should be considered a subsidized export. For basic farm commodities, certain producers may elect to remain outside the government's subsidy program while other producers of the same commodity, e.g., wheat, may choose to receive government parity payments. Are wheat exports by the latter group considered subsidized? Are those of the former group not subsidized? Assuming that a definition of "subsidized production" could be agreed upon, there remains the problem of identification of subsidized items at the time of export shipment. For example, where the export is made by a trader or wholesaler rather than a producer, the exported commodities cannot be related to all the circumstances of their production. Where finished products are concerned, even the producer of the exported goods may not know whether the components were subsidized. In the case of unmanufactured commodities such as grain, exports may be made from storage facilities where supplies from unsubsidized and subsidized sources have been physically intermingled and are no longer distinguishable.

The problems relating to the matter of *government-financed* exports are similar to those encountered for *government-subsidized* shipments. From the standpoint of definition, the extent of government participation in the financing of export ranges all the way from outright gifts or grants to simple credit guarantees. Within the range are loans for dollars and loans for foreign currency, for very long terms at low interest rates and for medium-long terms at rates only fractionally below commercial rates.

However, assuming that a suitable definition were arrived at, there are practical difficulties involved in attempting to identify government-financed shipments in the export statistics. (An exception is Department of Defense military grant-aid shipments which are presently being tabulated separately direct from Department of Defense shipment documents, and not from export declarations (Form 7525).

Appropriate government agencies have participated on many occasions in attempts to find a reliable method for identification of (nonmilitary) government-financed exports at time of shipment, but no method for achieving this has yet been developed. For the most part, such shipments are made by private exporters and the nature of many of the government program is such that at he time of export no determination has been made as to whether the transaction will or will not be covered within the program. If government financing is subsequently arranged for, it would be virtually impossible to associate this information with the statistical record already processed for the transaction. Even for transactions where government financing for the exportation has already been arranged at the time of shipment, capturing this information may be subject to more than the usual statistical reporting difficulties.

A statistical reporting system has best chances for success if the information called for is available, in the regular course of business, to the individual who normally prepares the report. Identification of the type of financing would not necessarily appear on the invoices, or shipping documents which are the usual source of information for filling out export declarations.

Presently Available Statistics on Government-Financed Exports

Grant-aid shipments under the Defense Department's Military Assistance Program are currently shown, as an aggregate total, in the monthly export statistics published by the Census Bureau. However, detailed data by commodity or country of these military shipments are security classified and cannot be divulged.

Separate supplementary statistics providing information similar to that required under section 2 of S.J. Res. 115 are presently being developed and published by government units other than the Census Bureau. It should be noted, however, that these statistics are developed from fiscal expenditure reports and reports of agencies' operations of the export programs available only after some time lag from the date of shipment, usually on a quarterly (not monthly) basis, and usually not always in full commodity detail. Using such source material, the Department of Agriculture has since 1957 prepared and published information on agricultural exports segmented to show government-financed shipments which are subsidized, and commercial exports with and without subsidies. (See table 1, "Foreign Agriculture Trade of the United States," May 1965.) The Office of Business Economics, in addition, regularly supplies data on total exports financed by government grants and credits. These are published with the balance of payments quarterly statistics which appear in the *Survey of Current Business* in quarter-end months.

It might be well to note that the multiplicity of data on "total" exports currently published by the Census Bureau is already a matter of concern to users of the existing trade statistics. The addition of supplemental categories as outlined in S.J. Res. 115 would only increase this concern. Consideration should be given to whether the function of our basic trade statistics, as compiled and reported by the Bureau of the Census, ought simply be to accurately recording the interchange of goods between the United States and the rest of the world. The burden of analysis in terms of government financing or subsidization should properly be left to other, more appropriate, government agencies.

The variety of existing export totals now reported in Census Bureau publications include:

(a) Total exports (including reexports), *including special category.*

(b) Total exports (including reexports), *including special category,* but excluding military grant-aid.

(c) Same as (b), but seasonally adjusted.

(d) Total exports (including reexports), *excluding special category*—used in *area* distribution of exports.

(e) Domestic exports, *including special category*—used in *commodity* distribution of U.S. exports. (Excludes reexports.)

Measuring U.S. "Competitive" Performance in Exports by Means of S.J. Res. 115, Section 2

United States export statistics are designed to measure the value of all merchandise leaving the United States customs area. As is indicated above, they are reported on a basis that accurately reflects such movements. Comparisons of export and import trade for special purposes such as indicating the "true competitive position" of the United States in world markets usually requires certain adjustments in the data which can only be developed in special analysis of exports and imports. It would not be meaningful to include in the general reports on United States foreign trade the categories of exports on the basis called for in S.J. Res. 115. The categorizing of foreign trade on the basis of government support, either with respect to export or import trade, involves implicit assumptions as to the nature of the trade. Such assumptions are better left to separate analytical reports in which the nature of the trade can be explored in detail and the validity of the implicit assumptions can be justified.

In view of the above, the Department of Commerce is of the opinion that section 2 of S.J. Res. 115 is not a practical or necessary requirement for the purpose of reporting United States exports.

DEPARTMENT OF STATE,
Washington, D.C., June 27, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your request of October 8, 1965, for the views of the Department of State on S.J. Res. 115, a resolution "to require that reports on imports into the United States include the landed value of articles imported, and for other purposes".

S.J. Res. 115 would require the Bureau of Customs in the Treasury Department and the Bureau of Census in the Department of Commerce to compile statistics showing the cost, insurance and freight of all articles imported into the United States. The resolution would also require the Commerce Department to classify exports by three categories (1) total exports, (2) exports of articles the production of which has been subsidized by the Government of the United States and, (3) exports made under government-financed programs.

It is this Department's understanding that the purpose of S.J. Res. 115 is to insure that United States foreign trade statistics accurately reflect the competitive position of the United States economy in world trade. It is alleged that current statistical procedures utilized by the United States Government overstate United States exports and understate United States imports, thereby inflating the United States export surplus.

The Department of State favors the collection and publication of all foreign trade statistics which are relevant to the consideration of United States competitiveness in world trade and the balance of payments. However, Section I of the Resolution would simply add to the present f.o.b. values, the insurance and freight costs of our imports. Section II, relating to export statistics, would not provide for the comparable addition of insurance and freight costs. Accordingly, were the United States trade surplus to be computed using this statistical system, the export surplus would be reduced by the amount of freight and insurance which had been artificially added to only one side of our trade balance.

Import statistics are used for two principal purposes, balance of payments analysis, and the measurement of the impact of imports on the United States economy. For balance of payments purposes, f.o.b. statistics are clearly preferable. This has been recognized by the International Monetary Fund which requires c.i.f. countries to adjust their trade data to exclude insurance and freight. The use of the c.i.f. basis of valuation would overstate import payments to the extent that the freight and insurance services are provided by domestic companies. Moreover, it would introduce inaccuracy with respect to the geographic allocation of foreign payment flows since freight and insurance services are often provided by a country other than that providing the goods.

No system of import data can, in itself, truly reflect the competitive effect of imports on the United States economy. However, the use of f.o.b. data is preferable since it much more closely reflects merchandise transactions and, therefore, reflects the relative ability of domestic industry to supply goods at competitive costs. While c.i.f. valuation is closer to the delivered price of imported goods, it does not take into account such costs as duty payments, importers markup, inland transportation, etc. More important, import statistics cannot reflect factors other than price, such as quality differences.

The Department is informed that the collection of a complete duplicate set of import statistics would impose a tremendous burden on importers and the government agencies responsible for the collection of import data. It is possible, however, through an independent statistical estimating program, to derive import statistics on a cost, insurance and freight (c.i.f.) basis. While it would not be possible to develop such important statistics in detail by commodity classification and by country, we understand that it is possible to provide sufficient detail to satisfy the needs of most users of such statistics.

Section II of the resolution would require that all export statistics be broken down to indicate whether production of export articles concerned has been government subsidized or financed. The Department of Agriculture and the Department of Commerce already publish data on government-financed exports and these would appear to be adequate for most uses. It has been asserted that if exports are subsidized or government-financed, they are not competitive and should, therefore, not be entered in any determination of the United States trade surplus. In actuality, most United States goods moving under subsidies are agricultural goods for which there is little doubt that the United States is the most efficient producer in the world. The subsidies are a result of the particular policies we have chosen in order to effect certain farm income objectives and are not indicative of our competitive position. Government-financed exports, including surplus agricultural products, represent purchases which the recipient nations would not otherwise have made from any nation had it not received the aid funds. An indication of the relative strength of the United States competitive position even in these products is shown by the fact that before the United States "tied" its aid most of the purchases were made in the United States and this percentage has not increased markedly since aid was "tied."

For the above reasons, the Department of State recommends against enactment of S.J. Resolution 115.

The Bureau of the Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report.

Sincerely yours,

DOUGLAS MACARTHUR II,
Assistant Secretary for Congressional Relations.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., July 22, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
United States Senate.

DEAR MR. CHAIRMAN: Your letter of June 29, 1966, requests our comments on S.J. Res. 115, a joint resolution to require that reports on imports into the United States include the landed value of articles imported, and for other purposes.

We have no special information that would assist the Committee in the consideration of this measure and therefore have no comments to offer in regard thereto.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, June 28, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for a statement of our position on S.J. Res. 115. Section 1 of this resolution would require that reports on imports include the value of articles determined on the c.i.f. (cost, insurance, and freight) basis, in addition to the present basis, which may generally be considered as an f.o.b. (free on board) basis. Section 2 would require that reports on exports show separately exports of articles the production of which has been subsidized by the U.S. Government and exports made under U.S. Government-financed programs.

For the reasons given below, this Office is opposed to both sections of S.J. Res. 115. With respect to section 1, the analytical advantages of the c.i.f. basis, even as a supplement to the f.o.b. basis, are outweighed by the disadvantages, regardless of the cost of adopting the c.i.f. basis. With respect to section 2, there is considerable doubt that there are any significant analytical advantages in separately reporting exports financed or subsidized by the U.S. Government.

Section 1

Under the existing system, the U.S. Government values both export and import flows, generally speaking, on the f.o.b. basis, that is, at the border of the exporting country. The value of goods traded internationally may, however, be determined on several bases, of which f.o.b. and c.i.f. are the most frequently used. The merits of a given basis of valuation essentially depend upon the analytical purpose to be served by the trade statistics. On the whole, we believe that the principal analytical purposes are being well served by the existing system.

One important purpose of trade statistics is to attempt to gauge a country's ability to compete in international markets. This is done by making direct comparisons of the trends in imports and exports over a period of years. For this purpose, the consistency of the valuation basis over a period of years is more important than the particular kind of valuation basis chosen.

Given a choice, however, the f.o.b. basis of valuation is preferable over the c.i.f. basis because f.o.b. more closely approximates purely merchandise transactions. C.i.f. data reflect services undertaken with regard to merchandise transactions as well as the merchandise transactions themselves. Such data therefore make it more difficult to analyze the reasons behind changes in flows of goods traded internationally. Particularly in cases where transportation costs constitute a large portion of total landed value, the volatility of freight rates would tend to make it more difficult to identify changes in production costs, i.e., changes in the ability of domestic industry to produce a good at competitive cost.

A second important purpose of trade statistics is to attempt to assess changes in the ability of domestic producers to compete with foreign products in the domestic market in terms of comparative prices. The c.i.f. valuation basis is sometimes said to be preferable for this purpose because it more closely approximates the market value of the imported good in the U.S. market. However, this is clearly a matter of degree, since c.i.f. valuation necessarily falls far short of providing an adequate measure of price competitiveness. Among other things, the fully relevant U.S. market value of an imported good, in addition to its foreign cost, insurance, and freight, should also include the U.S. duties paid, importers' margins, inland transportation, and other costs. Furthermore, a full understanding of the competitive situation would also require examination of factors other than prices in many cases, such as quality differences, delivery dates, and terms of sale.

A third significant purpose of trade statistics is to provide a basis for analyzing concessions exchanged in trade negotiations. Inconsistencies in the valuation bases of imports as between countries have been said to imply some disadvantage for the United States. In fact, statistical differences between trading partners have been allowed for in past trade negotiations and are being accounted for in the current one. Where import data are compared, countries on an f.o.b. basis are as a matter of course permitted upward adjustment to achieve full equality and comparability in statistical comparisons.

In the current negotiations, where some countries have emphasized differences in tariff rates on the same commodity, a more precise knowledge of differences in values to which tariff rates are applied is sometimes required. This need is being satisfied by a sample study of import documents made by the Tariff Commission. Any need for further adjustments in other areas of the negotition could be adequately served by a similar approach without necessitating the proposed adoption of a new basis of valuation.

A fourth important purpose of trade statistics is to analyze the balance of payments. In this case, the f.o.b. basis of valuing trade is clearly preferred. This is because not all freight and insurance transactions related to a country's imports give rise to an international payment. Use of the c.i.f. basis of valuation overstates import payments generally to the extent that these services are provided by domestic companies, and offsetting credits would have to be entered in the service balance.

As a result, the trade balance would show a mixture of merchandise and service transactions, and both the trade and the service balance would show a mixture of domestic and foreign transactions. This obscures and complicates analysis of foreign payments flows and necessitates adjustments in the data. In addition, the geographical allocation of payments flows becomes more difficult, because freight and insurance services may have been provided by a country other than that providing the goods.

In terms of the general objective of achieving greater international comparability and consistency with respect to trade data, adoption of the c.i.f. basis by the United States would achieve this objective in one limited sense, namely that the United States would thereby join a majority of nations in valuing both its exports and its imports at its own border. At the same time, however, there would also be a loss in comparability and consistency. Since all countries value their exports on an f.o.b. basis, c.i.f. valuation of imports necessarily causes a given good to be valued differently in the trade statistics of the exporting and the importing countries, with the difference being the amount of freight and insurance.

Section 2

With respect to the second part of the resolution—requiring additional breakdowns of exports to show Government-financed transactions and exports which move under Government subsidies or the production of which is subsidized separately—it is not clear what analytical purposes could be served.

The Department of Commerce shows, as one of the nine different ways in which exports are now being reported, the value of exports which are financed by the U.S. Government. In addition, the Department of Agriculture publishes data on exports of farm products, both Government-financed and commercial, as well as exports moving under export subsidies. While it might be useful to have these data brought together and published by one source rather than by two different agencies, there does not appear to be an unsatisfied need.

In any case, the main question is whether an examination of Government-financed shipments does in fact help to measure our competitive position in foreign markets. Most Government-financed goods move to countries which could not purchase these goods without financial help. These goods are therefore generally bought from the source which offers such financial help rather than from the source which can provide the goods most economically.

Our experience, however, is noteworthy in this regard. Some time ago the United States imposed a requirement that recipient countries use aid funds for purchases in the United States. Previously, aid funds had not been tied in this way. Yet the imposition of the requirement did not result in a substantial increase in Government-financed exports from the United States. This was because the recipient countries had already been spending a high proportion of their aid funds for U.S. products. This would indicate that the United States is fully competitive with respect to at least a substantial portion of aid-financed exports.

Most U.S. goods moving under subsidies are agricultural goods for which there is little doubt that the United States is the most efficient producer in the world The subsidies are a result of the particular policies we have chosen in order to control our agricultural surpluses and are not indicative of our competitive position.

For an analysis of a country's ability to produce efficiently as shown by export competitiveness, one generally compares the movements of goods into highly competitive markets. For these purposes, export data, uninfluenced by flows of Government-financed goods, are available in sufficient detail.

Furthermore, Government policies affecting transportation rates, public utility rates, taxation, and a host of measures as well as subsidies directly influence a country's ability to compete in export markets. Some countries use these measures to increase exports, but the effects of these measures cannot readily be isolated. If we wished to show our commercial exports unaffected by these factors, we would face insurmountable problems of allocating costs and benefits. But more importantly, we would distort our trade balance if we compared exports, devoid of the effects of Government programs, with imports, which included goods entering the United States under some foreign government-influenced program.

In short, this Office sees no significant analytical advantages to the enactment of either section 1 or section 2 of S.J. Res. 115. On the contrary, there appear to be serious disadvantages in doing so, completely aside from the question of the feasibility and expense of administering them.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Most sincerely yours,

CHRISTIAN A. HERTER,
Special Representative.

(Departmental comment on S. 3522 follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., August 4, 1966.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: This is in reference to your letter of June 29, 1966, requesting our comments on S. 3522, a bill to require the Secretary of Agriculture to report to the Congress each year certain information relating to the import and export of agricultural commodities.

We have no comments or suggestions to make concerning enactment of the bill insofar as it affects the Department of Agriculture, but we do have certain observations and suggestions with respect to the bill as it affects the General Accounting Office.

Section 5(a) of the bill would provide that, before submitting the specified report to the Congress, the Secretary of Agriculture shall submit the report to the General Accounting Office for examination and that the Comptroller General shall examine the report to the extent deemed necessary to certify whether or not the report is accurate and is prepared in accordance with certain provisions enumerated in the bill. We believe that this requirement would present great difficulties to the General Accounting Office since it would require a preaudit of statistical information that would be quite voluminous and that would have to be compiled from many sources, both domestic and international. Our audit efforts would of necessity be both extensive and time consuming. If the bill in its present form becomes law, the end result would be a substantial annual diversion of our efforts away from audits of expenditures of public funds. Furthermore, because of the scope of the work that would be involved, the requirement that our review be made before submission of the report to the Congress undoubtedly would delay its submission to the Congress well beyond the date established in section 3 or in section 6 of the bill.

We would prefer to see the requirement for the annual examination eliminated entirely from the bill. If this is not possible, however, we believe it would be preferable for the bill to require that (1) we perform an examination of the first report on a post-audit basis; (2) our examination be limited to a review of the reasonableness of the methods and procedures followed by the Secretary of Agriculture in compiling the required information; (3) we prepare a report to the Congress expressing our opinion as to whether or not the Secretary's report fairly presents the information so compiled; and (4) subsequent examinations, if any, be performed when deemed by the Comptroller General to be necessary or desirable.

We have the following comments on specific provisions of the bill as written.

Section 5(a)(1) would require the Comptroller General to certify whether or not the report is in conformity with generally accepted accounting principles. We are not aware of the existence of any generally accepted accounting principles for the preparation of the type of statistical data contemplated in the report.

Section 5(a)(5) would require the Comptroller General to certify whether or not any departure from generally accepted methods of reporting the information contained in the report was coordinated with an approved by the Comptroller General.

In line with our comments above, if the requirement for an annual examination is retained, we would prefer that this section of the bill require only that we review and report on the reasonableness of the methods and procedures followed by the Secretary of Agriculture in compiling the required information and that we express an opinion as to whether or not the Secretary's report fairly presents the information as compiled. The requirement that any departure from generally accepted methods of reporting be coordinated with and approved by the Comptroller General would tend to dilute responsibility for preparation of the report. It would seem to be understood that any material departure from generally accepted methods of reporting not disclosed in the report by the Secretary would be disclosed by the Comptroller General.

Section 5(a) would require the Comptroller General's examination to be made before the report is submitted to the Congress. Because of the time factor discussed previously, and to avoid dilution of responsibility for preparation of the report, we believe this requirement should be changed so as to require the Comptroller General's examination on a postaudit basis.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

The CHAIRMAN. Senator Dirksen, would you like to be recognized before we call our first witness?

STATEMENT OF HON. EVERETT McKINLEY DIRKSEN, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator DIRKSEN. I do appreciate your action in scheduling hearings on Senate Joint Resolution 115.

It seems to me that the Congress and the people are entitled to have more meaningful information on U.S. trade than we have had before. We should have statistics that are truly representative, statistics that accurately reflect our position in world trade, and statistics on which we can intelligently develop trade legislation that will be required when the present law expires next June 30. In order to obtain this type of information it seems essential that the Department of Commerce, as it regularly reports trade statistics, should be concerned with commercial transactions or dollar sales when reporting exports, and likewise it should be concerned with the price paid by our importers for the merchandise that comes into our country. Stated another way, we should know how much we receive for what we sell and how much we pay for what we buy. The purpose of Senate Joint Resolution 115 is to see that we have precisely this type of statistics.

Let me make one thing perfectly clear at the outset, the purpose of Senate Joint Resolution 115 is not to change the method by which we value imports for duty purposes, nor is the purpose to change the method by which we calculate our balance of payments. The purpose is to obtain more meaningful trade statistics for use in developing legislation and assessing our trade position.

There are several matters that give me concern. But I believe that I can put them into two categories. First, it appears that our export figures are inflated by including as commercial sales items for which we do not receive dollar payments, and never will. The recent sale of wheat to India is an example. Second, I am convinced that we completely distort our trade picture by assigning an f.o.b. foreign port valuation basis to imports. There may be some rationale for using this basis of value when calculating tariffs to be imposed on these items, but it is an utterly unrealistic basis for determining our trade position. Another illustration can be used to demonstrate this. Consider the purchase of German automobiles, for instance; we should have their value determined so as to reflect import values, when they are sitting on the dock at Baltimore or some other domestic port, not when they are sitting on the dock at the foreign port of origin. Every importer knows what he pays for imported merchandise, and it is determined on the basis of landed value, not foreign value.

I have reason to suspect, Mr. Chairman, that the impressive trade surpluses that have been reported over the years, and as recently as August 25 of this year, by the Department of Commerce may prove to be mirages when subjected to closer examination. In fact, I am advised that we may well be experiencing a trade deficit this calendar year if realistic reporting methods were being used.

I hope that during the course of these hearings we will be able to develop some meaningful answers.

The CHAIRMAN. We have many witnesses to be heard today so there will have to be an afternoon session. Our first witness is perhaps the most senior junior Senator in Washington, the Senator from Alabama, Hon. John Sparkman, chairman of the Select Committee on Small Business.

Senator Sparkman, I believe you would like to testify on S. 3522 and we would be very happy to hear your views on that subject.

STATEMENT OF HON. JOHN SPARKMAN, A U.S. SENATOR FROM THE STATE OF ALABAMA; ACCOMPANIED BY HERBERT L. SPIRA, COUNSEL, SENATE SELECT COMMITTEE ON SMALL BUSINESS

Senator SPARKMAN. Thank you very much, Mr. Chairman. I appreciate the opportunity of testifying on this matter. I am also grateful for your committee's early consideration of S. 3522, the Agricultural Trade Statistics Reporting Act, and the opportunity afforded me to make a brief statement on its behalf.

The activity of members of this committee in the field of export and import statistics is well known. The Senator from Connecticut, Mr. Ribicoff, and the Senator from Illinois, Mr. Dirksen, have thoughtful resolutions before this committee, in recognition of its jurisdiction over matters relating to trade agreements, tariffs, and nontariff policy. The Senator from Connecticut, who is also a congressional delegate to the GATT round of trade negotiations in Geneva, told the Senate earlier this month:

> We too often take for granted information . . . based on outmoded experience and old statistics. Congress cannot frame policy of the future based upon data from the past.

Inquiries we have conducted before the Senate Select Committee on Small Business, of which the chairman of this committee is a valued member, often call forth similar sentiments. I commend the Committee on Finance for the attention it is devoting to this fundamental subject.

Following the introduction of S. 3522, the history of agricultural reporting was reviewed in the Agriculture Department's Foreign Agricultural magazine, and I would like to offer this article for inclusion in your record at an appropriate point.

It appears that President Washington compiled the first statistics on crops and livestock in this country, and a system for gathering such data from each State was established in 1866. The Department's article concludes:

> As U.S. crop reporting enters its second century, it is bound to become more international in scope. Selling this country's abundance in world markets and helping friendly nations under government programs . . . requires accurate agricultural reporting. Also (problems) can hardly be defined, and much less remedied without knowing (supply, demand, and trade figures).

My bill is thus intended to provide a vehicle for recordkeeping, collection, and accounting techniques of the modern era to be applied to the presentation of international agricultural statistics.

Since the enactment of the securities laws of the 1930's, most substantial business concerns in this country have been improving their reporting services to their stockholders and to the public. It is interesting to note that a diversified company such as A.T. & T., whose $11 billion of revenues approximate the agricultural trade of the United States, released its annual financial report of last year on February 16, 1966. Another corporation, I.T. & T., having nearly 150 affiliates in 42 countries, received its auditor's opinion on March 3, 1966. The Inter-American Development Bank, an international governmental entity, had its 1965 financial report certified on February 7, 1966. I feel that it is not too much to hope for continuing progress in having our agricultural trade statistics currently available to Congress and to the public in a business-like manner.

In an effort to gain the benefit of some expertise, I asked the major accounting firms to give me their views on S. 3522. Several have done so, and I am informed that at least one other is preparing detailed comments. I would like to request permission that these also be included in the committee's record. I believe they will illustrate the extent to which it is recognized that accounting definitions and classifications bear upon policy decisions on exports and imports which must be made by the Congress.

The United States is the world's largest agricultural exporter, with farm produce making up a quarter of all U.S. merchandise exports. We are also the second largest agricultural importer. Sometimes, we export and import different varieties of the same commodity, such as meats. Accordingly, it is my belief that there should be available, in concise and familiar form, a standard annual document which permits comparisons to be drawn and trends to be perceived. This trade report could bring together both exports and imports, commercial and noncommercial shipments, and give us both their volumes and values. The report would be designed to make clear the overall effects of our total agricultural trade on the U.S. balance of payments.

Section 4 of the bill would encourage the Departments of Agriculture, Treasury, and Commerce, as well as the Bureau of the Budget and the Federal Maritime Commission to work together on procedures and forms for the collection of the necessary statistics. It would supply an impetus for common approaches to such problems as how to account for donations, how to report credit and foreign currency sales, and what valuation methods are appropriate for commercial exports and imports. It would authorize the Secretary of Agriculture to take the lead in bringing about agreement, in areas where it may not exist today. It would also provide for making refinements as future opportunities arise. Section 6 allows a 4-year trial period for coordinating technical and policy differences that might be involved.

Section 5 of the bill envisions that the General Accounting Office will assist the Agriculture Department, as an independent accounting firm counsels a private corporate client. It should be emphasized that section 5 does not contemplate exhaustive audits and verifications of facts and figures. The language would empower the Comptroller General to "examine the report to the extent he deems necessary" to give his opinion.

As I stated in introducing S. 3522, this bill is proposed as a basis for discussion and consideration. I am certain that it can be improved, and I am pleased that several private organizations and members of the committee have joined in this process of development.

An expression of congressional policy in the direction of making our agricultural reporting more international in scope may call for some new effort and thinking. However, I submit that a mechanism of this kind would be of value to both the executive branch of the Government and the public, and would assist the membership of both Houses of Congress in their deliberations on agricultural trade and the Nation's balance of payments. And I am submitting with the statement some letters from private groups which comment on the bill.

(The letters referred to follow:)

ARTHUR ANDERSEN & CO.,
Chicago, Ill., August 1, 1966.

Hon. JOHN SPARKMAN,
Select Committee on Small Business,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: I have your letter of July 26 and have read the copy of Bill S. 3522 which was enclosed. I assure you that this bill would be an excellent one for Congress to pass. We need this information badly, both for making private decisions and for determining where our country is going in relationship to balance of payments. I particularly approve the basis of these reports as listed on page five of the Bill.

I think the Bill is well drawn and I cannot make any suggestion to improve it at the present time.

With best wishes.

Sincerely,

LEONARD SPACEK.

ARTHUR YOUNG & CO.,
New York, N.Y., August 3, 1966.

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: Thank you for your letter of July 26, with which you enclosed a copy of S. 3522. We have no suggestions to make in connection with this Bill, but would like to commend you for the effort being made to make the information as informative and reliable as possible.

Sincerely yours,

RALPH E. KENT.

HASKINS & SELLS,
CERTIFIED PUBLIC ACCOUNTANTS,
New York, August 5, 1966.

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SIR: I appreciate being given the opportunity to comment on proposed bill S. 3522, which you sent me with your letter of July 26, 1966.

It seems to me that the information to be included in the annual report required by your bill is basically statistical in nature. Accounting is brought into play only insofar as the tabulation of data involves the traditional accounting functions of recording, classifying, and summarizing, which functions are common requirements of all reporting systems. Generally, the preparation of such a report would not involve the application of generally accepted accounting principles as they are used in reporting financial position and results of operations of business enterprises. Consequently, I suggest that Section 5(a)(1) of the bill be deleted. In making this suggestion, I do not want to imply that sound accounting practices or procedures are not required. On the contrary, they are required and I believe you have recognized this in Paragraphs (2) and (4) of Section 5(a). The requirements in these paragraphs seem to be effective substitutes, in the circumstances, for generally accepted accounting principles.

The requirement in Section 5(a)(2) that "such report accurately reflects the effect of trade in agricultural commodities on the balance-of-payments position of the United States" should include a standard against which accuracy of the report may be measured since several different results could be obtained if different underlying assumptions were used in preparing the report. I believe such a standard is provided in Paragraph 4. Therefore, I would suggest combining Paragraphs (2) and (4) as follows: "(2) such report fairly reflects the effect of trade in agricultural commodities on the balance-of-payments position of the United States in accordance with the reporting practices and procedures followed by major international trade organizations with which the United States is associated, including the General Agreement on Tariffs and Trade and the Organization for European Cooperation and Development; and." You will notice that I have substituted fairly for accurately in the suggested wording. The additional effort in compilation which would be required to achieve complete accuracy of the results may not be warranted.

Having established the standard for the preparation of the report, it seems to me that the remaining requirement for adequate reporting is consistency, and, of course, this requirement is contained in Paragraph 3 of Section 5(a).

I hope these comments will be useful to you and to the Committees which will be considering the bill.

Sincerely,

JOHN W. QUEENAN.

ERNST & ERNST,
Cleveland, August 19, 1966.

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: I appreciate your sending me a copy of Senate bill number S. 3522 for suggestions and comments.

I have reviewed the bill with several of our partners and we feel that this would be a very constructive step for our Government to take. However, there are some practical considerations which we would like to discuss with you.

Mr. J. O. Kay, our partner in Washington, will be in touch with you in the very near future to arrange an appointment so that he can discuss the bill with you.

Again, thank you for sending us a copy of the bill for our comments.

Sincerely,

R. T. BAKER.

ERNST & ERNST,
Washington, D.C., September 6, 1966.

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: As Mr. R. T. Baker, our managing partner, indicated to you, we are pleased to have the opportunity to comment on your proposed legislation, the "Agricultural Trade Statistics Reporting Act of 1966." Several of our partners and executives have reviewed the bill. Also, in order to gain greater insight into its background and expected results, we have discussed it in some detail with your staff.

May we say at the outset that the objectives of the act have our enthusiastic and unqualified support. As a firm we are constantly engaged in studies and research which depend, to a large extent, on the availability of government generated statistics. As a matter of fact, our office here in Washington is currently working on a transportation economics research problem for the Navy Department in which a report such as the one you contemplate would be of substantial use. Add to this the several other projects we undertake each year in which the report could be of benefit, and multiply that by the many other economists, consultants, trade sources, educators, analysts, and others who would use it, and its potential contribution to the statistics using community could be of significant importance. It is precisely because of the report's potential usefulness, both as an annual document in itself and perhaps as a model upon which to extend into other fields of reporting the same principles, that we have reviewed the bill carefully, critically and, we hope, constructively.

As we see it, the proposed report would serve two presently unsatisfied needs:

(1) It would bring together under one cover a variety of data regarding key United States agricultural commodity trade, which are presently either reported separately or are not reported at all.

(2) It would attempt to establish meaningful and consistent bases of accumulating the various statistical elements making up the report in order to permit direct comparisons and useful analyses.

While these two objectives are largely interdependent, the mechanics of effectively achieving them are somewhat different, and we will duscuss the problems they pose separately.

The statistical system of the Federal Government has in recent years been streamlined to a considerable degree. Nevertheless, the absolute vastness of the statistical gathering machinery within the Federal establishment makes a report such as you envision a project of substantial magnitude. For example, even a cursory review of the proposed legislation, coupled with our own experience in working with government statistics, suggests that the following agencies would represent a *partial* list of those organizations from which either data or advice would be solicited for inclusion in the report:

- Interstate Commerce Commission
- Treasury Department
- Federal Reserve System
- Bureau of the Budget
- General Accounting Office
- Department of Agriculture
  - Economic Research Service
  - Statistical Reporting Service
  - Foreign Agricultural Service
  - Agricultural Marketing Service
  - Commodity Credit Corporation
- Department of Commerce
  - Bureau of Census
  - Bureau of International Commerce
  - Business and Defense Services Administration
  - Office of Business Economics
  - Maritime Administration

Each of the agencies from which data would be gathered has its own system for disseminating information, presumably designed to meet its own special needs in terms of timing, kinds of data, levels of detail, units of measure, and so forth. It follows then that the individual bits of data coming into these agencies, upon which their reports are based, are also highly individualized and are established in formats to meet special analysis and output requirements. We believe therefore that a potentially serious problem in the area of mechanically identifying, coordinating, and synthesizing data from a variety of agencies is likely under the proposed legislation. Indeed, the very difficulties experienced by your staff in gathering and analyzing data, which gave impetus to this bill, could pose similar problems in generating a sound report. We will discuss later ways in which we believe these problems could be lessened.

In addition to the mechanical problems of coordinating vast amounts of data from a variety of sources, there are technical difficulties associated with the content of the statistical elements themselves. Many of these technical difficulties, in turn, apparently relate to matters of policy which may have far-reaching and important implications. In short, assuming the data can be obtained, how is it possible to define precisely and equitably the meaning of the line items to be included in the report, and then how can consistency of reporting among data sources be assured? For example, in order to facilitate direct comparison and for other analytical reasons, imports and exports should each be reported either c.i.f. or f.o.b., but not imports one way and exports the other way. Which is the appropriate way? Should they each be reported both ways? The method of valuing donations of commodities poses another problem which would first have to be reconciled, then implemented, and finally policed to ensure proper reporting. Undoubtedly, many other statistical elements are currently being accumulated in a fashion which would require considerable reworking before they become suitable for inclusion in the annual report.

Your bill of course recognizes that problems will exist in these areas and provides that the Comptroller General examine the report after preparation by the Secretary of Agriculture but before submission to the Congress to ensure adherence to generally accepted accounting principles, consistency, and accuracy. While we fully endorse the Committee's attempt to introduce sound business practice to the preparation of this report, we believe that a role for the Comptroller General, somewhat altered from that presently envisioned by the bill, would enhance the quality of the final report.

First, by having the Comptroller General review the report after it has been completely prepared leaves open the distinct possibility that substantive, important objections will be raised. Should this result, the report, noting the Comptroller General's exceptions, could be forwarded to the Congress, or the report could be returned to the preparing agency for revision, thus causing delay in its submission to the Congress. Under either alternative, the final product will be somewhat compromised, and its value correspondingly reduced.

The establishment and maintenance of reporting standards is an essential element in assuring a report of high quality. As we understand the kinds of statistics that would be generated, most would probably lend themselves more readily to the establishment of guideline standards rather than to the application of generally accepted accounting principles.

The remaining duties of the Comptroller General, as described in the bill, appear to be within the normal capability of the preparing agency. Occasional and periodic review by the Comptroller General, rather than a mandatory annual study, would appear to provide sufficient safeguards against incomplete or inconsistent reporting practice. Possible solutions to the several problems outlined above will be presented later.

The bill also provides for a normal report delivery date of February fifteenth, covering the preceding calendar year, except that the first four reports may be postponed until May first.

We have described above what we believe represent the principal problem areas in terms of generating a useful and meaningful annual statistical report. They are:

The mechanical problems associated with coordinating data from a variety of agencies

The technical problems associated with defining terms so that consistency of reporting is maintained

The policy problems associated with reconciling differing needs and objectives for statistical reporting

The problems associated with introducing the Comptroller General in an an after-the-fact role

The problems associated with imposing a regular report due date which is unrealistically close to the reporting period ending.

The last problem listed is the easiest to handle. We would suggest that it is impractical to expect a thorough, well-planned, and carefully reviewed document, resulting from an intricate data gathering system, which in turn depends upon literally millions of separately reported statistics from thousands of individual sources, to be ready for delivery forty-five days after the period closing. Since most users of the report will be more interested in its completeness and accuracy than in its early availability, we suggest that a period of somewhat longer duration be permitted to pass before its delivery is required.

The remaining problems lend themselves to no quick and easy solution. But, our experience in conducting audits and performing management consulting assignments would lead us to suggest that a carefully planned, detailed program, describing the report output expectations, listing input sources, preparing in advance term definitions, working out policy differences, and establishing before you start where you are going and how you plan to get there, will be the single most important element in the success of the annual report.

While your bill provides for the introduction of certain business techniques, one key element to all of our work is missing—that of preparing the audit and/or work program. It is our standard practice to prepare a detailed and exhaustive plan for the conduct of each engagement we undertake. It is an integral and absolutely necessary first step in conducting all of our work. In this respect, we believe that your bill would be substantially improved, and the resulting end product markedly enhanced, by including a provision for the development of a detailed plan specifically tailored to produce a first-rate annual document which its originators can look upon with pride and its users can study with satisfaction.

A plan of the type suggested would, we believe, address itself to the principal problem areas as we see them. Such a plan, prepared in advance of any data gathering, by presenting a clear understanding at the outset of the data to be generated, would necessarily delve into the details of the data's availability—from whom—in what form—for what time period, and so forth. If voids in data availability became readily apparent, alternative sources could be sought in advance. Differences in reporting techniques and formats could be reconciled in advance. Problems associated with defining terms, establishing guidelines, researching reporting practices of other organizations, and the myriad of other major and minor problems could be overcome, again, in advance. Such a plan, intelligently prepared and carefully implemented, should result in a meaningful report after the first year, rather than allowing a four-year "shake-out" period that your bill implicitly anticipates. If work is started on the plan at an early date, no delay in the preparation of submission of the first annual report would be expected. Finally, we suspect that whatever cost is incurred through the plan preparation phase would be more than offset the first year by increased efficiency in report preparation.

Our final point refers to the reference in your cover letter to Mr. Baker regarding your plan to produce a report that would bear a general resemblance to annual reports of businesses. Again, while we believe the approach of modeling the report after typical business practice has considerable merit, we believe that report format determination could properly be the responsibility of the people who plan the program.

Again, let me thank you for the opportunity to comment on this important piece of legislation. We will follow its progress through the Congress with considerable interest, and if we can be of any further assistance or clarify any points mentioned in this letter, please let us know.

Sincerely,

J. O. KAY, *Partner*.

PEAT, MARWICK. MITCHELL & CO.,
CERTIFIED PUBLIC ACCOUNTANTS,
New York, N.Y., August 19, 1966.

Hon. JOHN SPARKMAN,
U. S. Senate, Washington, D.C.

MY DEAR SENATOR SPARKMAN: I would like to express my appreciation for your interest in writing me on July 26 and asking for my comments on the enclosed Bill S. 3522 introduced in Congress by you and several other Senators. You are, of course, aware that a number of government agencies, including the SEC, REA, and SBA, rely on independent audits of financial statements by certified public accountants. In requiring in your bill that the Comptroller General examine and report on statistical information developed by the Secretary of Agriculture relating to the import and export of agricultural commodities, you are creating a great "leap-forward" in utilizing the services of qualified accountants. In my opinion, your action is far-sighted and commendable since I believe that accountants should pay more attention to the development of economic statistics. It is part of their training to appraise the authenticity of raw data furnished to them.

My specific comments on the proposed report to be issued by the Comptroller General are as follows:

1. The Bill requires the Comptroller General "to certify whether or not such report is in conformity with generally accepted accounting principles." This terminology as used by members of the American institute of Certified Public Accountants relates principally to the carrying value of assets and liabilities and to disclosure of commitments and contingencies in a corporation's statement of financial position, determination of revenues and earnings in a corporation's statement of earnings, etc. Such principles would likely have limited application to the statistical information in the reference work envisioned by Bill S. 3522. I would suggest as an alternative to the requirements of Sec. 5(a)(1) that the Comptroller General be required to express his opinion as to whether the data is fairly presented on the bases indicated in Sec. 5(a)(4).

2. The Comptroller General is required by Sec. 5 (a) (2) to certify whether or not such report "accurately reflects the effect of trade and agricultural commodities on the balance-of-payments position of the United States." Since certain of the information contained in the report will likely be based on estimates and statistical interpolations, possibly subject to correction when later and final figures may be available, I believe that the substitution of the words "presents fairly" for "accurately reflects" would eliminate lengthy and involved qualifications which accountants might otherwise consider necessary.

3. The Bill provides that the Secretary of Agriculture submit the report to the General Accounting Office for examination, and that the opinion of the Comptroller General with respect to such examination be included in the report, which is to be submitted to the Congress not later than February 15th of each calendar year. Due to the many complexities in gathering and compiling, let alone examining, the required data, it may prove to be physically impossible to meet this "deadline". I note that the bill provides for an extension of the report date to May 1 in the case of the first four annual reports, if certain conditions are met. You may consider it desirable to extend the report date on a permanent basis, particularly if the opinion of the Comptroller General with respect to his examination is to accompany the report submitted to the Congress.

4. I would judge that a considerable amount of the basic information needed for such a report is presently available in existing compilations by the Departments of Agriculture and Commerce and by the Census Bureau. Since the U.S. Government's official year ends June 30, you may wish to consider changing the reporting period from a calendar year to a fiscal year ended June 30, with the report being made available for distribution and study by members of Congress prior to the commencement of the January session.

5. If I may be permitted, in the present international situation, to paraphrase the Old Chinese proverb that "one picture is worth a thousand words", one chart may be clearer than a thousand figures. You may wish to emphasize the use of charts and graphs, supplemented by interpretations regarding the meaning of the graphed or charted data.

6. Although the definition of the term "major agricultural commodity" in Sec. 3 (f) is obviously very general, I suggest that the word "grain" be included, also that some indication be given of the extent to which manufactured and processed goods which include the raw material components are to be included.

I hope that the foregoing comments may be helpful to you.

Sincerely yours,

W. E. Hanson, *Senior Partner.*

National Livestock Feeders Association,
Omaha, Nebr., June 17, 1966.

Hon. John J. Sparkman,
Chairman, Select Committee on Small Business,
U.S. Senate, Washington, D.C.

Dear Senator Sparkman: Our sincere compliments to you for introducing S. 3522 which bill would provide for refinements and changes in the system of reporting agricultural imports and exports. You are absolutely correct in your indication that the Department of Agriculture should be more business-like in acquainting the Congress and the public with the results of commercial and government activities in exporting and importing agricultural commodities.

Having testified before your Committee on May 19 with particular reference to the problem we now have, we were delighted when advised you were going to introduce a bill designed to correct it. After obtaining clearance from your office, we released a news bulletin relative to the matter. It did not go into the mail until Friday evening. You will find two copies of the news bulletin enclosed and we hope they meet with your approval.

We hope you will be successful with the scheduling of hearings on your bill real soon. We will do everything we can to assist in this effort. Also, one of our representatives, either Bill Jones or myself, will appear before the committee for testimony.

The problem we have now with USDA reporting of imports and exports is much more serious than many people realize. The system in use now not only misleads the public and the industry, but it does not provide Government officials and members of the Congress with the information and tools they need in making policy decisions. As a result, we feel our foreign trade policies have not been in the best interest of domestic industry.

Please accept our congratulations and appreciation for your forthright recognition of problems facing American Agriculture.

Respectfully yours,

Don F. Magdanz,
Executive Secretary-Treasurer.

Certified Livestock Markets Association,
Kansas City, Mo., July 7, 1966.

In re S. 3522.

Hon. John Sparkman,
U.S. Senate, Washington, D.C.

Dear Senator Sparkman: Thank you very much for your letter of July 1 enclosing a copy of the above bill and with additional information in connection with its introduction which you enclosed.

Our trade association very much welcomes this type of an approach, and I appreciate your reference of our continued interest to the Senate Finance Committee for their appropriate consideration.

On July 16, the president of our Association, W. V. Emrich, and I expect to attend the meeting of the Alabama Livestock Markets Association in Montgomery, and I will be pleased to make particular reference of your active interest and concern in this respect along with your other steps in the interests of the livestock industry if you have no objection.

Very truly yours,

C. T. "Tad" Sanders,
General Manager.

[From the Cow Business, June 27, 1966]

Senator John Sparkman of Alabama also has introduced a bill which would require the Department of Agriculture to issue an annual *full* statement on commercial and government activities in exporting and importing of agricultural commodities. Total volume and value in foreign trade would be mandatory. Senator Sparkman said that inconsistencies in government reports make it difficult for Congress to arrive at policy involving import and export programs. His bill would provide that the General Accounting Office certify to the balance of payments accuracy of the report.

The CHAIRMAN. We will also print this article in the record of these hearings, Senator Sparkman. It is a very interesting article.

(The article referred to follows:)

[From the Department of Agriculture's Foreign Agricultural magazine]

A CENTURY OF AGRICULTURAL STATISTICS

The first U.S. crop report was a friendly gesture by an American President to a citizen of a country formerly our enemy.

The President was George Washington. The citizen was Arthur Young of England, who asked Washington to supply statistics on average yields and prices of crops and livestock, prices and rents of land, and prices paid by farmers.

To obtain the information, Washington addressed a circular letter, or questionnaire, to several gentlemen, "the best informed of the agriculture" in New York, New Jersey, Pennsylvania, Maryland, and Virginia. His report to Young consisted of several hundred words and four statistical tables.

FIRST PRESIDENT FORESEES NEED

Washington's report reflected his intense, lifelong interest in agriculture. In his final message to Congress, he urged government support for agriculture that would include "collecting and diffusing information."

Numerous attempts by the States, the Federal Government, and private individuals and organizations were made over the next seven decades to set up an effective system of making crop and livestock estimates. But none was successful until the establishment of the U.S. Department of Agriculture in 1862.

Starting with 1866—100 years ago—we have continuous data by States, on the acreage, yield, production and prices of the major crops, and on numbers and value of livestock.

EARLY EFFORTS TO OBTAIN FOREIGN DATA

From the beginning, efforts were made to collect statistics on foreign agriculture as well as domestic. The first annual report of the commissioner of agriculture in 1863, announced that the new Statistics Division would collect data that "exhibit the commerce, *both foreign and domestic*, in leading agricultural products."

In 1873, Jacob Dodge, chief statistician, spent several months abroad studying European methods and arranging for the exchange of information with foreign countries. Dodge's position on the need for international data has a markedly contemporary ring:

"In these days of international commingling, by commerce, immigration, and travel, demand for statistics more comprehensive than national statements have arisen, and international comparisons have therefore become an urgent necessity of progress in government, industry, and the arts."

An office was set up in London in 1882 to provide "accurate reports of crop prospects" and other information of value to agriculture. An act of Congress in 1888 required U.S. Consular Officers to make monthly reports on crop conditions.

TODAY'S SYSTEM—DOMESTIC AND FOREIGN

Since those early days, the collection of statistics has developed apace with the demands of the times. Crop and livestock estimates for the United States agriculture are now the province of the Statistical Reporting Service and its network of 43 field offices that are financed cooperatively with the States. Raw data come from questionnaires mailed to hundreds of thousands of voluntary crop reporters, supplemented by enumerative surveys and objective field measurements. Modern electronic computers are used in processing the vast amount of data thus obtained. Production information on every aspect of agriculture is released in hundreds of reports each year.

Collecting statistics on foreign agriculture is now the responsibility of the Foreign Agriculture Service. A global network based on 94 agricultural attachés and officers, stationed at 60 key posts and covering more than 100 countries, provides current information on all principal commodities moving in world trade.

THE SECOND CENTURY

As U.S. crop reporting enters its second century, it is bound to become more international in scope. Selling this country's abundance in world markets and helping friendly nations under such government programs as Food for Peace requires accurate agricultural reporting. Also, diet deficits in food-scarce regions can hardly be defined, much less remedied, without knowing how much each country produces, how much it needs, and how its economy functions.

The CHAIRMAN. This reporting problem reminds me of the friend of mine who went into the airplane business. He was teaching people how to fly or taking them joy riding and things of that sort. He told me that he just could not understand what the trouble was. Every day on a cash-in, cash-out basis he made a profit, and yet at the end of a year and a half he was broke. He could not figure out why the business was losing money.

He finally discovered that there was such a thing as depreciation. For lack of that particular item his business went broke. He said that if you go in that business you ought to let an accountant tell you how to depreciate the equipment because if you do not, you may think you are making money but you can be losing money all the time.

Now, the thing we are talking about here is much the same. If you want to find out whether you have got a favorable balance or unfavorable balance, you really need the proper records. You have to look at every item involved and that is the sort of thing I take it you favor, Senator Sparkman.

Senator SPARKMAN. That is right. Yes, sir. A good statement.

The CHAIRMAN. Senator Dirksen, you have a bill in on that subject. You might want to ask Senator Sparkman a question or two.

Senator DIRKSEN. I am here to listen and learn. I am interested in the integrity of our trade figures and I like to hear what others have to say who defend what we are doing at the present time.

I am sorry that I was a little late.

Senator SPARKMAN. Well, I am very glad that you got here.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Senator Sparkman, I am pleased to be a cosponsor of this bill and I congratulate you on your statement.

What you are trying to do is get an accurate, up-to-date record of imports and exports of the agricultural commodities, is that not true?

Senator SPARKMAN. The Senator is correct in his statement.

Senator TALMADGE. For instance, every time we see a statistical report on agricultural commodities, they say our exports are so much and then you have to find out how much of it was subsidized, do you not, under our Public Law 480 program?

Senator SPARKMAN. There are many factors that enter into it that are not shown when you lump it all together.

Senator TALMADGE. I thank you and I congratulate you.

Senator SPARKMAN. Thank you.

The CHAIRMAN. Thank you so much, Senator Sparkman.

Senator SPARKMAN. Thank you very much, Mr. Chairman.

The CHAIRMAN. The next witness will be Mr. Winthrop Knowlton, Assistant Secretary for International Affairs of the Treasury Department and he—is he here? And I believe you will be accompanied by Mr. James Hendrick.

STATEMENT OF WINTHROP KNOWLTON, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT; ACCOMPANIED BY JAMES P. HENDRICK, DEPUTY ASSISTANT SECRETARY OF THE TREASURY

Mr. KNOWLTON. Mr. Chairman, I am sorry to say that there has been a momentary breakdown in our reproduction facilities and copies of my statement have not arrived but should be here any moment.

The CHAIRMAN. Do you have the original?

Mr. KNOWLTON. Yes.

The CHAIRMAN. Go ahead and proceed, then, and we will reproduce it if need be.

Mr. KNOWLTON. Mr. Chairman, I appreciate the opportunity of appearing before this committee to testify on Senate Joint Resolution 115. Section 1 of this resolution would require the Secretary of the Treasury and the Department of Commerce to compile import statistics showing cost, insurance, and freight charges. Section 2 of the resolution would require the Commerce Department to classify exports by three categories, (1) total exports, (2) exports of articles the production of which has been subsidized by the Government of the United States, and (3) exports made under Government financed programs. I would like to address my remarks to the first section of the resolution and in particular two aspects thereof.

The first is the very great burden which it would place both on importers and on the Customs Service in developing the information required. The second is the effect which cost, insurance, and freight statistics would have on the presentation of our balance of payments position.

The CHAIRMAN. Well, if it is too big a burden for you fellows to do it that way, we might fix the law up to relieve you of that problem. Just charging that tariff based on what the value is on this shore rather than the value over there would save you that problem, would it not?

Mr. KNOWLTON. I would like to have Mr. Hendrick, who is our expert on customs, go into this.

The CHAIRMAN. If instead of basing the tariff on the value over there, we base it on that value, plus insurance and ocean freight over here, then we would solve that problem for you, would we not? All you would have to keep is one set of books.

Mr. KNOWLTON. I am not sure it would be the right set of books to be keeping for balance-of-payments purposes, which is a matter I will get to in just a moment.

On the problem of data collection, I would like strongly to emphasize that the adoption of this resolution would impose a real and serious burden on the Bureau of Customs. U.S. customs duties are not assessed on a cost, insurance, and freight basis. Accordingly, in the absence of legislation requiring that this be done, there is no existing reason why the forms filed with customs by importers would normally contain information on a cost, insurance, and freight basis. At first blush it might be assumed that it would be a relatively simple matter for the customs regulations to be amended so as to require importers to provide, in addition to the usual information furnished the Bureau of Customs, further data with respect to insurance and freight. I do not believe, however, that such a solution would work out satisfactorily, either from the standpoint of the Congress or the Bureau of Customs.

Before explaining why this is the case, I feel it would be useful to discuss precisely what information is being called for under Senate Joint Resolution 115. From our reading of the resolution, it would appear that considerably more would be required than simply adding the cost of insurance and freight to foreign invoice value. The more that would be added, the more complicated implementation of the resolution would become from the standpoint of customs administration and American importers generally.

Our reading of the resolution, particularly the last "whereas" clause, which notes that most members of the GATT account for the value of their imports in terms of landed value, leaves us with the impression that what would probably be expected here is a reporting of imports substantially on the same basis as that now used by those countries which are members of the Brussels Convention. Generally speaking this would mean that in addition to the customary cost, insurance, and freight data—insurance and ocean freight—information would also be required with respect to inland freight, loading charges, commissions, and taxes. If Senate Joint Resolution 115 were construed in this way, its implementation would be complicated indeed for the Bureau of Customs.

American importers, and I might add parenthetically the Bureau of Customs itself, have little operating familiarity with the valuation of procedures under the Brussels Convention. In effect, a requirement such as this would entail working with a whole new set of valuation techniques, having no relationship whatsoever to U.S. duty collection procedures.

Even this, however, could be feasible from the standpoint of customs administration, provided that the Bureau of Customs were not expected to verify the values that are submitted. In other words, if Senate Joint Resolution 115 so required, the customs regulations could be amended so as to compel American importers to submit figures on the basis of the Brussels Convention, as well as on the normal basis customarily required for duty assessments in the United States. The Bureau of Customs could then transmit these figures without further review to the Department of Commerce for statistical reporting purposes.

From past experience, however, we must point out frankly that such a procedure would not be likely to produce satisfactory statistical results. Our experience has been that unless the Bureau of Customs verifies the figures that are submitted, they tend to be unreliable statistically. This would be particularly true in a case such as this where the importers would be working on a basis with which they have little or no experience.

If Senate Joint Resolution 115 requires the submission of valuations on the basis of the Brussels Convention, and if, in addition, it is expected that the Bureau of Customs would verify the accuracy of the submission received, this will result in a very heavy additional statistical reporting burden for the Bureau of Customs—perhaps a doubling of Customs present statistical reporting workload. Although no detailed administrative cost analysis has been made, the additional burden would, under these circumstances, probably involve increased costs for the Bureau of Customs running between $1 to $1½ million annually.

This may appear to be a relatively small sum in terms of the total U.S. budget. In Customs terms, however, this is a substantial sum of money. It must be realized that the total Customs appropriations is only $86 million; that Customs is short of funds which it requires for more agents, inspectors, port investigators, and other personnel; that in the past year——

The CHAIRMAN. Could I just ask you a question there at that point? You people keep giving us a bunch of faulty and misleading figures. All that is being suggested here is that you give us the correct figures. You say, well, you have given us $86 million to give some bum information. If you want the right information it would cost a million more.

Now, why to save 1 percent or 2 percent should we have you keep bringing us erroneous and misleading information up here?

Mr. KNOWLTON. Mr. Chairman, if you will let me——

The CHAIRMAN. It just seems to me as though it is not worth paying $86 million for information if it is not going to be correct.

Mr. KNOWLTON. Mr. Chairman, if I can continue I will try to explain why I think the information we are giving you is the best information and not erroneous and misleading.

The CHAIRMAN. Well, here is an invoice somebody sent us in connection with a different problem. Here is the cost of the merchandise, here is the commission, and here is the casing and packing. Here is the hauling and docking, here is the inland freight, here is the storage and lighterage, here is customs and export clearance, here is the local insurance premium, and here is the petties, whatever that is. Like petty cash, I guess. So he totals it all up, $4,207, that says f.o.b., Japan. The reason he does that is that is what you are going to levy a tariff against. Then he adds two more items below that, ocean freight, marine insurance, one of them for $84.70 and the other $28.30, and then he comes out, c.i.f., New York.

He needs that information for his own purposes to find out whether he made money or lost money—to put on his books what he paid for this thing. So there it is then, $4,320 and zero cents.

Now, you people take those last two items off for your purposes and all we say is put them back for balance-of-trade purposes so we will know whether we have a favorable or unfavorable balance. Why can't you give us that information? You take it out. Why not just put it back on and tell us what it was?

Senator DIRKSEN. Mr. Knowlton, there is only one thing we are interested in. What do we pay for what we receive? What would we get for what we sell? That is the whole business, and that means everything, every item, every cost saving has got to be in the figures and I do not believe we get figures like that.

Mr. KNOWLTON. Senator Dirksen, if I could complete my statement I think——

Senator DIRKSEN. You can continue.

Mr. KNOWLTON (continuing). I could describe the reliability of the figures we have today; from a balance-of-payment standpoint they are the best figures.

Senator WILLIAMS. Before we leave that point, though, do you not keep these two different items so that you could make them available?

Mr. KNOWLTON. I would like to have Mr. Hendrick answer any questions on the details of Customs forms.

Senator WILLIAMS. How do you know what you take off if you do not keep a record of it?

Mr. HENDRICK. Senator, my name is J. P. Hendrick, Deputy Assistant Secretary of the Treasury, having jurisdiction over Customs matters.

The invoice which Senator Long was telling us about is unusual in that it includes figures on ocean freight and insurance. We have no requirement in our invoice form to show those particular items, nor do we have any requirement to show various other items which, if we understand Senate Joint Resolution 115 correctly, would be required; namely, inland freight, loading charges, commissions, and taxes. All of those items as we understand it must be shown if one is to get the calculations under the Brussels system.

All our invoice form does is to ask for enough information so that we can calculate the duty. Almost always the form is used to calculate an ad valorem duty on export value. In general we ask for enough to calculate that and nothing more.

Senator WILLIAMS. Well, then, there is a very simple solution. Just put a couple or three more lines on your inquiry and then carry the totals on your report.

Mr. HENDRICK. A very simple solution, Senator, excepting that we calculate the cost of it to be very substantial to our Customs personnel. Looking back over the years I am sure you will remember the Randall Commission—back in 1953, I believe it was. When we got the comments that were made to the Randall Commission on International Trade, there was only one thing everybody agreed to and that was Customs simplification. Everything should be simplified.

Ever since then we have been trying to simplify our Customs forms. Adding two or three more lines to the invoice form, of course, would be a complication. You will say not a substantial complication. We say it would be costly but whether it is worthwhile—Mr. Knowlton, I believe, would like the opportunity to show whether this additional information is worthwhile. Quite obviously if it is needed, well, the additional expenditure should be made.

The CHAIRMAN. Well, now, look. We want to know what our balance of trade is, what our balance of payments is, and what these policies you fellows have been recommending may be doing to our domestic economy. We want the figures on it.

You come down here and say you cannot give them to us. And then you say that you are saving 2 percent by not knowing what you are doing. My reaction is, well, let us pay the other 2 percent and find out what you are doing. That is basically the thing we are talking about here. You tell me we have a favorable balance of trade but you leave out the items of ocean insurance and freight. You do not know whether we have a favorable balance or not.

Mr. KNOWLTON. I would like to move on to that point specifically.

Senator WILLIAMS. Every time we ask for additional information, an extra line or two, we are told that it costs an extra million or two. When we passed the Customs Simplification Act which eliminated some of the lines you came back next year and asked for more money. If you take a line off you ask for more money just as when you put one on.

Now, if it costs so much extra to add these extra two or three questions, will you furnish a list of your appropriations for the last 10 years and show us where you have reduced your appropriations when we have simplified it? My experience has been every time we simplified it we had higher costs. Whichever way we go we still get less information each year.

(Pursuant to the above discussion the following information was submitted by the Bureau of Customs:)

TREASURY DEPARTMENT, BUREAU OF CUSTOMS, SAVINGS ATTRIBUTABLE TO CUSTOMS SIMPLIFICATION

The simplification of customs procedures and the many steps taken to increase effectiveness and efficiency of customs in the last decade have been reflected by customs ability to cope with an ever-increasing workload rather than by reduced appropriations.

Customs costs of operation (appropriated funds) have risen from $44.0 million for 1956 to $84.3 million for 1966. This increase, however, largely reflects statutory pay increases. (More than 95 percent of all customs expenses are for personal services and directly related expenses.) Customs employment during this period rose by less than 12 percent. During the same period, however, customs workload as measured by many varying criteria, increased from between 49 percent to more than 88 percent. For example, in 1956 there were 1.1 million formal import merchandise entries filed, as against more than 2 million in 1966. In 1956 customs cleared 138.9 million people entering the United States as against 192.0 million people in 1966. In 1956 customs collected less than $1 billion as against $2.5 billions in 1966. During this eleven years customs employment (other than reimbursable employment) rose only from 7,266 to 8,091 employees.

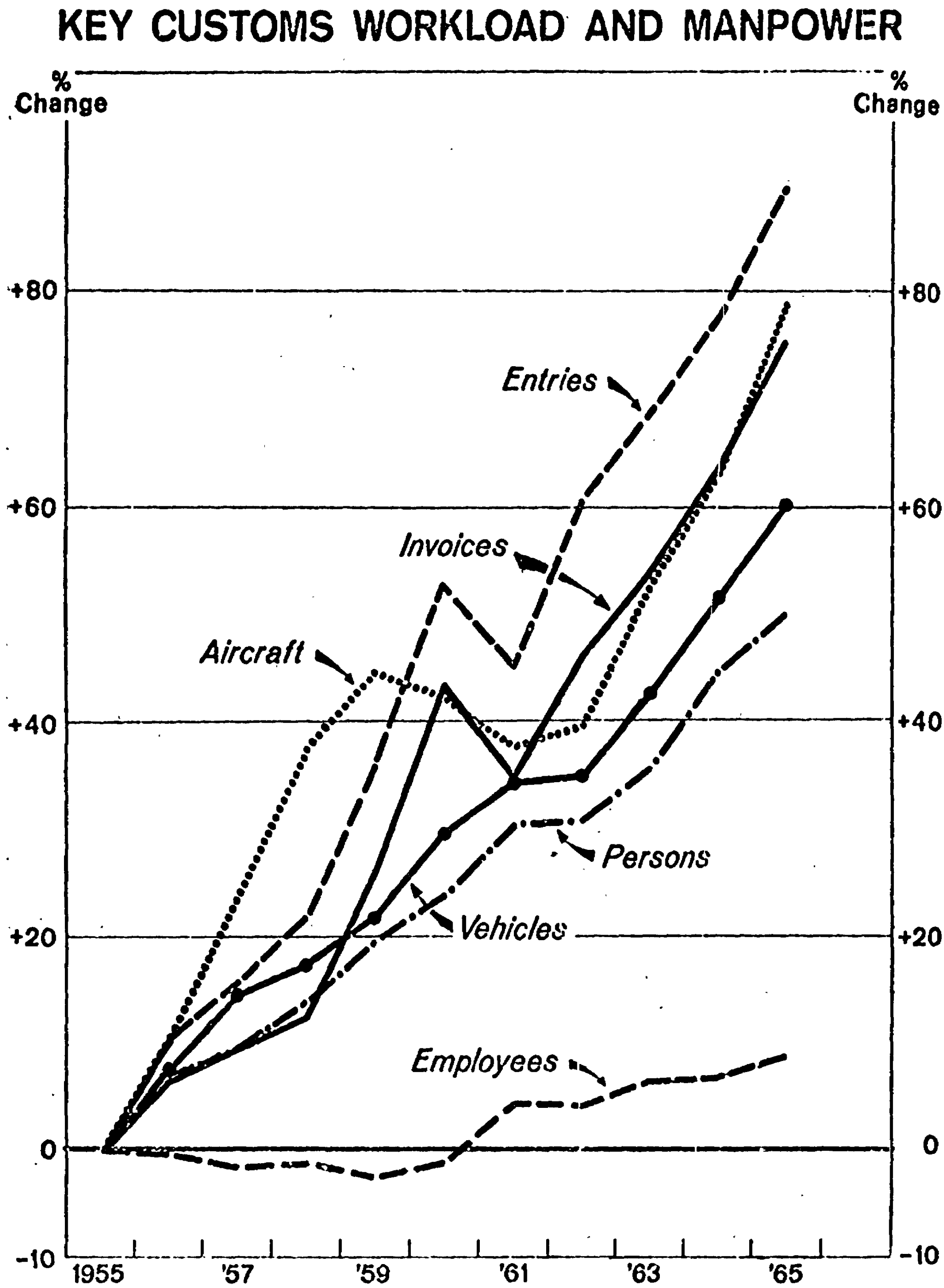
Attached is a chart covering the years 1956 through 1966 showing customs costs of operations (appropriated funds), total customs collections, the number of customs employees, the number of entries of merchandise and the number of vehicles, aircraft and persons cleared by customs.

There is also attached a graph covering the years 1955 to 1965 showing the relationship between customs workload and customs manpower.

Customs costs of operation, collections, workload, and manpower, fiscal years 1956–66

	1956	1957	1958	1959	1960	1961
Cost of operation	$44,044,779	$44,224,739	$49,903,261	$52,472,936	$54,227,481	$59,779,062
Collections	$983,172,412	$1,059,208,252	$1,121,966,901	$1,303,685,166	$1,519,602,683	$1,423,046,252
Entries filed	1,068,975	1,116,211	1,175,271	1,312,279	1,476,094	1,398,123
Vehicles arriving	35,927,774	38,209,342	39,090,893	40,645,531	43,242,767	44,820,269
Aircraft arriving	129,931	145,074	161,921	169,621	167,029	162,046
Persons arriving	128,912,827	132,321,187	137,673,041	144,033,444	149,642,907	157,266,765
Employees	7,266	7,175	7,187	7,119	7,213	7,328

	1962	1963	1964	1965	1966
Cost of operation	$63,253,828	$67,869,973	$72,472,145	$78,759,912	$84,273,117
Collections	$1,623,620,223	$1,721,509,766	$1,813,193,137	$2,061,543,526	$2,473,616,824
Entries filed	1,547,940	1,629,311	1,714,169	1,830,585	2,010,549
Vehicles arriving	45,900,594	47,537,017	50,583,564	53,466,758	57,020,738
Aircraft arriving	164,408	179,838	192,060	210,226	237,678
Persons arriving	157,702,671	164,108,527	174,266,417	181,184,104	192,031,846
Employees	7,537	7,768	7,702	7,939	8,091



Senator DIRKSEN. In that connection let me ask, how much would it cost and what would be the labor involved in making a pilot project out of just one country, just one?

Mr. HENDRICK. How much would it cost to add this information?

Senator DIRKSEN. Yes. Would that be an awesome burden?

Mr. HENDRICK. Well, as Mr. Knowlton has testified, our figure is 1 to 1.5 million per year for this.

Senator DIRKSEN. For one country?
Mr. HENDRICK. For this additional information.
Senator WILLIAMS. That is for all the countries.
Mr. HENDRICK. For all the countries.
Senator DIRKSEN. I am asking about one country. Let us take Japan, for example.
Mr. HENDRICK. I would have to figure that out, Senator Dirksen, and my facility for making rapid calculations is very poor. We could submit that for the record if you would like.
Senator DIRKSEN. Just offhand, out of a long background.
Mr. HENDRICK. What we would have to do would be to take world trade exports to the United States, find out what proportion of that is represented by Japan, and then we would take that fraction and apply it to the figure of 1 or 1.5 million.
The CHAIRMAN. Well, can you give us a guess as to what percentage of our trade is with Japan?
Mr. HENDRICK. Well, Senator, it would be so much easier if we were to submit this for the record. My guess might be completely wrong.
The CHAIRMAN. But you are up here as an expert on international trade. Do you not have some vague idea as to what percentage of our trade is with Japan?
Mr. KNOWLTON. Yes, I can give you those exact figures.
The CHAIRMAN. We do not need it exactly, just guess at it. You are an expert in that field.
Mr. KNOWLTON. In 1965 our total exports to all areas were $26.3 billion excluding military items. Our exports to Japan were $2.1 billion.
Senator DIRKSEN. How much?
The CHAIRMAN. $2.1 billion.
Mr. KNOWLTON. Imports were $21.5 billion on the same basis, to the world, and our imports from Japan were $2.4 billion.
The CHAIRMAN. It would seem to me that it would not cost much to do what Senator Dirksen is talking about.
Mr. KNOWLTON. I would like to continue to get to the basic point which I think is the purpose of spending this money and what you get out of it and what you think you get out of it.
Senator DIRKSEN. Before you do, let me ask one question. Is it an impossible burden to set up a pilot project for one country and to get the information that this committee wants?
Mr. HENDRICK. Of course it is not an impossible burden. Nothing is impossible, Senator, and I understand that the Department of Commerce witness is going to give you some information in regard to a pilot project already undertaken on that. I do not have the details on it myself, sir.
The CHAIRMAN. Here is a letter from Mr. Raymond Bowman, Assistant Director for Statistical Standards, Executive Office of the President, Bureau of the Budget, Washington, D.C., February 1, 1962. He says:

> There is something to be said for each of these two methods of values. As explained more fully below, C.I.F. valuation is the more appropriate measure of imports in relation to domestic economy—

which is something we are very interested in. He goes on to say:

FOB valuation may be more appropriate in other contexts, particularly when the emphasis is on international payments. Ideally statistical system should produce both.

Now, that is what the Bureau of the Budget says—that's the President talking.

Senator WILLIAMS. In line with those figures you gave about the imports and exports, the imports as I gather it are dollar purchases, is that correct?

Mr. KNOWLTON. That is the dollar value f.o.b.

Senator WILLIAMS. Dollar value. Imports representing dollars.

Mr. KNOWLTON. Imports from Japan.

Senator WILLIAMS. On the exports, do those figures represent dollar sales alone or do they include charitable gifts under CARE or some other aid program where we sell for soft currencies? Are they all included as exports based on dollars of what they cost or on what we actually receive back into this country?

Mr. KNOWLTON. These exports—the only items excluded from the export figures I gave you are military sales. It would include Public Law 480. It would include exports made under our AID program.

Senator WILLIAMS. Do you have a breakdown of those exports which show the extent of our exports for dollar sales? Under Public Law 480, we cannot get paid for those which are sold for soft currencies. We do not get those currencies back. You know that. Do we have that breakdown?

Mr. KNOWLTON. We do have breakdowns but we do not have them in a great deal of detail.

Senator WILLIAMS. That gets back again to this confusing picture. You point out that our exports are in excess of our imports—some of those statistics give us a favorable balance of trade except for the fact that we are giving our goods away. And that is a misleading figure. You will admit that, will you not?

Mr. KNOWLTON. As I say, we do have that breakdown, and in the Survey of Current Business the figure is given.

Senator WILLIAMS. Well, that is what I asked you. You do have a breakdown.

Mr. KNOWLTON. Yes, sir.

Senator WILLIAMS. Will you furnish that breakdown for the record at this point?

Mr. KNOWLTON. Yes.

Senator WILLIAMS. Showing the actual dollar sales as represented by the exports. And exclude the gifts and the various soft currency sales, or separate them.

Mr. KNOWLTON. I would be happy to submit whatever breakdown we do have for the record. I do not have the specific figures with me at the moment.

(The following information was subsequently submitted for the record:)

U.S. exports

[Millions of dollars]

	1960	1961	1962	1963	1964	1965	1st quarter 1966
Commercial exports	17,591	17,745	18,271	19,350	22,496	23,508	7,033
Exports financed by U.S. Government [1]	1,898	2,209	2,333	2,721	2,801	2,768	760
Total [2]	19,489	19,954	20,604	22,071	25,297	26,276	6,273

[1] Under farm products disposal program, Foreign Assistant Act and related programs and Export-Import Bank Act.
[2] Excludes exports under military grants.

Source: Survey of Current Business, June 1966.

Mr. KNOWLTON. To continue this very briefly on the Customs aspects of this, I just want to point out that in the past year Customs collections have been rising at a rate of 20 percent whereas personnel increases have been less than 2 percent.

And finally it must be remembered that many Customs border stations are in such deplorable condition that they scarcely do credit to the United States.

In a situation such as this, it would be serious, indeed, if the Bureau of Custons were required to absorb with its present appropriation important, new statistical reporting burdens such as those contemplated in Senate Joint Resolution 115.

I would also like to point out that the same administrative and cost problems with respect to collecting the data required by Senate Joint Resolution 115 would apply to S. 3522. This bill would, among other things, require the Secretary of Agriculture to report to Congress on the quantity and value of imports and exports for each major agricultural commodity as well as on the costs attributable to transportation, insurance and handling of such commodities.

Now, I would like to turn to the balance-of-payments aspects of the problem.

With respect to the use of c.i.f. statistics in connection with the balance of payments, I would like to point out that c.i.f. figures give a distorted and confusing picture.

The U.S. import statistics used for balance-of-payments purposes are compiled from copies of the custom entries. In these entries over 90 percent of our imports are valued on either an f.o.b. factory or f.o.b. port basis in the country of exportation. Thus, as indicated earlier, the statistics include neither freight, nor insurance payments to Americans or foreigners.

It is true many other countries collect import data on a c.i.f. basis. Whether a country collects its data on an f.o.b. or c.i.f. basis is not a matter of balance-of-payments policy, but rather the result of long-standing practice with respect to the method of valuing goods for the imposition of customs tariffs. I believe that one of the principal reasons for the U.S. adoption of the f.o.b. system was that the c.i.f. basis would have resulted in a large variation in the duties payable at various ports because of the large differences in transport costs from foreign ports to widely separated U.S. ports.

There has been wide international recognition that f.o.b. valuation is the most useful approach for balance-of-payments analysis purposes.

The International Monetary Fund deems it desirable for countries valuing imports on a c.i.f. basis to adjust their merchandise trade data to exclude the value of freight and insurance in preparing their annual statistical submissions to the Fund. The IMF Balance of Payments Manual (p. 41) states that—

Both exports and imports should be entered at transaction values at a uniform boundary, namely, at the customs frontier of the exporting country (f.o.b.)

There are several reasons why we believe f.o.b. data is preferable for balance-of-payments purposes:

1. First, U.S. exports, like those of other countries, are calculated on an f.o.b. basis. If c.i.f. import statistics are compared with f.o.b. export statistics, the resulting figures are asymmetrical. This is because the c.i.f. import figures include freight and insurance payments while the f.o.b. export figure does not include such payments. The trade balance computed on this asymmetrical basis would always show a smaller surplus or a larger deficit than if calculated on the present basis.

We could, of course, make a new reporting system more symmetrical by calculating both imports and exports on a c.i.f. basis. The result would be a merger of the merchandise trade account with the freight and insurance account both on the export and import side. This is clearly less useful analytically in determining the respective competitiveness of our goods and transportation facilities than a system—such as the present one—which permits the two accounts to be examined separately.

2. Second, imports calculated on a c.i.f. basis would include both payments by U.S. residents to foreign transportation and insurance firms, and to U.S. transportation and insurance firms. Payments to the latter, of course, are not foreign exchange costs to the United States.

Senator DIRKSEN. Well, now, Mr. Knowlton, I was not interested in the balance of payments as it relates to what we are trying to find out. I thought I made it abundantly clear and I thought this resolution makes it clear that our interest is in the trade balances. We wanted to know whether accurate data goes out to the country, to the manufacturers, to the importers, and, of course, to the exporters. Are we topside or are we not? That does not involve the question of balance of payments at all. I am thinking in terms of c.i.f. versus f.o.b. and the comparability of these two systems from our standpoint. And I have a sneaking suspicion, without having fully run it down, that where surpluses have been reported in our balance of trade, not our balance of payments, that when you put this all together, and you include these costs, like insurance and freight, and so forth, that maybe you will wind up with something less than a favorable balance. In fact, you will wind up with an unfavorable balance.

Now, if that were the case, then, of course, it is a misleading figure and it does mislead the people of this country. But I just kept out the balance of payments and I thought we were holding this within a narrow channel, namely, the balance of trade.

Now, you are devoting a great deal of your statement to this question of balance of payments. It is important, of course, but for my purposes it is not. I was thinking merely of the kind of trade balance figures which are uttered by departments of the Government and go out and on which the business fraternity of the country relies.

Mr. KNOWLTON. Senator Dirksen, I would like to make several comments. First, I would like to have the Commerce people who are here comment on the trade aspects of this, and I really would like to comment on the balance-of-payments aspects, which are what I am concerned with at the Treasury.

Second, I should point out that the present statistics that are available do give us data on transportation payments, both U.S. payments to foreign carriers and payments by foreigners to U.S. carriers. That information is available in a separate account.

Third, this resolution as worded says that the Secretary of Commerce shall include in all the reports of important statistics published by him the cost, insurance, and freight values of articles on board as reported by the Secretary of the Treasury. Among the import statistics reported by the Secretary of Commerce are balance-of-payments import statistics. So it seems to me as presently worded these will get involved either inadvertently or advertently, if that is the word, with our balance-of-payments statistics and that does concern me a great deal because of the factors which I am describing in my statement.

Senator DIRKSEN. Well, what you are doing is involving yourself. I did not involve you. I have seen it said time and time again both in primt and orally, well, to be sure, we are behind the eight ball on balance of payments. So what? We have got a huge favorable trade balance.

Have we? That is the question I am interested in. Do we have that favorable trade balance?

How are you going to prove it? You have to take comparability as between these two systems to find out whether or not that is the case. And that is the only thing I was looking for.

Mr. KNOWLTON. Well, I believe that the present system, which is a symmetrical system, which takes the freight, and insurance statistics out of both your imports and your exports, does give an accurate appraisal of our trade position for balance-of-payments purposes. I believe it is the best possible, most accurate possible, picture of the true situation.

Senator ANDERSON. Senator Dirksen, he suggests somebody else could give the information. Do you want it now?

Senator DIRKSEN. No. I just want it sometime or other.

Senator ANDERSON. I thought you may want to ask for it now. Go ahead.

Senator DIRKSEN. These valuations are established at a foreign port and then, of course, you have got to add to it before they are dockside all the way by the American buyer and he will have transportation, he will have insurance, he may have other items. Now, you have managed somehow to get all transportation costs, internal costs like those obtained in Germany, for example. I cannot see why this is such a Herculean task in order to give us a truly comparable figure and see where we are, not on our balance of payments but on our trade balances.

Mr. KNOWLTON. Well, as I said, I would like to have the Commerce Department express themselves on the trade aspects of this. The balance of payments, therefore, that creates——

Senator ANDERSON. The question I raised, "Are they supposed to testify now?" I think Senator Dirksen is entitled to an answer to his question. Are these people in the room today who can testify to what he wants? Do you understand what Senator Dirksen wants?

Mr. KNOWLTON. Yes.

Senator ANDERSON. Are the people here who can tell him?

Mr. KNOWLTON. Yes, I believe there are people here who can tell him.

Senator ANDERSON. Somebody is bound——

The CHAIRMAN. Well, we will wait on them.

Mr. KNOWLTON. I thought they were going to testify after I was.

Senator ANDERSON. What are their names?

Mr. KNOWLTON. I am about through.

Senator ANDERSON. I beg your pardon?

Mr. KNOWLTON. I am almost through and then perhaps they can comment on the trade aspects specifically.

The third point on the balance-of-payments aspects of this, the merging of statistics on transportation and insurance services with statistics on goods raises an additional problem of allocating imports by country. Let us suppose, for example, that German goods are shipped to the United States on a Norwegian freighter, and as a result both Germany and Norway earn foreign exchange. Under the present reporting system, Customs obtains the value of the goods and, for balance-of-payments purposes, these can be identified as German exports. Aggregate data on import freight charges are gathered by the Department of Commerce from surveys of foreign shipping companies. Freight payments are allocated geographically and separately on the basis of the nationalities of the shipping companies in question. If, however, the entries for goods and transportation services are merged into one account, which is what the proposed resolution recommends, it becomes impossible to tell from the merged figure how much of the c.i.f. import value of a particular item should be credited to Germany and how much to Norway. If we were to establish a system to enable us to make this allocation, we would find that it is, in fact, the system we have today.

In this connection, the report of the Review Committee for Balance of Payments Statistics to the Bureau of the Budget (the so-called Bernstein Committee) stated, in April 1965:

> The preferred balance of payments practice is to distinguish the value of the goods from the transportation and related costs of international shipment. Accordingly, the procedure is to value goods at the border of the exporting country and to include transportation and related shipping costs incurred up to that point. For overseas trade, the costs of ocean shipping are excluded and treated separately in the transportation account.

The report further states:

> In general, the Committee finds itself in accord with these basic definitions and related conceptual principles as adopted and qualified by the Balance of Payments Division in the Office of Business Economics, Department of Commerce, for measuring the merchandise trade component of the balance of payments. These concepts and principles follow closely those set forth for international reporting by the IMF, which reflect in turn a high degree of consensus among experts.

In closing, let me say that figures are often only as good as their readers. If there are—and I am inclined to believe there will be—many readers who are unaware of the fact that the proposed c.i.f. import figures required by this resolution:

Are not comparable to our export figures;

Include sums that are not payments to foreigners at all; and
If used in conjunction with available export figures will understate the true U.S. trade surplus,

then, will these figures lead to greater understanding and less confusion, or less understanding and more confusion about our true balance-of-payments picture? I believe the latter is the more likely result. This belief, coupled with the burdensome data-collection difficulties described at the beginning of this statement, comprise the bases for Treasury's opposition to section 1 of Senate Joint Resolution 115.

On section 2 of Senate Joint Resolution 115, the Treasury Department defers to the views of the Department of Commerce. Similarly, except for our concern about the administrative burden of data collection, which I mentioned earlier, the Treasury Department defers to the views of the Agriculture Department of S. 3522.

Senator DIRKSEN. Well, now, Mr. Knowlton, I am so glad the Treasury Department defers to the Commerce Department. Let me tell you what Mr. Giles, General Counsel for Commerce, on page 2 of his report to the committee on this resolution said. I quote him:

> The lack of comparability between the benefits of Senate Joint Resolution 115 and its cost is emphasized by the fact that it is possible through an independent statistical estimating program to derive import statistics on a c.i.f. basis.

Then on the same page he says:

> Various government agencies regularly issue trade reports that reflect in large measure the export information required by this section of the resolution.

Then finally he says:

> C.i.f. estimates at the summary level could be derived from present f.o.b. values by the use of appropriate factors developed statistically. Thus, the U.N. recommendation for c.i.f. values to improve international comparability could be met without a costly and burdensome effort that would be imposed on importers and the government by the requirement of Senate Joint Resolution 115.

If that is true, why have you not been up here before, long before? If it can be done and done cheaper, and you do not have the burden of this resolution on you, why has it not been here? I was not interested in the balance of payments as such for this purpose. I wanted to see what the trade balances were because if there is something wrong with them, that becomes a challenge for every businessman in the country to see what we do about it and get on——

Mr. KNOWLTON. The reason I have not been up here, Senator Dirksen, is that I think these statistics would be misleading from the balance-of-payments standpoint.

Senator DIRKSEN. That is not what Mr. Giles said and you said the Treasury defers to the Commerce counsel.

Mr. KNOWLTON. On section 2.

Senator DIRKSEN. And he is the General Counsel down there.

Mr. KNOWLTON. Section 2 of your resolution.

Senator DIRKSEN. You get me all bewildered. Well, you have stated your indication and frankly it was not much of a case. So I have nothing more to say except we are not getting what we want.

Senator WILLIAMS. On what basis of statistics are our negotiators in Geneva operating today as they sit down with Common Market countries?

Mr. KNOWLTON. Sorry. I did not hear your question.

Senator WILLIAMS. What basis and what figures are our negotiators in Geneva using when they sit down at the present trade negotiations?

Mr. KNOWLTON. Well, the representative from Governor Herter's office is here to testify this morning, and I think that that is a question he might better answer than I.

Senator WILLIAMS. Do you not know?

Mr. KNOWLTON. Yes, I do know.

Senator WILLIAMS. What basis——

Mr. KNOWLTON. I believe they use the f.o.b. figures, but adjustments are made in the negotiations to come up with comparable rates to those used by the EEC negotiations.

Senator WILLIAMS. They use the f.o.b. figures both as related to our exports and also our imports, is that correct?

Mr. KNOWLTON. Those are the figures with which they start, but differences in the reporting methods of the United States and the other countries involved are taken into account by our negotiators in the negotiations. I would rather have the representative of Governor Herter's office comment on the details of how this is worked out.

Senator WILLIAMS. Under the present system if we export $100 worth of merchandise f.o.b. here and there is a $10 transportation charge, the Common Market countries figure that on the basis of $110 imports, do they not?

Mr. KNOWLTON. For what purposes?

Senator WILLIAMS. For balance-of-trade purposes.

Mr. KNOWLTON. For balance-of-trade purposes, I believe all or virtually all of the Common Market countries calculate their imports on a c.i.f. basis.

Senator WILLIAMS. And it would be the basis of $110. Now, if you use the same figure,—they ship a hundred dollars worth of merchandise over here, and it costs $10 transportation when it comes off here; in this country we only count it $100, do we not?

Mr. KNOWLTON. That is right.

Senator WILLIAMS. And that is where this difference arises.

Mr. KNOWLTON. There is a difference, there is no question about it, but as I said, I believe our trade negotiators take this difference into account in their negotiations.

Senator WILLIAMS. But in your reporting system you do not take it into account as you report the statistics?

Mr. KNOWLTON. That is right.

Senator WILLIAMS. Would it be too complicated if you did take it into account and reported and gave us comparable figures?

Mr. KNOWLTON. Well, I pointed out what some of the difficulties would be from the customs standpoint, and I have attempted to point out what some of the undesirable features of having these figures, which are not comparable from the balance-of-payments standpoint, would be to people trying to analyze the balance of payments.

Senator WILLIAMS. Do I interpret your statement to mean that you like the system as it is and do not think it could be improved upon?

Mr. KNOWLTON. From the balance-of-payments standpoint, that is my view. That is the view of the International Monetary Fund. It is the view of the Bernstein Committee which was set up to do an exhaustive analysis of our statistics, and it is the view of most experts on balance-of-payments statistics throughout the world.

Senator WILLIAMS. Is it also the view in relation to reporting the balance of trade? You think it is a better——

Mr. KNOWLTON. I have really no firm convictions on whether this would be desirable or undesirable from the standpoint of our trade statistics.

Senator WILLIAMS. At least we have one satisfaction; we have at least somebody satisfied with the job as he is doing it, are you not?

Senator DIRKSEN. Well, Mr. Knowlton, for purposes of the record, let me make it as crystal clear as I can, not only for your benefit but for the benefit of other witnesses, what this joint resolution seeks to do. It says "to require that reports on imports into the United States include the landed value of articles imported, and for other purposes."

I do not want to change the valuation system for duty purposes, and I do not want to change the calculation system so far as balance of payments is concerned. What I want is an honest expression of what our trade balance is, and the only way we can get it is to get the information that will show in reports on imports what the landed value is.

Now, it is as clear as crystal.

Mr. KNOWLTON. Yes, sir. I understand what you do want. I think my only point is that while that may be what you want, existence of these figures may lead to misinterpretation about our balance-of-payments situation.

Senator DIRKSEN. You see, we are going to be around the world looking for trade and we have to know exactly what those trade balances are. If we have a deficit balance as far as Japan is concerned, with Germany, exactly where does it lie? And what do our enterprisers do in order to cure it? And if you have no figures that stand up, obviously they will be working in the dark.

So quite aside from duty valuation and balance of payments, it is the trade balance that I am interested in.

Well, you have spoken your piece, and we thank you. If you are through——

Mr. KNOWLTON. Yes. Thank you very much sir.

Senator DIRKSEN (presiding). Well, in the absence of anyone else, we shall hear—did you have anything more to say, Mr. Hendrick?

Mr. HENDRICK. No; thank you very much.

Senator DIRKSEN. Well, Robert L. McNeill is here, Acting Assistant Secretary of Commerce.

Is Mr. McNeill here?

Mr. McNeill, I have to absent myself a moment to go down to the Judiciary Committee where another matter is pending. I will be back. Meanwhile, I am sure Mr. Williams will take over here, and I am sure will be very gentle with you, too.

Senator WILLIAMS (presiding). You may proceed.

STATEMENT OF ROBERT L. McNEILL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY, DEPARTMENT OF COMMERCE; ACCOMPANIED BY HARRY LAMAR, DIRECTOR, IMPORT POLICY STAFF, BUREAU OF INTERNATIONAL COMMERCE; MAX LECHTER, CHIEF, MERCHANDISE TRADE SECTION, BALANCE-OF-PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS, DEPARTMENT OF COMMERCE; AND MISS FRANCES HALL, DIRECTOR, INTERNATIONAL TRADE ANALYSIS DIVISION, BUREAU OF INTERNATIONAL COMMERCE, DEPARTMENT OF COMMERCE

Mr. McNEILL. I appreciate this opportunity to appear before your committee to discuss Senate Joint Resolution 115. I have with me Mr. Harry Lamar, Director of the Import Policy Staff, Department of Commerce.

The joint resolution would require the Secretaries of the Treasury and Commerce to include, in all reports on imports into the United States, the c.i.f. or landed value of articles imported. In addition, the resolution would require the Secretary of Commerce, in all reports of U.S. exports, to identify those articles the production of which has been subsidized by the Government of the United States or exported under Government-financed programs. The requirements of Senate Joint Resolution 115 are aimed at providing additional information on both U.S. imports and exports, which presumably would be useful in more accurately appraising the significance of foreign trade to the U.S. economy.

Senate Joint Resolution 115 raises two basic issues concerning present reports on the foreign trade of the United States.

The first issue concerns the lack of information in published import statistics on the c.i.f. or landed value of imports entering the United States.

The second issue concerns the manner in which published export statistics reflect the value of U.S. exports of articles which have been subsidized or exported under U.S. Government-financed programs.

Both issues appear to be related to the possibility of overstatement of the present export surplus in our balance of trade and the implications of such an overstatement for our present trade policy.

Present U.S. foreign trade statistics as compiled and published by the Bureau of Census measure exactly what they are designed to measure: the value and quantity of all foreign merchandise received in the U.S. customs area and the value and quantity of all merchandise shipped from the U.S. customs area except supplies destined for our Armed Forces abroad for their own use.

It is difficult for the Department of Commerce not to favor any proposals which provide more information and permit more meaningful analyses of the impact of foreign trade on the U.S. economy. The Department is of the opinion, however, that the information sought in the resolution for the purposes of better analyzing the impact of foreign trade is already available or could be developed by alternative, means which would avoid the practical and somewhat burdensome problems posed by the resolution.

I should first like to discuss the desirability of publishing import statistics on a c.i.f. basis, as would be required by section 1 of Senate Joint Resolution 115.

The resolution recognizes that present reports on imports into the United States show the value of articles imported in terms of their foreign value, referred to generally as f.o.b., whereas many other important trading countries account for the value of imports in terms of their landed value in those countries, referred to generally as c.i.f. The need for reporting United States import statistics on the basis of the c.i.f. value of imports—or their landed value—has been stressed by those who believe that our present trade statistics overstate the U.S. balance of trade through the omission of the cost of freight and insurance in reporting the value of imports.

There has been much discussion over the years on the preferable method of valuing imports and, in particular, the preferable method of valuing imports for duty purposes. Since 1832, U.S. import statistics have reflected the f.o.b. value; that is, the value of the article free on board—f.o.b.—in the foreign port of export. This f.o.b. value is required by law to be reported for customs purposes, and thus, import statistics are compiled from copies of customs entries and serve as the official basis for the reporting of U.S. imports. Similarly, the import statistics of other countries of the world also reflect their respective customs valuation requirements. Thus, the difference between the base of valuation reflected in the import statistics in the various countries simply reflects an historical development of different valuation bases required for customs purposes.

Senator WILLIAMS. May I interrupt you just at that point?

Mr. McNEILL. Yes, sir.

Senator WILLIAMS. I think that is part of the confusion. Now, in this paragraph you indicate that historically the U.S. import statistics have reflected the f.o.b. value, that is, the value of the article free on board in the foreign port of export. And over on page 2, in the second paragraph, you state that—

> The present U.S. foreign trade statistics, as compiled and published by the Bureau of Commerce, measure exactly what they are designed to measure, the value and quantity of all foreign merchandise received in the United States.

Now, you do not reflect the value as received. You put the value as f.o.b. the foreign port, do you not?

Mr. McNEILL. Yes, Senator. If I may, the balance-of-trade statistics published by the Department of Commerce are for the purpose of measuring the balance of trade in merchandise as between ourselves and the rest of the world. Our balance-of-trade statistics are not designed to measure the balance in services, such as ocean freight and insurance; or in services, such as tourism. They are designed very simply to measure, both in dollar terms and quantity terms, the balance of trade in merchandise between ourselves and the rest of the world.

Senator WILLIAMS. I understand that, but your statement on page 2 is not exactly correct, as you report it. You do not report them based on the value received in the United States. It is the value at the export port—port of export.

Mr. McNEILL. Yes, sir. That should perhaps be modified to say the quantity and value of all foreign merchandise, on an f.o.b. basis abroad which is shipped to the U.S. customs area.

Senator WILLIAMS. This is just typical of the way we ofttimes use that phrase which creates this misunderstanding.

Mr. MCNEILL. Yes, sir. That should have been corrected. That should have been expressed, I believe, the way I just corrected it.

Shall I continue?

Senator WILLIAMS. Yes.

Mr. MCNEILL. I would like to emphasize, therefore, that the present method of reporting imports in no way constitutes an attempt to misrepresent the value of U.S. imports as has been alleged. Both f.o.b. and c.i.f. are perfectly valid bases for valuing and reporting imports. Both have advantages and disadvantages in their use for analyzing the effect of imports on the U.S. economy.

I would like to briefly discuss three broad areas in which import statistics are used for such analytical purposes.

In balance-of-payments analysis, f.o.b. valuation is internationally recognized as correct and c.i.f. countries must presently adjust their merchandise trade data to exclude the value of freight and insurance in preparing their annual balance-of-payments statements and their statistical submissions to the International Monetary Fund. It would be highly inaccurate to include all payments of ocean freight and insurance charges in the balance of payments, because a part of these services may be supplied by the importing country itself, and to that extent such payments do not represent an international financial transaction. Thus, the application of c.i.f. values to all U.S. merchandise imports would overstate the magnitude of our foreign payments. Under present U.S. balance-of-payments procedures, merchandise transactions and ocean freight services are carried in separate accounts, with the latter item adjusted to exclude freight payments to domestic carriers. This procedure, in addition, provides for the correct country allocations of merchandise and freight payments, respectively; recognizing that the country supplying the merchandise is often not the same country that is supplying the freight—and insurance—services.

Secondly, in balance-of-trade analysis—the net balance between U.S. merchandise exports and imports—either c.i.f. or f.o.b. valuation can be used. C.i.f. valuation might be considered preferable for this purpose, because it values imports at the same point as that reflected for exports—the ports and borders of the United States. However, use of c.i.f. for balance-of-trade purposes involves the overvaluation of payments and misallocation by country cited in the balance-of-payments discussion above. In any event, an important feature in balance-of-trade analysis and the formulation of trade policy decisions is in the measurement of changes in the movement of the balance over a period of time. For this reason, the accuracy of import data, and the consistency of their construction as a statistical series for comparable measurement of short- or long-term trends, appear far more important than the particular basis of valuation, whether it be c.i.f. or f.o.b.

Thirdly, for commodity analysis of the impact of imports on the domestic economy, c.i.f. values might be considered preferable to f.o.b., but would still understate the true price of an imported commodity in the internal U.S. market. The c.i.f. value, it should be noted, excludes such cost factors as inland U.S. freight, agents' commissions, and payment of U.S. tariffs.

If the purpose of foreign trade statistics is to provide a measurement of the value and quantity of merchandise moving into and out of the

United States, it would appear that the collection or publication of such statistics should not be burdened by speical requirements to serve particular analytical purposes. In fact, it appears that the purpose of specific types of trade analyses would better be served by special studies which would not duplicate the detailed collection and publication of import statistics already required by our basic statutes.

A significant step in assuring clear authority for reporting of a well-integrated U.S. trade statistical program was the enactment in 1962 by Congress of Public Law 87–826 (19 U.S.C. 301). This act freed the planning and administration of the program from the then existing outdated, confusing, and sometimes conflicting legal provisions which had grown up over a long period of years. It substituted a delegation of authority to the Secretary of Commerce to enable him to plan a meaningful statistical program, both as to content and as to data collection methods and reporting requirements, in full light of changing statistical needs and changing business practices.

Senate Joint Resolution 115 would require that particular types of information must be collected, and would prescribe by law certain features which must be incorporated in each report of import statistics. Enactment of the resolution would therefore constitute, in part, a return to practices in effect prior to the enactment by the Congress in 1962 of Public Law 87–826. We believe it would unnecessarily restrict the flexibility of the Secretary in carrying out the responsibilities placed upon him by existing statutes in providing a meaningful, coordinated statistical program.

Senator WILLIAMS. May I interrupt that at that point?

Mr. MCNEILL. Yes, sir.

Senator WILLIAMS. Do I understand you have been voicing an objection to the compilation of these statistics as requested?

Mr. MCNEILL. In the manner in which they would be required by the resolution, the answer is "Yes," sir. We believe that the purpose of the resolution, which is the acquiring of knowledge as to the adjustments that insurance and freight would involve in the conduct of our foreign trade, can better be accomplished without imposing the burden on the Customs Bureau and the expense on the U.S. Government, including the Census Bureau, through a procedure of estimating, sir, and we are in process of developing such estimates. I will talk later on this if you would care.

Senator WILLIAMS. All right.

Mr. MCNEILL. The desirability of developing U.S. import statistics on the basis of their landed value has several ramifications, one of which this committee has already turned its attention to. I refer to the study being conducted by the U.S. Tariff Commission on the U.S. customs valuation laws and specifically on the question of the desirability of the United States adopting the Brussels definition of value for customs purposes.

The Bureau of the Census, the Tariff Commission, and the Bureau of Customs are jointly participating in a study designed to develop estimated c.i.f. values for January–June 1966 imports, in terms of the overall total and broad commodity groupings. This will permit direct comparisons of c.i.f. values and foreign market f.o.b. values for that period. The study is based on a sample of import transactions drawn by the Bureau of the Census from its detail statistical records. The c.i.f. values for the sample items will be obtained from Bureau of

Customs records and from customs brokers. It is expected that the study will be completed within the next two months. A similar study will later be made for the period of July–December 1966, thereby providing estimated c.i.f. values for the entire year of 1966.

I have also been informed that the Bureau of the Census is now tabulating the results of a c.i.f. value study made by the Tariff Commission for a period earlier than 1966.

It is believed that such an approach can provide sufficient detail on the c.i.f. value of U.S. imports to satisfy the needs of market users of such statistics. The Department has already indicated to the committee some of the technical problems and the substantive burdens that would be imposed on the Government and importers by the resolution.

The Department of Commerce will await with interest the results of the Tariff Commission study respecting the desirability of shifting to the Brussels definition of value for customs purposes. In the meantime, the Department of Commerce feels that the need for information on the value of imports on the c.i.f. basis could accurately and more simply be met by the type of estimating procedures that the Tariff Commission, in cooperation with the Bureau of Census and the Bureau of Customs, is using and which should be available in the next few months.

Senator WILLIAMS. Now, before you approach the second part of this my attention has been called to a statement here in the International Commerce under date of May 16, and it is entitled "Come Out in the Open—Quote C.I.F. Prices."

And it—I will put all this article in the record but it goes on and points out the difference in the c.i.f. and f.o.b. prices and urges that they all be on one basis and at the bottom it says:

> Ask the Commerce Department field office and they will explain the advantages of this.

(The article referred to follows:)

[From the Department of Commerce weekly publication "International Commerce," May 16, 1966]

COME OUT IN THE OPEN—QUOTE C.I.F. PRICES

If you want to offer merchandise to one of the advertisers in these pages tell him what it will cost him delivered to a port in his own country, before he pays the import duty imposed by his own country. Don't make him guess.

You can figure the inland insurance and freight to shipside to be added to your f.o.b. factory cost far more accurately than he can. You know how far you are from the port and by what means and routing you will get the goods to the dock. He can only guess—and foreign businessmen are as reluctant to guess their way through a deal as you are.

But don't stop at the dock. Figure in the marine insurance and ocean freight to the buyer's port, because if you leave that part to him the chances are both the insurance and shipping business will be lost to American firms and the return lost to the U.S. balance of payments.

An f.o.b. price is a puzzle.

A c.i.f. price is a hard fact on which a buyer can act.

Ask the Commerce Department Field Office.

Mr. MCNEILL. Sir, if I may refer to the International Commerce notice that you have just referred to, this is a notice to businessmen telling them that if they want to submit a bid to a prospective foreign customer, that what is of interest to that prospective foreign customer is the price that he is going to have to pay. This price will include not only the f.o.b. value at the United States but all other cost factors, of course, that will enter into the hoped for transaction. The notice simply says that as a businessman, in conducting your business, you might want to quote all the cost factors that are known to you and that enter into your competitive ability to win the bid. The notice, sir, does not refer to the subject or the particular question that this joint resolution addresses itself to.

Senator WILLIAMS. Perhaps not, but it emphasizes the importance to the businessman to have all these known factors at his disposal when he purchases.

Mr. McNEILL. Yes, sir. There is no doubt about that.

Senator WILLIAMS. Now, would it not be equally important for businessmen here and the Department of Commerce to have the same information?

Mr. McNEILL. Sir, I think I have said in my statement, at least once and perhaps more than once, that c.i.f. as a valuation method has a lot of things going for it. It has a lot of advantages as well as disadvantages, as does the f.o.b. basis.

We believe that the procedure that I have just been describing, which is to arrive at c.i.f. equivalents through a scientific procedure of estimation, provide for the user, the domestic user, the necessary information. So I do not quarrel, sir, with the objective. It is just the means by which the objective is to be accomplished.

Senator WILLIAMS. Do you think that the present method of reporting where we use f.o.b. on our exports and where we do not include the freight when we are computing our imports, do you think that is an accurate method?

Mr. McNEILL. I think it is completely accurate, sir. It measures the f.o.b. values.

Senator WILLIAMS. Do you think it is misleading when you put the two together?

Mr. McNEILL. I beg your pardon?

Senator WILLIAMS. When you report on one basis on your imports and use another basis on your exports, do you think it is misleading as to the true state of our trade?

Mr. McNEILL. Sir, our exports are valued on exactly the same basis as our imports. So there is complete comparability and complete symmetry. I think this is a sound and logical way to compile the export and import statistics of the U.S. Government.

Senator WILLIAMS. And you would object to any change in the reporting system, is that correct?

Mr. McNEILL. Sir, the reporting system takes fully into account the objectives of this particular resolution which is to have published along with merchandise import statistics what some service charges might be, which would be the insurance and freight charge. The insurance and freight charges are already reported in the balance of payments, but not in the balance of trade. But the figures are readily available. We are saying here that through a procedure of estimation, a scientific procedure of estimation being conducted by three highly qualified agencies, the Tariff Commission, Bureau of the Census, and Bureau of Customs, that we will to our satisfaction, and I think to the satisfaction of the committee, be able to derive very accurately statistical information as to the insurance and freight transactions and that these transactions can be made available to the public in publications of the Department of Commerce and other departments of the Government.

Senator WILLIAMS. You said can be. Have they been heretofore?

Mr. MCNEILL. In balance of trade statistics they have not, sir, because we have not yet finished our estimating procedure. We expect that this will be done, as I indicated in 2 months, and that we will be in a position shortly to make available to the public information as to c.i.f. values of imported products that can be compared to the f.o.b. values of those same imported products, not on a statistical position by a statistical position basis but on a general category basis.

Senator WILLIAMS. Then I gather you are conceding the fact that the present method of reporting has not been completely factual or——

Mr. MCNEILL. No, sir. I am not conceding any such thing. I am simply saying in respect to measuring the foreign trade of the United States the system that we currently have is accurate. There has developed, as expressed in the sense of Congress resolution that is before us, an interest by certain domestic users for additional statistical information. We as the Department of Commerce are here testifying that since there now is a demand for the statistics, that we are developing and will be in a position shortly to provide those statistics.

I am not, sir, quarreling at all with the way we compile the figures on our balance of trade. I think this is the only sound way to do it.

Do you want me to continue with my statement?

Senator WILLIAMS. Yes.

Mr. MCNEILL. Section 2 of Senate Joint Resolution 115 requires that the reports on U.S. exports classify by quantity or value or both: (1) shipments of articles the production of which has been subsidized by the U.S. Government and (2) export shipments financed by the U.S. Government. These objectives present serious difficulties of definition and implementation.

However, assuming that suitable definitions for "Government subsidized" or "Government-financed" exports were arrived at, there are practical difficulties involved in attempting to identify such shipments in the export statistics. An exception is Department of Defense military grant-aid shipments which are presently being tabulated separately direct from Department of Defense shipment documents, and not from export declarations (form 7525).

Appropriate Government agencies have participated on many occasions in attempts to find a reliable method for identification of nonmilitary Government-financed exports at time of shipment, but no method for achieving this has yet been developed. For the most part, such shipments are made by private exporters and the nature of many of the Government programs is such that at the time of export no determination has been made as to whether the transaction will or will not be covered within the program.

Senator WILLIAMS. Would you explain that point? I do not understand. You are telling me that when a shipment leaves this country—of grain, we will say—for X country, no one knows how that is going to be paid for, under what program?

Mr. MCNEILL. If I may use your example, sir, suppose that you have a silo, 50-percent occupied with grain produced under a Government price-support program, and 50 percent of the silo occupied by grain produced by persons not within the price-support program, and if a broker transacts an export shipment and draws from that particular silo the necessary grain to fulfill the export shipment, would that broker have knowledge as to what portion of that export shipment represented grain produced under a price-support program of the U.S. Government and that produced not under a price-support program of the U.S. Government?

If I may, sir, just give you another example, let us suppose that the depletion allowance available to certain natural resource industries should be deemed to be—to fall within the definition of this resolution as a Government subsidy or what have you. Let us suppose that from that petroleum, sir, is produced a series of petrochemical products that are exported from the United Statees. How would the exporter, even though he be the petrochemical manufacturer, or if he be a simple exporter, have any knowledge as to whether or not the depletion allowance was utilized by a particular oil-producing firm at a given time?

Senator WILLIAMS. Depletion allowance has got nothing to do with this wheat shipment right now.

Mr. McNEILL. I was giving you a second example, sir.

Senator WILLIAMS. I know. Let us go back to the shipment of wheat and stay with it. You are loading this shipment of wheat on the boat in New York. Are you telling me that the man that is exporting that wheat does not know under which program it is being shipped, whether it is being sold under a program for dollars, or whether it is being sold under a program for soft currencies or whether it is an outright grant?

Mr. McNEILL. If I may, Senator, my comments on grain were initially directed to an entirely different question—the question as to the identification of materials produced in this country—that is, the knowledge as to whether particular fields fell under some governmental subsidy. Your question is a different one. If grain is loaded on a boat to go to the United Arab Republic, or to India, pursuant to the Public Law 480 program of the U.S. Government, the question is whether the exporter knows that this was a Public Law 480 shipment. I think the answer to that is very clear; yes, of course, he would know.

Senator WILLIAMS. Certainly he would.

Mr. McNEILL. Yes.

Senator WILLIAMS. And so would the Department of Commerce if they wished to get that statistic, would they not?

Mr. McNEILL. The Department of Commerce has available to it through the Department of Agriculture and other agencies information as to the value of Public Law 480 shipments and other program shipments.

Senator WILLIAMS. Now, in reporting the amount of our exports on an annual basis which the previous witness gave is, that included the dollar value of these shipments without regard as to whether they were for dollar sales, grants or sold for soft currencies, did they not?

Mr. McNEILL. If I may, Senator, we publish an aggregate export figure that gives the total dollar value of all the merchandise leaving the United States. You had earlier asked, I believe, or some Senator had asked, for a submission as to how we break that down into Public Law 480 shipments? Government-credit shipments, and so forth.

In our regular reports by the Office of Business Economics and other statistical reporting agencies of the U.S. Government we clearly identify total U.S. Government-financed shipments by dollar value annually and quarterly. We give to the public, we give to all users of these statistics, exactly the measure as to the portion of total American exports represented by Public Law 480, represented by AID shipments, whether they be grant shipments, whether they be AID-financed shipments, all of this information is presented honestly and openly by the U.S. Government in its statistical reports, principally those issued by the Department of Agriculture. Its foreign agricultural trade publication periodically presents program-financing of U.S. exports.

Senator WILLIAMS. I want to congratulate you on such a fair report.

Now, will you give me the summary of that report, the value of our exports as they were given by the previous witness and also the value of our exports on dollar sales basis, in other words, the complete breakdown both as to grants——

Mr. MCNEILL. Surely. We will put it in the record if you so wish.

Senator WILLIAMS. Could you give it to me now?

Mr. MCNEILL. Orally, sir?

Senator WILLIAMS. Yes. They are so readily available it would be easy to put them in. They gave us the total value of all exports last year and since we have such a ready——

Mr. MCNEILL. Yes, Senator, if you would like I would read from the March 1966 issue of the Survey of Current Business. There are later issues. I happen to have this one in my briefcase. If you would like I could read all of the important information and I could read all of the export information with its subbreakdowns.

Senator WILLIAMS. No. I just wanted the figures. What was the total value. We will use first all inclusive value of our exports last year or as of that report.

Mr. MCNEILL. The figure I believe that Assistant Secretary Knowlton gave you for U.S. exports in 1965 was $26 billion.

Senator WILLIAMS. $26 billion.

Mr. MCNEILL. $26.3 billion to be exact. That excluded military grants and Defense Department shipments under sales contracts with foreign governments.

Senator WILLIAMS. Now, will you give me a breakdown of that $26 billion. How much of it represented dollar sales?

Mr. MCNEILL. Sir, if you want the figure—the figure I believe you want would exclude Public Law 480 kind of transactions.

Senator WILLIAMS. Well, without getting into identification of the law because we have so many different programs—we may have a Public Law 4000 someday.

Mr. MCNEILL. If you take out from that $26.3 billion figure I gave you, Public Law 480 shipments, shipments financed by the Agency for International Development, shipments pursuant to grants by the Agency for International Development, and shipments from the United States shores that are financed by the Export-Import Bank—if you X out all of these shipments you would come out with a figure of $23 billion—$23 billion, 508 million.

Senator WILLIAMS. Now, those were sold for repayment in dollars. Those were dollar sales, is that correct?

Mr. MCNEILL. Yes, that latter figure is a dollar sale figure.

Senator WILLIAMS. That latter figure is a figure of our exports based on straight sales, no subsidy, no discount or anything?

Mr. MCNEILL. I beg your pardon?

Senator WILLIAMS. I say these are not subject to any grants.

Mr. McNEILL. These are dollar sales.

Senator WILLIAMS. Soft currency sales are all eliminated.

Mr. McNEILL. That is correct.

Senator WILLIAMS. And that would leave about $3 billion of such grants and soft currencies and that includes our aid to India and all of our foreign aid grants and sales?

Mr. McNEILL. Yes, sir. It covers both U.S. Government grants and loans made to foreign importers and governments, and those paid to U.S. exporters in connection with program shipments to foreign purchasers.

Now, I as an individual would think that the Eximbank should be excluded because the Eximbank financing is repayable in dollars.

Senator WILLIAMS. How much is that?

Mr. LECHTER. Quite substantial. It would be perhaps a half billion dollars of the $3 billion that has been excluded.

Mr. McNEILL. Perhaps add a half billion to that $23.5 billion. That is transactions——

Senator WILLIAMS. Do you not have a breakdown of the difference?

Mr. McNEILL. Not in this particular publication, but we certainly have it.

Senator WILLIAMS. I was just congratulating you on having such a variety of figures.

Now, on this $3 billion, do you have—how much of that is represented by sales in soft currencies, how much is in grants, and as well as the others?

Mr. McNEILL. You wanted, what, the agricultural—the Public Law 480 statistics?

Senator WILLIAMS. Not necessarily agriculture. I am just speaking of dollar volume of exports now, whether it is agriculture or——

Mr. McNEILL. I thought we had been through that.

Senator WILLIAMS. A little Metrecal in it. I am talking about our grants, sales in soft currencies which are earmarked for expenditures in those countries, and so forth, and then the amount financed by the Export-Import Bank.

Mr. McNEILL. Sir, I am sorry. I had given you $26.3 billion export figure. I had deducted from that the soft currencies transactions as well as some hard currencies transactions of the Export-Import Bank and AID to give you a $23.5 billion figure which is a firm dollar figure, and which is about a half billion less than it should be because the Eximbank should be taken into account. That would be a half billion dollar add-on. What you would then have left as Government-financed exports would essentially be those transactions pursuant to the AID program—both grants and dollar loans—and those that are repayable in local currencies.

You would again I think have to add on those transactions of AID that are repayable in dollars. So I think in the soft currency sale you would essentially be talking about Public Law 480 or the largest single portion of the soft currency sale would be Public Law 480.

Senator WILLIAMS. How much was Public Law 480?

Mr. McNEILL. One point—sorry. The chart I have before me is for the fiscal year 1964, and the figure then was $1.5 billion. I believe that last fiscal year's was $1.4 billion, Public Law 480. Excluding barter.

Senator WILLIAMS. Excluding barter?

Mr. McNEILL. Yes.

Miss HALL. We get goods back for that.

Senator WILLIAMS. How much was the barter? They are included in your statistics, are they not, in this $26 billion?

Miss HALL. Yes, but they are paid for by an equal value of imports.

Senator WILLIAMS. I know they are balanced out, but let us be realistic. We know that this barter, much of it is a one-way street. We are giving away commodities and accepting in repayment a commodity which we may never use and some of it has never been brought in. What is the amount of the barter?

Mr. McNEILL. I wonder if I may, those of us here do not have all the statistical facts with us. I wonder if we could supply you with exactly the figures that you would like, either privately or for the record.

Senator WILLIAMS. The reason I was asking these questions is not that it is so important to have them here. I am just asking them to emphasize the fact that they are not available where we as members of the Congress can get them or where the business community can get them and they are so hard to dig out. You may have them in the libraries but it is impossible for us to get them and it would seem to me that the base of this resolution is that this information should be readily available.

Now, we mentioned the barter sales which are sizeable items but those barter sales are not sales for dollars.

Mr. McNEILL. Sir, all of this information is available to the Senate and House and available to any American citizen.

Senator WILLIAMS. Sure it is, but to be frank with you, as one member of the Senate, I have not sense enough to find it and I cannot find anybody in the Department that can show me where it is and that is what I am trying to get. I think we should have a breakdown and I hope—I will let you proceed but I will hope you will furnish such a breakdown and itemize the breakdown so that we can see these different categories that are used to make up this $26 billion and then we can arrive at a figure, actual figures as to what we are receiving in terms of sales for dollars. Now, I used to operate a little business before I came down here and our sales for dollars are really what keeps the mill going around.

Mr. McNEILL. Yes, sir. We will be delighted——

Senator WILLIAMS. It is not what you give away. It is not the value of your trade necessarily except as you can realize cash from that trade.

Mr. McNEILL. Yes, sir. As I say, this information is published regularly. It is available. We will be glad to provide you with copies of the material.

Senator WILLIAMS. I appreciate your help—if you can have somebody do a little research work and dig that out of the available statistics for us.

Mr. McNEILL. We will, sir.

Senator WILLIAMS. Thank you.

(The information referred to follows:)

U.S. exports by type of financing, 1964–65

[Millions of dollars]

	1964	1965
Total U.S. exports of merchandise	26,489	27,346
Military grant-aid	818	779
Exports, excluding military grant-aid	25,671	26,567
Public Law 480 and AID, total	2,859	2,641
Public Law 480, total	1,747	1,503
Title I, sales for foreign currency	1,223	925
Title II, disaster relief	116	94
Title III, donations	186	177
Title III, barter	123	182
Title IV, long-term supply and dollar credit sales	99	125
AID expenditures for commodities in the U.S.	1,112	1,138
Exports, excluding military grant-aid, Public Law 480 and AID	22,812	23,926
Export-Import Bank-financed exports	256	373
Exports, excluding military grant-aid, Public Law 480, AID, and Export-Import Bank	22,556	23,553

NOTE.—The statistics shown above for Public Law 480 shipments and AID expenditures are drawn from data collected by the Department of Agriculture and the Agency for International Development for program purposes. They do not, therefore, necessarily coincide exactly in valuation, timing, and coverage with the values for U.S. merchandise exports reported by the Bureau of the Census.

Sources: FT 900E, *Total Export Trade*, Bureau of the Census; *Foreign Agricultural Trade of the U.S.*, Economic Research Service, U.S. Department of Agriculture; *Operations Report*, Agency for International Development; *Office of Business Economics* estimates.

Mr. McNEILL. If Government financing is subsequently arranged for, it would be virtually impossible to associate this information with the statistical record already processed for the transaction. Identification of the type of financing does not normally appear on the invoices, or shipping documents which are the usual source of information for filling out export declarations.

Grant-aid shipments under the Defense Department's military assistance program are currently shown, as an aggregate total, in the monthly export statistics published by the Census Bureau. However, detailed data by commodity or country of these military shipments are security classified and cannot be divulged.

Separate supplementary statistics providing information similar to that required under section 2 of Senate Joint Resolution 115 are presently being developed and published by Government units other than the Census Bureau. It should be noted, however, that these statistics are developed from fiscal expenditure reports and reports of agencies' operations of the export programs available only after some timelag from the date of shipment, usually on a quarterly basis, and not always in full commodity detail. Using such source material, the Department of Agriculture has, since 1957, prepared and published information on Government financing of agricultural exports, and more recently on both agricultural and nonagricultural exports. Agricultural exports are then further segmented to show Government-financed shipments which are subsidized, and commercial exports with and without subsidies.

AID makes similar information available.

The Office of Business Economics, Department of Commerce, in addition, regularly supplies data on total exports financed by Government grants and credits. These are published with the balance-of-payments quarterly statistics which appear in the Survey of Current Business in quarter-end months.

United States export statistics are designed to measure the value of all merchandise leaving the United States customs area. As is indicated above, they are reported on a basis that accurately reflects such movements. The categorizing of foreign trade on the basis of government support, either with respect to export or import trade, involves implicit assumptions as to the nature of the trade. Such assumptions are better left to separate analytical reports in which the nature of the trade can be explored in detail and the validity of the implicit assumptions can be justified.

I would conclude by again observing that the Department of Commerce favors the collection and publication of foreign trade statistics which can be helpful in better analyzing the impact of foreign trade on the U.S. economy. It is believed, however, that, to the extent that the information sought by Senate Joint Resolution 115 is not already available, more practicable and less burdensome means exist for developing such information.

Thank you, sir.

Senator WILLIAMS. Thank you.

Just as a matter of understanding, we have over here before the Senate for consideration now a measure which proposed that certain agricultural commodities be sold for soft currencies. One suggestion is over a 40-year period, deferred interest, and when they are repaid in these currencies, it has to be spent in the country in which it is sold. In effect, as both of us understand, it is a grant.

Now, how would they be included in the statistics under your present method of reporting? I am not speaking of what you are going to do later.

Mr. LECHTER. At the present time, sir, the figure that Mr. McNeill quoted excluded that type of financing or aid. It reflected deductions for that kind of a transaction and we have an idea, for example, in 1965, that about one and a half billion represented the Public Law 480-type assistance. Of that 1½ we actually used $200 million for our own purposes, so on a net basis we gave out $1⅜ billion under Public Law 480.

Now, that $1⅜ billion is excluded from the $23.5 billion that Mr. McNeill quoted as exports excluding Government-financed-type shipments. The breakdown, in other words, that you are asking for, we find we can roughly derive here in a later issue of the Survey of Current Business, June 1966. For example, the Export-Import Bank is a half billion dollars of the exclusion. Foreign currency, mostly Public Law 480, is about $1 billion of the exclusion. And then we have other Public Law 480 assistance and the AID program which make up the balance of the exclusion.

Senator WILLIAMS. Thank you. That will be all right.

Now we will have to recess the hearings as I have a call to come to the floor.

We will suspend. Senator Dirksen will be back in a few moments and resume the hearings.

(Short recess taken.)

Senator DIRKSEN (presiding). Mr. McNeill, did you finish with your testimony?

Mr. MCNEILL. Yes, I did, Senator. Would you care, sir, for me to briefly summarize what I said in the statement?

Senator DIRKSEN. Yes, I would.

Mr. McNEILL. What I said in a nutshell, Senator, was that both c.i.f. and the f.o.b. are valid bases for valuation purposes. I said that in respect to the c.i.f. valuation, we in the Department of Commerce have not had a demand for import statistics on the c.i.f. basis.

The introduction by yourself, sir, of Senate Joint Resolution 115 is an indication that on the part of yourself and your colleagues in the Senate, also perhaps in the House of Representatives, as well as recent inquiries that the Department has received from a few interested private persons, that there now exists a demand for import statistics to reflect the adjustments resulting from payment of insurance and ocean freight. I note that the professional judgment of the Department of Commerce, a judgment that I believe to be shared by professional people in the Customs Bureau, the Bureau of the Census, Office of Business Economics, and Tariff Commission, is a judgment that this information can be made available to the public in a manner, however, sir, different than the manner suggested in your resolution, which would be a requirement that each commodity imported into the United States should show, in addition to the f.o.b., the c.i.f. adjustment.

The agencies that I just referred to, principally the Tariff Commission, the Bureau of Customs, and Bureau of the Census, since there is an apparent demand for c.i.f. information, started a project designed to arrive at figures for the insurance and freight adjustment, utilizing the professional methods of the statistician that we refer to as estimation or sampling. We are sufficiently far ahead in this project, Senator, that in perhaps 2 months we will be in a position to make available for the public c.i.f. information for the first 6 months of 1966.

We will continue this project for the second 6 months of 1966, and at the conclusion of this calendar year, or shortly thereafter, will publish for the 2½ years as well as the whole year what the c.i.f. adjustments will be.

We are satisfied, sir, that the process and procedure that we are using will derive accurate information and that this would provide the users of statistics with what we believe to be sufficiently adequate and accurate information to accomplish the purpose of the resolution.

Senator DIRKSEN. Does that mean that you will publish both f.o.b. and c.i.f. figures?

Mr. McNEILL. It will mean that, sir. It will not mean that for each product or for each transaction into the United States, that is, each product imported into the United States, we would have a c.i.f. figure. It means that on a more general basis we will have c.i.f. figures and they will be published.

It would be administratively difficult, as the Treasury representative earlier indicated, if perhaps not impossible, to have a c.i.f. figure for each product imported into the United States.

Senator DIRKSEN. Couldn't it be done for at least one country?

Mr. McNEILL. If it could be done—it could be done for one country, sir. It could be done for imports for all countries.

Senator DIRKSEN. That is true, but I am thinking now of the volume of work.

Mr. McNEILL. Well, we will, sir, have our estimates which will cover general imports into the United States as well as some estimates by geographic area also. I believe the Treasury representative testified that if you import steel rods from Germany and if those rods are transported on a Norwegian freighter and if the insurance on that shipment is covered by Lloyd's of London, that it would be incorrect and inaccurate for that shipment to attribute the c.i.f. equivalent to Germany. The value of the merchandise would be attributed to Germany but not the value of the international ocean freight or of the insurance. This would be a very difficult thing.

But we will have estimates and we think they will be sufficient and accurate for the purposes.

Senator DIRKSEN. On the basis of the studies you have carried on thus far, what is the factor or formula by which you would convert f.o.b. into c.i.f.?

Mr. McNEILL. If I understand the Senator's question, if we added insurance and freight, what percentage of value would that add to the imported product?

I indicated it would be 2 months before we would be in a position to publish that. We don't have that final figure. However, I believe the expert judgment on the basis of what has been accomplished to date is that that figure might be somewhere in the neighborhood of 8 or 9 percent.

Senator DIRKSEN. I was going to say if you use only three-digit figures and skip around all over the trade area, I don't know that that would have too much significance.

Now, the Wall Street Journal for August 25 reported I think $25.5 billion of imports and about $28.9 billion for exports. So that there was a trade balance of $3.35 billion. However, if we had that broken down so that f.o.b. was converted into c.i.f. for one country which included all transactions, that would be reasonably conclusive.

Mr. McNEILL. Sir, we believe that what we are doing will be conclusive without the necessity of taking the country sample as you suggest, and each product included in the figure.

Senator DIRKSEN. Do you have any more?

Mr. McNEILL. I think, sir, that, in substance, is a summary of what I indicated.

I was asked several questions including the basic question that you asked the first witness, Assistant Secretary Knowlton. The question, I think, is: Is the current method of recording transactions in our balance of trade accurate? That is, does it give an accurate indication of the competitive position of the United States with its international trade? Perhaps that is an inaccurate paraphrase of your question.

My answer to that was that the way that we keep our record on trade account, that is, on our balance-of-trade account, is designed for one purpose and only for one purpose and that is to measure by quantity and by dollar value the balance of our exports and our imports, that is, the balance of the merchandise transactions conducted by the United States in international trade.

We attempt to do no more and no less than that. When you go beyond the balance of trade and talk about services such as payment for ocean freight or insurance, you then enter the larger realm of recordkeeping, the larger picture, the so-called balance of payments. We do have an accurate record of balance-of-payments accounting of insurance and freight expenditures. I recognize we are talking here about an interest on the part of the Senate of the United States and private citizens to have the balance-of-trade record augmented by also showing what the insurance and freight factor would show, and this I say is what we are proposing to do and are doing through our estimating procedure.

Senator DIRKSEN. But if the prices at port abroad don't reflect all the costs that had to be paid, then you still have a distorted figure.

Mr. McNEILL. I beg your pardon, Senator.

Senator DIRKSEN. I say if you take landed value abroad and you don't include all the costs, you still have a distorted figure.

Mr. McNEILL. Sir, the figure that we have in our exports is a figure that shows accurately the quantity, that is, in the case of steel, the number of tons, and the dollar value of this number of tons of steel before it is shipped abroad, that is, at the port. The figure that we have in imports is the same figure representing the value of the imported product f.o.b. You have a symmetry and you have comparability in our balance-of-trade accounting because we measure similar things.

Senator DIRKSEN. Well, of course, that is the very thing I quarrel about, is that it isn't comparable and therefore——

Mr. McNEILL. It is comparable, sir.

Senator DIRKSEN. I doubt it.

Mr. McNEILL. It is f.o.b. on one side and f.o.b. on the other side.

Senator DIRKSEN. If it is strictly f.o.b. on both sides, that is a different thing, but that isn't the frame in which we are operating.

Mr. McNEILL. Yes, it is, sir. We value our exports on an f.o.b. basis and we value our imports on an f.o.b. basis.

Senator DIRKSEN. Mr. Vail points out that foreign countries value both exports and imports from their shore. We, however, take c.i.f. at a foreign port——

Mr. McNEILL. Those countries——

Senator DIRKSEN (continuing). And f.o.b. over here.

Mr. McNEILL. Those countries that adhere to the Brussels Convention on Valuation—and these countries I think constitute a majority of certainly the industrial countries—I am not sure of the less developed countries—value imports on the basis of c.i.f. We do not. We value them on the basis of f.o.b. But insofar as our records are concerned expressing the value, we are completely consistent in using the same factor on both the import and export side.

Senator DIRKSEN. Well, I go back——

Mr. McNEILL. The inconsistency, if there is one, is that some countries happen to use a different valuation base than we do but insofar as the reporting of our balance of trade is concerned, we report the balance on merchandise account, not including other cost factors such as insurance or freight to which your resolution is addressed.

We do take these into account and report these, but not on our balance of merchandise account, but in our balance-of-payments accounting.

Senator DIRKSEN. Mr. McNeill, I still go back to my elementary thesis. What do we get for what we sell and what do we pay for what we buy? With every factor taken into account. Unless that is shown, obviously I don't believe that you could show a trade balance or that you can show comparability. I don't think you can show an accurate figure to the country.

Mr. McNEILL. Senator, I recognize that this is not the area of my competence, if indeed I have any area of competence, but your simple question is the most basic question in respect of accounting, what we pay for what we buy and what we get for what we sell. And this is the balance-of-payments account. This takes into account not only the trade account that we are talking about but all of the other factors that bear on it.

Senator DIRKSEN. But I didn't mention balance of payments. I held this resolution strictly to this question of imports and I thought I had made it clear when I recited the text and the title of it which did not deal with the question of imports at all——

Mr. MCNEILL. Well, sir ——

Senator DIRKSEN (continuing). Because it is a joint resolution to require that reports on imports into the United States include the landed value of articles imported, and for other purposes.

Now, that is very simply stated.

Mr. MCNEILL. We understand that, sir, and we understand your desire for that information, and I had earlier indicated in my statement and a summary of it to you that we indeed recognize the validity of c.i.f. We have no quarrel in substance with the validity of c.i.f. as a valuation base. And I indicated that we indeed intend to provide that information and we expended considerable hours and dollars in deriving the estimates that soon will be published.

But again to come back to your question, your basic question, and forgetting the other aspects of the balance of payments, and confining ourselves simply to the balance of trade area, our current system reports exactly what is our balance of trade. Trade in merchandise, not trade in tourism or services or both.

Senator DIRKSEN. I think, Mr. McNeill, that is it. I would like to call on Mr. Kaplowitz before that clock runs out.

Thank you, sir.

Mr. McNeill. Thank you, sir.

Senator DIRKSEN. Mr. Kaplowitz, we had you yesterday in executive session. We didn't know that we would have you back quite so soon.

STATEMENT OF PAUL KAPLOWITZ, CHAIRMAN, U.S. TARIFF COMMISSION; ACCOMPANIED BY JOHN HOWARD, CHIEF, TECHNICAL SERVICES

Mr. KAPLOWITZ. Glad to be back. I don't know how much help I will be.

Senator DIRKSEN. You have a rather extended statement here with a lot of tables. Suppose we put this in its entirety in the record and you just interpret your statement as briefly as possible, and I presume you have listened to the discussion this morning and have a pretty fair idea of what we have been trying to contrive, what we are trying to understand, and what we are trying to get done.

Mr. KAPLOWITZ. Yes, Senator.

Senator DIRKSEN. So if there is no objection, and I see nobody around to object, we will put your statement in the record.

Mr. KAPLOWITZ. That will be the report of the Commission to the Committee on Finance on Senate Joint Resolution 115.

To briefly summarize what the Commission report states: It points out that the collection of import statistics by the United States as well as by other countries is ordinarily made on the basis of the value used for the collection of ad valorem duties, that the U.S. valuation laws define value on an f.o.b. basis and that the valuation laws of most other countries on c.i.f. values of which the so-called Brussels definition of the value is a prime example.

The report further points out that the adoption of the resolution without an accompanying corresponding change in our customs valuation laws would impose a costly and burdensome task upon the administrative agencies, that the Commission is in the midst of a study of the U.S. customs valuation laws in response to a resolution of this committee calling for a report by February 28, 1967, which would include "suggested recommendations for improvement of the customs valuation laws of the United States," and the Commission's "views as to the feasibility and desirability of adopting the Brussels definition of value"; and that in making its study the Commission would give full consideration to the objectives of Senate Joint Resolution 115 and would formulate conclusions with regard thereto upon the completion of its study.

The Commission's report also refers to work, Senator, in connection with what has been transpiring for the last couple of years in gathering c.i.f. information. In early 1964 the Commission's staff began assembling data for that year that would aid in making an estimate of the cost of insurance and freight on products imported into the United States. These data were needed to, (*a*) aid in the Commission's technical assistance to the Office of the Special Representative on Trade Agreements Negotiations in Geneva; and (*b*) give the Commission such information for use in investigations that the Commission would be making, and summaries of trade and tariff information which are a compendia of data relating to individual commodities or groups of commodities.

Specifically the Commission was seeking—if possible—to obtain a factor which when added to statistics published by the Bureau of the Census would give approximate c.i.f. value for imports. The Commission could not cover all of the thousands of products and millions of entries entered each year, but limited its research to a few important products which were considered representative of total imports.

Progress has been slow primarily because of the difficulty of obtaining the information and also because the burden of other more pressing work has limited the amount of staff time that could be assigned.

In the study the Commission has had the cooperation of the Bureau of Customs in making documents available and the expert advice of appraisal officers and also the cooperation of the Bureau of the Census in tabulating the data collected. The data collected over the past 2 years is now being assembled and will be ready in time to be of use to the Commission in making a final report on valuation to the Committee on Finance due next February.

The Commission is continuing to collect information to further improve the data available in charges for insurance and freight on imported products. The Bureau of the Census is now doing a scientific stratification of import statistics for the first 6 months of 1966 in order to select representative samples of imports for this purpose.

The Commission will give technical assistance in obtaining the necessary data from various ports of entry. This information for 1966 will materially add to the value of that already obtained by the Commission.

I have Mr. John Howard of the Commission's staff who is Chief of our technical services who is steeped in statistical lore and who can further enlarge on the activities of the Commission in connection with our c.i.f. work. What I am really saying here is that I believe that the Finance Committee directive to the Commission to make a study of the valuation laws and consider the appropriateness of adopting the Brussels definition of value arose out of your resolution, Senator Dirksen. I think it is related to it. And it is a very serious subject. It isn't something that you can come to conclusions about overnight. We are making a study in depth and we hope to come out with some answers, at least some suggestions as to what we might do.

If the adoption of the Brussels definition of value is not found to be desirable and the Congress decides not to adopt it, this does not mean that there is no need nevertheless for additional information of the c.i.f. type. As a matter of fact, as our report points out, we, the Tariff Commission, find uses for it and we would like to have it even if no one else would.

Senator DIRKSEN. I think, though, Mr. Kaplowitz, you probably burdened your staff with supposed objectives that are not in the resolution.

Now, at the bottom of page 1 of your statement, I think your first item of objectives is correct where you say:

> To provide U.S. import data which when compared with U.S. exports accurately reflect the U.S. balance of trade.

That is the crux of the matter. But you see, No. 2 goes to the international collection and publication of import trade data on a uniform basis. I would assume that is a natural consequence of what you find in No. 1, and then speak about paving the way for the United States to become ultimately a signatory to the Brussels Convention on Customs Valuation.

I don't believe I said a thing about customs.

And No. 4:

> To supply the best possible raw material for U.S. officials responsible for assembling balance-of-payment data.

Important and urgent as the balance-of-payments problem is, I made no such recital in the resolution.

No. 5:

> To measure more accurately the disparities between U.S. duties and those imposed elsewhere.

I didn't cant to bother about the customs valuation, disparities in duties. I just want to see a trade picture accurately set forth as between our exports and our imports, to see whether we are topside or whether we are not.

Now, No. 6:

> To facilitate analysis of unit values of imports on a basis comparable with the unit values of U.S. producers' sales.

Well, I am not even sure that I know what that means. But whatever it means, it may be all right, but it is something that I wasn't particularly interested in. I might be, but I am still trying to get a picture and just as simply as possible.

Now, on page 8 of your statement you say in the middle of the page:

If the Committee should decide that it is desirable to obtain regularly data on freight, insurance, or other charges to arrive at a "landed value" of imports—

And we are interested in that—

the Commission believes that a satisfactory and less expensive method could be devised than that proposed by S.J. Res. 115.

Now, I queried the Secretary of Commerce on other occasions here and I have queried Government witnesses and I would have to assume that studies in this field have been taking place over a considerable period of time. I am just wondering why no report has been made to us if there is a simpler, less expensive way than is suggested in Senate Joint Resolution 115. It certainly has not been sent to us. If it has, it completely escaped me.

Now, do you have a report on that point that is current and ready and could be submitted to the committee? If you do, that is precisely what we would like.

Mr. KAPLOWITZ. No; Senator, we don't have a report ready at this time, but we expect within the next few months to have completed a sufficient part of the work to have the report, and If I may ask Mr. Howard to remark on that——

Mr. HOWARD. We are assembling the data we have collected over the past 2 years, Senator. We hope to use it in our report to the committee on the valuation study and it will be a part of that report. I am sure that some of it will be available for public release prior to the submitting of that report, I would say some time in October or November.

I do have with me preliminary data—worksheets—on various commodities that I will be glad to submit to your committee. They are not final. They are subject to revision but certainly I will be glad to submit them to your committee as work copies.

Senator DIRKSEN. Good. Can they be deciphered enough to your particular interpretation——

Mr. HOWARD. I think so.

Senator DIRKSEN. Do you think that standing alone in the record one could make heads or tails of them?

Mr. HOWARD. I could make them—convert them to a form that could be put in the record and I think could be understood by anyone, yes, sir.

Senator DIRKSEN. Fine. Keep in mind the fact that when these hearings are printed, there are others who will be examining them.

Mr. HOWARD. I understand, sir, and I think we can convert these to that basis.

Senator DIRKSEN. Fine. Well, the record is open for that purpose. If there is nobody in this committee room to object, it shall go in.

(The data referred to above follows:)

U.S. imports for consumption in 1964: Value as reported in official statistics and preliminary estimates of c.i.f. value for selected TSUS items and parts

TSUS item or part	Description	U.S. imports for consumption		Ratio of c.i.f. value to reported value
		Reported value	Estimated c.i.f. value	
		1,000 dollars	*1,000 dollars*	*Percent*
106.10-107.75	Meats other than bird meat	407,350	492,486	120.9
Schedule 1—Pt. 9, Subpt. A	Edible nuts	72,663	80,874	111.3
Schedule 1—Pt. 11, Subpt. A	Coffee, tea, mate, and spices	1,268,342	1,334,296	105.2
240.14-240.18	Plywood	121,424	171,572	141.3
252.65	Standard newsprint paper	752,531	804,456	106.9
Schedule 3—Pt. 3, Subpt. C	Woven fabrics of wool	142,591	145,300	101.9
473.70	Titanium dioxide pigments	15,010	16,451	109.6
Schedule 5—Pt. 3, Subpt. B	Glass and glass products (flat)	55,935	69,136	123.6
Schedule 6—Pt. 2, Subpt. B	Iron or steel (plates, sheets, tubes, bars, rods, wire).	789,781	891,663	112.9
657.20	Miscellaneous metal articles not coated or plated with precious metals.	20,276	21,797	107.5
660.44	Piston-type engines	22,021	24,399	110.8
672.15	Sewing machines	51,753	53,564	103.5
680.35	Ball bearings	22,580	23,032	102.0
Schedule 6—Pt. 5	Electrical machinery and equipment.	484,747	517,710	106.8
692.05-692.11	Motor vehicles excluding motorcycles.	611,494	674,478	110.3
Schedule 7—Pt. 2, Subpt. F	Photographic equipment and supplies.	96,208	99,287	103.2

Source: Reported value, official statistics of U.S. Department of Commerce; estimated value, based on preliminary data collected by the U.S. Tariff Commission.

Mr. KAPLOWITZ. I might point out that attached to our report on Senate Joint Resolution 115 are some tables dealing with the steel sector products that indicate the kind of statistical information that we would be able to get in other sectors.

Senator DIRKSEN. Well, these don't quite jibe. Let me find page 6. You have a page 6, Mr. Kaplowitz, in annex 1, so you will have to find it there, showing various products, especially steel sector produdcts, value of U.S. imports as reported in official statistics and estimated c.i.f. values, 1964–65, expressed in thousands of dollars. But I notice down in your totals, statistical reported value for 1964, $744,000; 1965, $1,176,000.

Now, estimated c.i.f. value—now, I will just take the last one for 1965, $1,354,762.

Now, there is a disparity of $150,000 in those two figures. Now, you tell me what that statistical reported value is compared with your estimated c.i.f. value for the year 1965.

Mr. HOWARD. The first column you read, Senator, the $1,176——

Senator DIRKSEN. Sorry.

Mr. HOWARD. The first column that you read really I guess is $1,176 million, as reported by the Bureau of Census which was primarily an f.o.b. value.

Senator DIRKSEN. When you say primarily——

Mr. HOWARD. Well, again, with a few exceptions in the——

Senator DIRKSEN (continuing). Is it or isn't it?

Mr. HOWARD. Let us say it is.

Senator DIRKSEN. All right.

Mr. HOWARD. The estimated c.i.f. value after adding insurance and freight came out to $1,354 million. If you will notice at the bottom of the page, we converted that to a ratio which shows that the ratio of c.i.f. to f.o.b. value is approximately 15 to 16 percent. In other words, the figure that you asked someone a while ago on the total basis, when applied to steel—I think the answer then was 10 percent. When applied to steel it's approximately 15 to 16 percent.

Senator DIRKSEN. Now, that weighted figure is in percentages.

Mr. HOWARD. Yes.

Senator DIRKSEN. In other words, c.i.f. is more than 15 percent over your f.o.b. figure.

Mr. HOWARD. Yes, sir. Slightly over 15 percent greater than the f.o.b.

Senator DIRKSEN. That is exactly the point I have been trying to get at for quite some time.

Mr. HOWARD. Yes. We have only worked this out to a figure we think is reliable on this one sector of steel. We are working on other commodities to give you exactly the same information.

Senator DIRKSEN. Now, this is one commodity but think of the thousands of commodities and what will that picture look like when you get up to $28 billion in exports and $25 billion in imports and you say, well, look at us. How ducky this is: $3.5 billion in trade balance in our favor. And then we discover this, 15-percent disparity here.

Now, if we carry that to other commodities, what is that figure going to look like that was published in the Wall Street Journal on August 25?

Mr. HOWARD. For some of the commodities that we will submit to you, the figure is much less than 15 percent, sir. It will be nearer 3 or 4 percent.

Senator DIRKSEN. Are you sure it won't be more in the case of other commodities?

Mr. HOWARD. Some of it may be more. This tends to be one of the higher figures, sir.

Senator DIRKSEN. Yes. But that is just the point I have been trying to get at and have been fussing about for a long time, and when you send these figures out to the country, well, it just buoys up optimism and enthusiasm, what do we care about the balance of payments? The balance of trade is in our favor.

Query—is it in our favor? That is what I want to know. And if it isn't, then we have got two headaches instead of one.

Mr. KAPLOWITZ. Well, Senator, isn't the real issue raised by this point what we mean by balance of trade? The Commerce Department representative just a moment ago indicated that they thought the proper way to arrive at the balance of trade is by considering the value of the merchandise without the additional insurance and freight, and so forth, the c.i.f. I understand your position to be that the proper evaluation of our trade should be in terms of merchandise plus the insurance and freight and the other charges, and I think this is where there is an issue. Which posture is the correct one?

Senator DIRKSEN. Well, Mr. Kaplowitz, if they sell us more than they buy, then, of course, we owe them. Right or wrong?

Mr. KAPLOWITZ. If they sell us more than they buy?

Senator DIRKSEN. Yes. If they sell us more than they buy from us, and I am just taking the whole wide world, then we owe them, don't we?

Mr. KAPLOWITZ. Well, I mean, then you get into the area of——

Senator DIRKSEN. Oh, no.

Mr. KAPLOWITZ. On a merchandise basis——

Senator DIRKSEN. No. That is a very simple elementary question in arithmetic. We don't put any qualification in for the moment. Let's take a specific figure. We sell the world $25 billion worth of stuff and we buy $28 billion. Then we owe them $3 billion, don't we? We owe somebody. I don't know how we pay it, in scrip or gold or short-term securities or what it may be, but we owe somebody, don't we?

Mr. KAPLOWITZ. I would think so, but I am only the Chairman of the Tariff Commission. This is really over my head.

(Laughter.)

Senator DIRKSEN. Now, I just want to reverse that a little bit. We sell them $28 billion and we buy $25 billion so they owe us $3 billion. Now, that is what we have been doing and that is what that August 25 figure is, that everything is ducky. They owe us $3½ billion or whatever the figure is. Well, do they? That is the point I am trying to make. And when you resolve and rationalize that figure and get all its components in order, is that the way it is? Because if that were the case, why should we have a balance-of-payments problem, actually? But if it is the reverse, we will have a balance-of-payments problem. It is inevitable.

I don't think we can escape it. Then for good measure I have got to find out somewhere along the line what we do about all the gifts and grants and free stuff. Here over on the Senate floor is a bill, food for peace, $2,533 million and only 5 percent of it has to be paid back to us in dollars. So we are going to give it to them. In some cases it will be on a loan basis. I don't suppose the loans will be paid. Most of it will be grants, but we are getting such a complicated trade picture here, what with military items and free goods over and above what our regular trading balance is, that it becomes rather confusing, and frankly I don't know that anybody quite knows where we stand, and I am trying to find out.

Now, this is supplementary to the Saltonstall resolution that this committee passed quite some time ago. I have never in 33 years on the Congress seen a complete balance sheet on the Government of the United States. The contingent liabilities, the direct liabilities, everything that goes with it. I would be kind of curious to know just where this Government stands. And so this is supplementary to it. We are just trying to get some information and if we are busted, well, maybe we ought to do something about it. We can't go to the Bankruptcy Court under the 1890 statute as amended. That is one thing for sure. We are going to have to work it out in a different fashion.

So everybody is mulling around now holding their heads and we don't have a clear picture of what we are trying to do.

Well, I don't want to burden you with all this. We will let your statement speak for itself and particularly that steel table on page 6 of annex 1. I think that is a very interesting table. Then if you carry on any studies in this field, I hope on your own you will address a letter to the distinguished chairman of this committee and tell him that you have been making some real progress in this bewildering Chinese jigsaw puzzle, f.o.b. versus c.i.f., because it is going to have to be straightened out sometime.

Mr. KAPLOWITZ. I will make better progress once I understand it, Senator.

Senator DIRKSEN. Yes. If I can only understand it.

Now, unless you have something else, I was going to ask Mr. Norwood next.

(Material submitted by the U.S. Tariff Commission follows:)

UNITED STATES TARIFF COMMISSION,
Washington, August 19, 1966.

MEMORANDUM TO COMMITTEE ON FINANCE ON S. J. RES. 115, 89TH CONGRESS, A JOINT RESOLUTION "TO REQUIRE THAT REPORTS ON IMPORTS INTO THE UNITED STATES INCLUDE THE LANDED VALUE OF ARTICLES IMPORTED, AND FOR OTHER PURPOSES"

Section 1 of S. J. Res. 115 would require that, in addition to the statistics now published, statistics on imports be collected and published on the basis of so-called landed value.[1] Section 2 would require that U.S. export statistics identify total exports and separately exports made under Government-financed programs as well as exports of products whose production was subsidized by the Government. The stated purpose of the proposed legislation is to obtain statistics which would more accurately reflect the impact of imports on the U.S. economy and to provide trade data more comparable with the trade data of the major trading partners of the United States.

As we understand it, the principal objectives of the resolution include the following:

1. To provide U.S. import data which when compared with U.S. exports accurately reflect the U.S. balance of trade.
2. To facilitate the international collection and publication of import trade data on a uniform basis.
3. To pave the way for the United States to become ultimately a signatory to the Brussels Convention on Customs Valuation.
4. To supply the best possible raw material for U.S. officials responsible for assembling balance-of-payments data.
5. To measure more accurately the disparities between U.S. duties and those imposed elsewhere.
6. To facilitate analysis of unit values of imports on a basis comparable with the unit values of U.S. producers' sales.

Import statistics

As a matter of law, U.S. customs officers determine the value of imported articles for customs purposes in accordance with section 402 or 402a of the Tariff Act of 1930, as amended. By virtue of joint action by the Treasury and Commerce Department and the Tariff Commission pursuant to section 484(e) of the tariff act, customs officers also collect data on the value of U.S. imports for statistical purposes on the basis of section 402 or 402a.[2] Likewise, for statistical purposes other countries generally use the same basis of valuation as is set forth for customs purposes in their basic tariff law. With few exceptions, the United States under sections 402 and 402a identifies the value of imported articles as "export value", i.e., value in the country of exportation, whereas many countries, including those that have adopted the "Brussels definition of value",[3] utilize as the basis of valuation value in the country of importation. This difference in the bases of valuation is the major explanation for the lack of comparability in import statistics. Further lack of comparability is occasioned by the variations in value resulting from the divers valuation standards employed by the United States and by certain other countries.

[1] Section 1(a) of the proposed resolution provides that the Secretary of the Treasury shall include in all reports on imports into the United States "the value of articles imported on the basis of cost, insurance, and freight values, representing the foreign value plus the insurance and shipping charges incident to landing the imported articles at the port of entry". Section 1(b) would require the Secretary of Commerce to publish the data as collected under section 1(a).

[2] Tariff Schedules of the United States Annotated (1965), general statistical headnotes:

"1. *Statistical Requirements for Imported Articles.* Persons making customs entry or withdrawal of articles imported into the customs territory of the United States shall complete the entry or withdrawal forms, as provided herein and in regulations issued pursuant to law, to provide for statistical purposes information as follows:

* * *

"(1) the U.S. dollar value in accordance with the definition in Section 402 or 402a of the Tariff Act of 1930, as amended, for all merchandise including that free of duty or dutiable at specific rates".

[3] The Brussels definition of value is the name propularly used to refer to the definition of value for customs purposes which is annexed to the Convention on Valuation of Goods for Customs Purposes, signed at Brussels, Belgium, on December 15, 1950.

Although S.J. Res. 115 does not explicitly refer to the "Brussels definition of value", the recitals with respect to "landed value" together with the apparent definition thereof in section 1(a) strongly suggest that the proponents of the resolution desire that, henceforth, U.S. import statistics with respect to all U.S. imports shall be collected and published (inter alia) on the basis of the Brussels definition of value or equivalent basis.[4]

At this juncture, the Tariff Commission neither endorses nor rejects this objective or the other objectives previously mentioned. It will be recalled that, in response to a resolution of the Committee on Finance (February 9, 1966), the Commission is currently engaged in a comprehensive study with a view to making "suggestions and recommendations for improvement of the customs valuation laws of the United States." In connection therewith, the Commission was also asked to give its "views as to the feasibility and desirability of adopting the Brussels definition of value."

In the course of its studies, and in the preparation of its report to the Finance Committee in response to the February resolution, the Commission will give full consideration to the aforementioned matters. Of necessity, the Commission must await completion of its analysis before it can formulate its conclusions on these important issues. We believe, nevertheless, that the following observations, relating primarily to statistical considerations, will be helpful.

Statistical information showing the landed value of U.S. imports would be useful for a number of purposes. Such information would aid in the computation of the share of U.S. imports in domestic consumption; in some investigations conducted by the Commission it has requested importers to supply such data.

Statistical information which would also aid in comparing U.S. trade with that of its trading partners would often be helpful. In supplying technical assistance in the current negotiations in Geneva, for example, the Commission is preparing comparable statistics on trade between this country and the EEC countries. This information is particularly important in discussions on the "rate disparity" issue raised by the Common Market negotiators.

In 1964 the Commission undertook a study to provide information on the cost of freight and insurance in relation to the value of imports as now shown in published statistics. A principal purpose was to obtain data that would be helpful in the "Kennedy-round" negotiations (specifically to provide statistics more comparable with those of the EEC). Because of a special need in the trade-agreement negotiations, the Commission assembled separately the data obtained in its study of freight and insurance charges on iron and steel products. Such data, shown in Annex 1 of this report, supply an example of the type of information being obtained by the Commmission. Shown also in Annex 2 is a comparison of the computed "ad valorem equivalents" of current U.S. rates of duty on iron and steel products, based on f.o.b. and c.i.f. values for imports.

Recently, the Commission and the Bureau of the Census have collaborated to develop data on freight and insurance costs that would supplement the detailed commodity information collected by the Commission. As now planned, information from these studies will be available by October or November.

For a judgment at this time respecting the type of import data (i.e., whether based on the Brussels definition of value or export value) that is best suited to the compilation of balance-of-trade and balance-of-payments statistics, we defer to the authorities responsible for such compilations. We are not unmindful, however, that regardless of which of the two approaches is chosen for the collection and for publication of import statistics, studied adjustments must, perforce, be made to account for whether the relevant freight and insurance payments were made to foreign or domestic recipients. We are informed that, for the purposes of analyzing international payments flows, the use of the f.a.s. (freight along side) valuation method is recommended by the International Monetary Fund. Accordingly, the method currently used by the United States for valuing imports appears to us at this time to have some superiority over c.i.f. valuations for balance-of-payments accounting.

Administrative considerations

We suggest that in evaluating the proposed legislation the following administrative aspects be given careful consideration.

Currently more than 3 million documents containing statistical information on imports are filed annually with the Bureau of Customs. In making its study,

[4] We note that the term "foreign value", as used in section 1(a) of the proposed legislation, might lead to confusion or to interpretation not intended by the drafter. This term, as now defined in section 402a of the tariff act, is one of the U.S. valuation standards which applies to a very small part of U.S. imports. If the Brussels definition of value is desired it should be referred to in the resolution.

the Commission has found that about half of these documents do not contain the information on freight and insurance that the proposed legislation would require. Moreover, such information often is not available to either the importer or his broker; to require it on all imports would impose a substantial additional burden on the import trade.

The imports of some important products (e.g., petroleum and iron ore) are generally entered by large U.S. industrial concerns. Shipments of these products are often made in company-owned (or leased) vessels which can and do carry other cargo. For such products, customs documents (or even shipping documents) contain little information that might be used to derive a charge for freight and insurance. Those conducting the Commission's study have encountered considerable difficulty in obtaining charges "representative" of freight and insurance costs for shipments, data not being available from Government sources. The Commission believes the dual reporting required by S.J. Res. 115 would entail effort approximately double that now expended on collecting and publishing statistics on U.S. imports.

As previously indicated, many countries use the Brussels definition of value, which in concept as well as in application includes charges in addition to freight and insurance, which charges are not generally included in U.S. "export" value or other U.S. standards of valuation. For example, certain buying and selling commissions and advertising expenses are usually included. The Commission does not presently have information with which to estimate the amount of these charges., i.e., to indicate whether, and to what extent U.S. trade data would fall short of comparability with the trade data of countries now employing the Brussels definition of value if freight and insurance charges were added to the import values now published.

If the Committee should decide that it is desirable to obtain regularly data on freight, insurance, or other charges (to arrive at a "landed value" for imports), the Commission believes that a satisfactory and less expensive method could be devised than that proposed by S.J. Res. 115. Members of the Commission's staff have discussed with officers of the Bureau of Customs and the Bureau of the Census various methods of obtaining such data.

Export statistics

S.J. Res. 115 would require the following for each classification in export statistics:

U.S. Exports of Domestic Merchandise

Total exports	Exports under Government-financed programs		Exports of subsidized production not under Government-financed programs	Exports neither subsidized nor Government financed
	Production subsidized	Production not subsidized		
(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)

Supplying the additional information would put a materially increased burden on U.S. producers whose products are exported. It would also substantially increase the work of the Government in compiling and publishing the data. Moreover, the Commission believes that accurate information for Columns 2 and 4 above would be almost impossible to obtain. We are informed by the Bureau of the Census that none of the information is now on the export documents filed with the Government.

ANNEX 1

Steel sector products: Value of U.S. imports as reported in official statistics and estimated c.i.f. values, 1964 and 1965

[In thousands of dollars]

TSUS item No.	Description	Statistical value (reported) 1964	Statistical value (reported) 1965	Estimated c.i.f. value 1964	Estimated c.i.f. value 1965
	Iron or steel waste and scrap:				
x607.11	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.				
x607.12	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.				
	Pig iron, cast iron, and spiegeleisen, all the foregoing in pigs, blocks, lumps, and similar forms:				
	Pig iron and cast iron:				
607.15	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	31,549	38,423	42,065	51,230
607.18	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	42	15	58	21
	Spiegeleisen:				
607.20	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	37	365	46	455
607.21	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.				
	Sponge iron; iron or steel powers:				
	Sponge iron, including powders thereof:				
608.02	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	726	1,863	864	2,218
608.04	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	772	1,762	858	1,958
	Other powders:				
608.05	Other than alloy iron or steel	619	835	666	898
	Alloy iron or steel:				
608.06	Stainless steel powders	20	44	21	45
608.08	Other	3	4	+3	5
608.10	Grit and shot, including wire pellets, of iron or steel	223	314	275	387
	Ingots, blooms, billets, slabs, and sheet bars, all the foregoing of iron or steel:				
	Other than alloy iron or steel:				
608.15	Valued not over 5 cents per pound	22,223	13,106	30,150	17,780
608.16	Valued over 5 cents per pound	843	650	967	745
608.18	Alloy iron or steel	13,460	21,510	14,550	23,250
	Forgings of iron or steel, not machined, not tooled, and not otherwise processed after forging:				
608.25	Other than alloy iron or steel	369	79	404	86
608.27	Alloy iron or steel	1,429	645	1,535	693
	Bars of wrought iron:				
608.30	Other than alloy wrought iron	71	81	76	87
608.32	Alloy wrought iron				
	Bars of steel:				
	Deformed concrete reinforcing bars:				
	Other than alloy steel:				
608.40	Valued not over 5 cents per pound	31,952	43,893	39,301	53,988
608.41	Valued over 5 cents per pound	174	41	193	46
608.42	Alloy steel				
	Other bars:				
	Other than alloy steel:				
	Not cold formed:				
	Not coated or plated with metal:				
608.45	Valued not over 5 cents per pound	25,394	37,973	31,080	46,479
608.46	Valued over 5 cents per pound	3,686	7,042	4,250	8,120
608.48	Coated or plated with metal	641	907	725	1,027
608.50	Cold formed	1,770	2,553	2,020	2,917
608.52	Alloy steel	8,994	13,459	9,340	13,975
	Hollow drill steel:				
	Other than alloy steel:				
608.60	Valued not over 8 cents per pound	7	4	8	+4
608.61	Valued over 8 cents per pound	980	1,081	1,035	1,140
608.62	Alloy steel	1,002	1,214	1,040	1,260

Steel sector products: Value of U.S. imports as reported in official statistics and estimated c.i.f. values, 1964 and 1965—Continued

[In thousands of dollars]

TSUS item No.	Description	Statistical value (reported)		Estimated c.i.f. value	
		1964	1965	1964	1965
	Wire rods of iron or steel:				
	Other than alloy iron or steel:				
	Not tempered, not treated, and not partly manufactured:				
608.70	Valued not over 4 cents per pound	35,676	25,605	42,765	30,960
608.71	Valued over 4 cents per pound	42,498	83,000	49,360	96,400
	Tempered, treated, or partly manufactured:				
608.73	Valued not over 4 cents per pound	40	9	48	11
608.75	Valued over 4 cents per pound	2,702	5,059	3,075	5,755
	Alloy iron or steel:				
608.76	Not tempered, not treated, and not partly manufactured	1,669	1,951	1,795	2,098
608.78	Tempered, treated, or partly manufactured	5,870	7,902	6,095	8,205
	Plates and sheets of iron or steel, not cut, not pressed, and not stamped to nonrectangular shape (except as provided in item 609.17):				
	Not coated or plated with metal and not clad:				
	Black plate:				
608.81	Corrugated or crimped	16	46	18	51
608.82	Other	520	1,834	607	2,140
	Other:				
	Not pickled and not cold rolled:				
	Other than alloy iron or steel	84,061	199,093	98,087	232,315
608.84	Alloy iron or steel	1,739	1,656	1,787	1,701
608.85	Pickled or cold rolled:				
608.87	Other than alloy iron or steel	47,218	162,064	53,840	184,795
608.88	Alloy iron or steel	18,401	26,243	18,892	26,943
608.90	Clad	3	10	+3	+10
	Coated or plated with metal:				
608.92	Tin plate and tin coated sheets	13,754	20,807	15,032	22,740
608.93	Terne plate and terne coated steets	---	---	---	---
	Other:				
608.95	Other than alloy iron or steel	28,201	58,304	31,195	64,495
608.96	Alloy iron or steel	13	50	+13	51
	Strip, of iron or steel, not cut, not pressed and not stamped to nonrectangular shape (except as provided in item 609.17):				
	Other than alloy iron or steel:				
609.02	Not over 0.01 inch in thickness	1,545	1,824	1,599	1,888
609.03	Over 0.01 but not over 0.05 inch in thickness	5,251	5,834	5,707	6,341
609.04	Over 0.05 inch in thickness	2,348	2,991	2,895	3,688
	Alloy iron or steel:				
609.06	Not over 0.01 inch in thickness	4,627	3,806	4,697	3,864
609.07	Over 0.01 but not over 0.05 inch in thickness	2,044	3,069	2,125	3,190
609.08	Over 0.05 inch in thickness	442	607	462	636
	Plates, sheets, and strip, all the foregoing, of iron or steel, cut, pressed, or stamped to nonrectangular shape (except as provided in item 609.17):				
	Other than alloy iron or steel:				
609.12	Valued not over 8 cents per pound	200	296	245	362
609.13	Valued over 8 cents per pound	680	430	735	465
609.15	Alloy iron or steel	263	600	271	619
609.17	Plates, sheets, and strip, all the foregoing, of iron or steel, whether or not cut, pressed, or stamped to nonrectangular shape, if electrolytically coated or plated with base metal other than tin, lead, or zinc.	307	364	320	380
	Wire of iron or steel:				
	Flat wire:				
	Other than alloy iron or steel:				
	Not coated or plated with metal:				
609.20	Not over 0.01 inch in thickness	828	1,419	850	1,457
609.21	Over 0.01 inch but not over 0.05 inch in thickness.	2,429	2,975	2,535	3,105
609.22	Over 0.05 inch in thickness	219	199	229	263
	Coated or plated with metal:				
609.25	Not over 0.01 inch in thickness	11	33	+11	34
609.26	Over 0.01 inch but not over 0.05 inch in thickness	1,299	1,351	1,405	1,462
609.27	Over 0.05 inch in thickness	24	13	26	14

Steel sector products: Value of U.S. imports as reported in official statistics and estimated c.i.f. values, 1964 and 1965—Continued

[In thousands of dollars]

TSUS item No.	Description	Statistical value (reported) 1964	Statistical value (reported) 1965	Estimated c.i.f. value 1964	Estimated c.i.f. value 1965
	Wire of iron or steel—Continued				
	Flat wire—Continued				
	Alloy iron or steel:				
	Not coated or plated with metal:				
609.30	Not over 0.01 inch in thickness	855	829	873	845
609.31	Over 0.01 inch but not over 0.05 inch in thickness	248	324	252	329
609.32	Over 0.05 inch in thickness	49	26	54	29
	Coated or plated with metal:				
609.35	Not over 0.01 inch in thickness	----------	----------	----------	----------
609.36	Over 0.01 inch but not over 0.05 inch in thickness	1	----------	1	----------
609.37	Over 0.05 inch in thickness	----------	----------	----------	----------
	Round wire:				
	Other than aloy iron or steel:				
609.40	Under 0.060 inch in diameter	16,790	18,755	18,035	20,145
	0.060 inch or more in diameter:				
609.41	Containing not over 0.25 percent by weight of carbon	23,961	26,629	27,478	30,538
609.43	Containing over 0.25 percent by weight of carbon	17,828	22,696	19,635	24,995
609.45	Alloy iron or steel	6,950	9,752	7,187	10,085
	Other wire:				
	Other than alloy iron or steel:				
609.70	Not coated or plated with metal	346	464	377	505
609.72	Coated or plated with metal	67	53	70	56
	Alloy iron or steel:				
609.75	Not coated or plated with metal	42	49	44	52
609.76	Coated or plated with metal	----------	----------	----------	----------
	Angles, shapes, and sections, all the foregoing, of iron or steel, hot rolled, forged, extruded, or drawn, or cold formed or cold finished, whether or not drilled, punched, or otherwise advanced; sheet piling of iron or steel:				
	Angles, shapes, and sections:				
	Hot rolled; or, cold formed and weighing over 0.29 pound per linear foot:				
	Not drilled, not punched, and not otherwise advanced:				
609.80	Other than alloy iron and steel	91,748	132,558	106,810	154,320
609.82	Alloy iron or steel	70	71	73	74
	Drilled, punched, or otherwise advanced:				
609.84	Other than alloy iron or steel	7,123	8,230	7,667	8,860
609.86	Alloy iron or steel	71	238	73	246
	Cold formed and weighing not over 0.29 pound per linear foot:				
609.88	Other than alloy iron or steel	13	11	14	12
609.90	Alloy iron or steel	----------	1	----------	+1
	Sheet piling:				
609.96	Other than alloy iron or steel	1,975	3,742	2,257	4,277
609.98	Alloy iron or steel	----------	----------	----------	----------
	Rails, joint bars, and tie plates, all the foregoing of steel:				
	Rails:				
610.20	Other than alloy steel	1,044	1,889	1,207	2,184
610.21	Alloy steel	----------	----------	----------	----------
	Joint bars and tie plates:				
610.25	Other than alloy steel	55	99	65	116
610.26	Alloy steel	30	20	33	22
	Pipes and tubes and blanks therefor, all the foregoing of iron (except cast iron) or steel:				
	Welded, jointed, or seamed, with walls not thinner than 0.065 inch, and of circular cross section:				
	Other than alloy iron or steel:				
610.30	Under 0.25 inch in outside diameter	(1)	1	----------	+1
610.31	0.25 inch or more but under 0.375 inch in outside diameter	31	22	34	24
610.32	0.375 inch or more in outside diameter	85,545	94,197	98,780	108,772
	Alloy iron or steel:				
610.35	Under 0.25 inch in outside diameter	3	(1)	+3	(1)
610.36	0.25 inch or more but under 0.375 inch in outside diameter	20	----------	+20	----------
610.37	0.375 inch or more in outside diameter	208	477	214	490

[1] Less than 500.

Steel sector products: Value of U.S. imports as reported in official statistics and estimated c.i.f. values, 1964 and 1965—Continued

[In thousands of dollars]

TSUS item No.	Description	Statistical value (reported) 1964	Statistical value (reported) 1965	Estimated c.i.f. value 1964	Estimated c.i.f. value 1965
	Pipes and tubes and blanks—Continued				
	Other:				
	Steel pipe conforming to the A.P.I. specifications for oil well casing and steel pipes and tubes of rectangular cross section, whether welded or seamless, having a wall thickness not less than 0.156 inch:				
	Not threaded and not otherwise advanced:				
610.39	Other than alloy steel	1,999	3,235	2,330	3,770
610.40	Alloy steel	30	1	34	+1
	Threaded or otherwise advanced:				
610.42	Other than alloy steel	10,769	12,256	12,182	13,864
610.43	Alloy steel	439	519	490	580
	Other:				
	Suitable for use in the manufacture of ball or roller bearings:				
610.45	Other than alloy iron or steel	9	6	10	7
610.46	Alloy iron or steel	967	2,130	1,030	2,270
	Not suitable for use in the manufacture of ball or roller bearings:				
	Other than alloy iron or steel:				
610.48	Hollow bars	244	209	265	227
610.49	Other	9,353	11,641	10,427	12,975
	Alloy iron or steel:				
610.51	Hollow bars	535	704	558	73
610.52	Other	4,764	7,588	4,911	7,825
	Pipe and tube fittings of iron or steel:				
	Cast-iron fittings, not malleable:				
	For cast-iron pipe:				
610.62	Cast iron, other than alloy cast iron	481	407	575	485
610.63	Alloy cast iron				
	Not for cast-iron pipe:				
610.65	Cast iron, other than alloy cast iron	288	446	338	523
610.66	Alloy cast iron		4		+4
	Cast-iron fittings, malleable:				
	Not advanced in condition by operations or processes subsequent to the casting process:				
610.70	Cast iron, other than alloy cast iron	43	63	46	67
610.71	Alloy cast iron				
610.74	Advanced in condition by operations or processes subsequent to the casting process.	1,081	1,477	1,141	1,560
610.80	Other fittings	5,533	6,386	5,910	6,822
	Milliners' wire and other wire covered with textile or other material not wholly of metal:				
642.96	Galvanized wire wholly of round iron or steel wire measuring not over 0.20 inch and not under 0.075 inch in diameter, if covered with plastics.	107	361	112	378
642.97	Other	170	128	177	133
	Base metal foil (whether or not embossed, cut to shape, perforated, etched, coated, printed, colored, decorated, or backed with paper or equivalent backing) not over 0.006 inch in thickness (excluding any coating or backing):				
	Not backed and not cut to shape:				
x644.22	Other foil	11	43	+11	+43
	Cut to shape, but not backed:				
x644.32	Other foil	1	(1)	1	(1)
	Articles of iron or steel, not coated or plated with precious metal:				
	Cast-iron articles, not alloyed:				
x657.09	Not malleable				
x657.10	Malleable				
	Other articles:				
x657.20	Other				
	Iron or steel pipes or tubes prepared and coated or lined in any manner suitable for use as conduits for electrical conductors, and iron or steel fittings therefor:				
x688.30	Pipes or tubes	316	228	356	257
x688.35	Fittings	70	122	73	127
	Totals	744,174	1,176,445	870,643	1,354,762
	(Overall ratio of estimated c.i.f. to reported value weighted by trade: 1964, 116.99; 1965, 115.16.)				

ANNEX 2

STEEL SECTOR PRODUCTS

Comparison of Ad Valorem Equivalents of United States Rates of Duty Based on F.O.B. and C.I.F. Values for Imports

Ad valorem duties applicable to United States imports of steel sector products are assessed principally on the "export" value of these products.[1] A few products are subject to assessment of duty on the "foreign" value if this value is found to be higher than the "export" value. These values are approximately comparable to the commercial "f.o.b." value. The values reported in United States import statistics are those upon which duty was assessed.

The ad valorem equivalents of United States import duties on steel sector products calculated on the basis of values reported in official statistics are shown in the attached table as ad valorem equivalents based on the value of imports f.o.b. For comparison the corresponding ad valorem equivalents which would result from the use of c.i.f. values for the assessment of duty are shown. The c.i.f. equivalents have been calculated as follows:

For each general class of steel sector products a representative sample of import transactions through principal ports of entry was studied to obtain the commercial f.o.b. value of individual shipments, freight, insurance, and other importing costs, and the c.i.f. value of each shipment. These data were obtained from commercial invoices covering the transactions, from direct interviews with importers, and from other sources. From the data, an average ratio of c.i.f. to f.o.b. value for each class of product was derived. This ratio was used as an adjustment factor and applied to the value reported in official statistics for each TSUS item to obtain an estimated c.i.f. value of United States imports. Actual duties collected on imports in the TSUS item were then divided by the estimated c.i.f. value to obtain an ad valorem equivalent of these duties based on the value of imports c.i.f.

STEEL SECTOR PRODUCTS

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports: F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Iron or steel waste and scrap:[1]				*Percent*
Ex-607.11	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	37.5 cents per ton	1.2	0.9	75.0
Ex-607.12	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	37.5 cents per ton plus additional duties.	58.4	52.5	90.0
	Pig iron, cast iron, and spiegeleisen; all the foregoing in pigs, blocks, lumps, and similar forms:				
	Pig iron and cast iron:				
607.15	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	20 cents per ton	.4	.3	75.0
607.18	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	56.25 cents per ton plus additional duties.	5.7	4.0	70.2
	Spiegeleisen:				
607.20	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	75 cents per ton	1.0	.8	80.0
607.21	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	75 cents per ton plus additional duties.	[3]1.0	.9	90.0

See footnotes at end of table, p. 80.

[1] "Export" value and "foreign" value are defined in secs. 402 and 402(a) of the Tariff Act of 1930.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports: F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Sponge iron; iron or steel powders:				
	Sponge iron, including powders thereof:				Percent
608.02	Not containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	62.5 cents per ton..	0.6	0.5	83.3
608.04	Containing chromium, molybdenum, tungsten, or vanadium in amounts specified in headnote 4 of this subpart.	62.5 cents per ton plus additional duties.	1.3	1.2	92.3
	Other powders:				
608.05	Other than alloy iron or steel.....	0.3 cent per pound.	1.0	.9	90.0
	Alloy iron or steel:				
608.06	Stainless steel powders.......	0.3 cent per pound.	.4	0.4	97.0
608.08	Other.........................	19 percent ad valorem.	19.0	16.7	88.0
608.10	Grit and shot, including wire pellets, of iron or steel.	0.3 cent per pound.	4.8	3.9	81.2
	Ingots, blooms, billets, slabs, and sheet bars, all the foregoing of iron or steel:				
	Other than alloy iron or steel:				
608.15	Valued not over 5 cents per pound.	8.5 percent ad valorem.	8.5	6.3	74.1
608.16	Valued over 5 cents per pound...	10.5 percent ad valorem.	10.5	9.1	86.7
608.18	Alloy iron or steel..................	14.5 percent ad valorem plus additional duties.	15.6	14.4	92.3
	Forgings of iron or steel, not machined, not tooled, and not otherwise processed after forging:				
608.25	Other than alloy iron or steel.........	10.5 percent ad valorem.	10.5	9.6	91.4
608.27	Alloy iron or steel..................	14.5 percent ad valorem plus additional duties.	16.9	15.7	92.9
	Bars of wrought iron:				
608.30	Other than alloy wrought iron.........	0.5 cents per lb.....	3.5	3.3	94.3
608.32	Alloy wrought iron..................	0.5 cents per lb. plus 4 percent ad valorem plus additional duties.	[3] 7.0	6.6	94.3
	Bars of steel:				
	Deformed concrete reinforcing bars:				
	Other than alloy steel:				
608.40	Valued not over 5 cents per pound.	8.5 percent ad valorem.	8.5	6.9	81.2
608.41	Valued over 5 cents per pound.	12.5 percent ad valorem.	12.5	11.2	89.6
608.42	Alloy steel..................	16.5 percent ad valorem plus additional duties.	[3] 16.5	14.8	89.7
	Other bars:				
	Other than alloy steel:				
	Not cold formed:				
	Not coated or plated with metal:				
608.45	Valued not over 5 cents per pound.	7 percent ad valorem.	7.0	5.9	84.3
608.46	Valued over 5 cents per pound.	10.5 percent ad valorem.	10.5	9.1	86.7
608.48	Coated or plated with metal.	0.1 cent per pound plus 10.5 percent ad valorem.	11.9	10.5	88.2
608.50	Cold formed................	0.0625 cent per pound plus 10.5 percent ad valorem.	11.4	10.0	87.7

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Bars of steel—Continued				
	Other bars—Continued				*Percent*
608.52	Alloy steel	14.5 percent ad valorem plus additional duties.	17.7	17.0	96.0
	Hollow drill steel:				
	Other than alloy steel:				
608.60	Valued not over 8 cents per pound	0.375 cent per pound plus 10 percent ad valorem.	15.0	13.4	89.3
608.61	Valued over 8 cents per pound	10.7 percent ad valorem.	10.7	10.1	94.4
608.62	Alloy steel	14.7 percent ad valorem plus additional duties.	15.2	14.6	96.1
	Wire rods of iron or steel:				
	Other than alloy iron or steel:				
	Not tempered, not treated, and not partly manufactured:				
608.70	Valued not over 4 cents per pound.	0.1 cent per pound.	2.7	2.2	81.5
608.71	Valued over 4 cents per pound.	0.25 cent per pound.	5.1	4.4	86.3
	Tempered, treated, or partly manufactured:				
608.73	Valued not over 4 cents per pound.	0.2 cent per pound.	5.1	4.2	82.4
608.75	Valued over 4 cents per pound.	0.375 cent per pound.	6.5	5.7	87.7
	Alloy iron or steel:				
608.76	Not tempered, not treated, and not partly manufactured.	0.25 cent per pound plus 4 percent ad valorem plus additional duties.	7.6	7.1	93.4
608.78	Tempered, treated, or partly manufactured.	0.375 cent per pound plus 4 percent ad valorem plus additional duties.	6.3	6.0	95.2
	Plates and sheets of iron or steel, not cut, not pressed, and not stamped to nonrectangular shape (except as provided in item 609.17):				
	Not coated or plated with metal and not clad:				
	Black plate:				
608.81	Corrugated or crimped	10 percent ad valorem.	10.0	9.0	90.0
608.82	Other	8 percent ad valorem.	8.0	6.9	86.2
	Other:				
	Not pickled and not cold rolled:				
608.84	Other than alloy iron or steel.	8 percent ad valorem.	8.0	6.9	86.2
608.85	Alloy iron or steel	12 percent ad valorem plus additional duties.	13.3	12.9	97.0
	Pickled or cold rolled:				
608.87	Other than alloy iron or steel.	0.1 cent per pound plus 8 percent ad valorem.	9.9	8.6	86.9
608.88	Alloy iron or steel	0.1 cent per pound plus 12 percent ad valorem plus additional duties.	13.1	12.7	96.9

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
					Percent
	Plates and sheets of iron or steel—Con.				
608.90	Clad	24 percent ad valorem.	24.0	23.4	97.5
	Coated or plated with metal:				
608.92	Tin plate and tin-coated sheets	0.8 cent per pound.	9.4	8.6	91.5
608.93	Terne plate and terne coated sheets.	1 cent per pound	[3] 10.0	9.0	90.0
	Other:				
608.95	Other than alloy iron or steel	0.1 cent per pound plus 8 percent ad valorem.	9.3	8.4	90.3
608.96	Alloy iron or steel	0.1 cent per pound plus 12 percent ad valorem plus additional duties.	16.1	15.6	96.9
	Strip, of iron or steel, not cut, not pressed, and not stamped to nonrectangular shape (except as provided in item 609.17):				
	Other than alloy iron or steel:				
609.02	Not over 0.01 inch in thickness	6 percent ad valorem.	6.0	5.8	96.7
609.03	Over 0.01 but not over 0.05 inch in thickness.	8.5 percent ad valorem.	8.5	7.8	91.8
609.04	Over 0.05 inch in thickness	9.5 percent ad valorem.	9.5	7.7	81.1
	Alloy iron or steel:				
609.06	Not over 0.01 inch in thickness	10 percent ad valorem plus additional duties.	10.2	10.0	98.0
609.07	Over 0.01 but not over 0.05 inch in thickness.	12.5 percent ad valorem plus additional duties.	13.3	12.8	96.2
609.08	Over 0.05 inch in thickness	13.5 percent ad valorem plus additional duties.	14.6	13.9	95.2
	Plates, sheets, and strip, all the foregoing, of iron or steel, cut, pressed, or stamped to nonrectangular shape (except as provided in item 609.17):				
	Other than alloy iron or steel:				
609.12	Valued not over 8 cents per pound.	8 percent ad valorem.	8.0	6.5	81.2
609.13	Valued over 8 cents per pound	9.5 percent ad valorem.	9.5	8.8	92.6
609.15	Alloy iron or steel	13 percent ad valorem plus additional duties.	13.9	13.5	97.1
609.17	Plates, sheets, and strip, all the foregoing of iron or steel, whether or not cut, pressed, or stamped to nonrectangular shape, if electrolytically coated or plated with base metal other than tin, lead, or zinc.	19 percent ad valorem.	19.0	18.2	95.8
	Wire of iron or steel:				
	Flat wire:				
	Other than alloy iron or steel:				
	Not coated or plated with metal:				
609.20	Not over 0.01 inch in thickness.	6 percent ad valorem.	6.0	5.8	96.7
609.21	Over 0.01 inch but not over 0.05 inch in thickness.	8.5 percent ad valorem.	8.5	8.1	95.3
609.22	Over 0.05 inch in thickness.	10 percent ad valorem.	10.0	9.5	95.0

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Wire of iron or steel—Continued				
	Flat wire—Continued				
	Other than alloy iron or steel—Continued				
	Coated or plated with metal:				*Percent*
609.25	Not over 0.01 inch in thickness.	0.1 cent per pound plus 6 percent ad valorem.	6.3	6.1	96.8
609.26	Over 0.01 inch but not over 0.05 inch in thickness.	0.1 cent per pound plus 8.5 percent ad valorem.	9.4	8.7	92.6
609.27	Over 0.05 inch in thickness.	0.1 cent per pound plus 10 percent ad valorem	10.8	10.1	93.5
	Alloy iron or steel:				
	Not coated or plated with metal:				
609.30	Not over 0.01 inch in thickness.	10 percent ad valorem plus additional duties.	10.4	10.2	98.1
609.31	Over 0.01 inch but not over 0.05 inch in thickness.	12.5 percent ad valorem plus additional duties.	12.8	12.6	98.4
609.32	Over 0.05 inch in thickness.	14 percent ad valorem plus additional duties.	16.9	15.2	89.9
	Coated or plated with metal:				
609.35	Not over 0.01 inch in thickness.	0.1 cent per pound plus 10 percent ad valorem plus additional duties.	[3] 11.0	10.5	95.5
609.36	Over 0.01 inch but not over 0.05 inch in thickness.	0.1 cent per pound plus 12.5 percent ad valorem plus additional duties.	13.5	12.6	93.3
609.37	Over 0.05 inch in thickness.	0.1 cent per pound plus 14 percent ad valorem plus additional duties.	[3] 15.5	14.3	92.3
	Round wire:				
	Other than alloy iron or steel:				
609.40	Under 0.060 inch in diameter..	8.5 percent ad valorem.	8.5	7.9	92.9
	0.060 inch or more in diameter:				
609.41	Containing not over 0.25 percent carbon.	0.3 cent per pound.	5.0	4.1	88.0
609.43	Containing over 0.25 percent carbon.	8.5 percent ad valorem.	8.5	7.[illegible]	90.6
609.45	Alloy iron or steel................	12.5 percent ad valorem plus additional duties.	13.1	12.7	96.9
	Other wire:				
	Other than alloy iron or steel:				
609.70	Not coated or plated with metal.	12.5 percent ad valorem.	12.5	11.5	92.0
609.72	Coated or plated with metal..	0.1 cent per pound plus 12.5 percent ad valorem.	13.0	12.4	95.4

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Wire of iron or steel—Continued				
	Other wire—Continued				
609.75	Alloy iron or steel:				*Percent*
	Not coated or plated with metal.	16.5 percent ad valorem plus additional duties.	18.0	17.0	94.4
609.76	Coated or plated with metal..	0.1 cent per pound plus 16.5 percent ad valorem plus additional duties.	[2] 17.5	16.6	94.9
	Angles, shapes, and sections, all the foregoing, of iron or steel, hot rolled, forged, extruded, or drawn, or cold formed or cold finished, whether or not drilled, punched, or otherwise advanced; sheet piling of iron or steel:				
	Angles, shapes, and sections:				
	Hot rolled; or, cold formed and weighing over 0.29 pound per linear foot:				
	Not drilled, not punched, and not otherwise advanced:				
609.80	Other than alloy iron and steel.	0.1 cent per lb.....	2.2	1.9	86.4
609.82	Alloy iron or steel........	0.1 cent per lb. plus 4 percent ad valorem plus additional duties.	9.0	8.6	95.6
	Drilled, punched, or otherwise advanced:				
609.84	Other than alloy iron or steel.	7.5 percent ad valorem.	7.5	7.0	93.3
609.86	Alloy iron or steel.........	11.5 percent ad valorem plus additional duties.	14.2	13.7	96.5
	Cold formed and weighing not over 0.29 pound per linear foot:				
609.88	Other than alloy iron or steel.	8.5 percent ad valorem.	8.5	7.9	92.9
609.90	Alloy iron or steel..............	12.5 percent ad valorem plus additional duties.	[1] 13.0	12.4	95.4
	Sheet piling:				
609.96	Other than alloy iron or steel.....	0.1 cent per pound.	1.9	1.6	84.2
609.98	Alloy iron or steel...............	0.1 cent per pound plus 4 percent ad valorem plus additional duties.	[2] 5.0	4.5	90.0
	Rails, joint bars, and tie plates, all the foregoing of steel:				
	Rails:				
610.20	Other than alloy steel............	0.05 cents per pound.	1.0	.9	90.0
610.21	Alloy steel..........................	0.05 cents per pound plus 4 percent ad valorem plus additional duties.	[2] 5.0	4.5	90.0

See footnotes at end of table, p. 80.

Comparison and ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports: F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Rails, joint bars, and tie plates—Con.				
	Joint bars and tie plates:				Percent
610.25	Other than alloy steel	0.125 cents per pound.	3.0	2.5	83.3
610.26	Alloy steel	0.125 cents per pound plus 4 percent ad valorem plus additional duties.	6.0	5.4	90.0
	Pipes and tubes and blanks therefor, all the foregoing of iron (except cast iron) or steel:				
	Welded, jointed, or seamed, with walls not thinner than 0.065 inch, and of circular cross section:				
	Other than alloy iron or steel:				
610.30	Under 0.25 inch in outside diameter.	0.875 cents per pound.	5.2	4.5	86.5
610.31	0.25 inch or more but under 0.375 inch in outside diameter.	0.625 cents per pound.	6.2	5.6	90.3
610.32	0.375 inch or more in outside diameter.	0.3 cents per pound.	4.5	3.9	86.7
	Alloy iron or steel:				
610.35	Under 0.25 inch in outside diameter.	0.875 cents per pound plus 4 percent ad valorum plus additional duties.	5.0	4.9	98.0
610.36	0.25 inch or more but under 0.375 inch in outside diameter.	0.625 cents per pound plus 4 percent ad valorem plus additional duties.	11.7	11.4	97.4
610.37	0.375 inch or more in outside diameter.	0.3 cents per pound plus 4 percent ad valorem plus additional duties.	5.5	5.3	16.4
	Other:				
	Steel pipe conforming to the A.P.I. specifications for oil well casing and steel pipes and tubes of rectangular cross section, whether welded or seamless, having a wall thickness not less than 0.156 inch:				
	Not threaded and not otherwise advanced:				
610.39	Other than alloy steel	0.1 cent per pound.	1.6	1.4	87.5
610.40	Alloy steel	0.1 cent per pound plus 4 percent ad valorem plus additional duties.	8.8	7.7	87.5
	Threaded or otherwise advanced:				
610.42	Other than alloy steel	7.5 percent ad valorem.	7.5	6.6	88.0
610.43	Alloy steel	11.5 percent ad valorem plus additional duties.	13.4	12.0	89.6

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rate of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
	Pipes and tubes and blanks—Continued				
	Other:				
	Suitable for use in the manufacture of ball or roller bearings:				*Percent*
610.45	Other than alloy iron or steel.	12 percent ad valorem.	12.0	10.7	89.2
610.46	Alloy iron or steel	16 percent ad valorem plus additional duties.	16.5	15.5	93.9
	Not suitable for use in the manufacture of ball or roller bearings:				
	Other than alloy iron or steel:				
610.48	Hollow bars	11 percent ad valorem.	11.0	10.1	91.8
610.49	Other	10.5 percent ad valorem.	10.5	9.4	89.5
	Alloy iron or steel:				
610.51	Hollow bars	15.5 percent ad valorem plus additional duties.	16.0	15.4	96.2
610.52	Other	14.5 percent ad valorem plus additional duties.	14.8	14.4	97.3
	Cast iron pipes and tubes:				
610.56	Other than alloy cast iron	10 percent ad valorem.	10.0	8.4	84.0
610.58	Alloy cast iron	14 percent ad valorem plus additional duties.	14.5	13.1	90.3
	Pipe and tube fittings, of iron or steel:				
	Cast-iron fittings, not malleable:				
	For cast-iron pipe:				
610.62	Cast iron, other than alloy cast iron.	10 percent ad valorem.	10.0	8.5	85.0
610.63	Alloy cast iron	14 percent ad valorem plus additional duties.	[3] 14.0	12.6	90.0
	Not for cast-iron pipe:				
610.65	Cast iron, other than alloy cast iron.	3 percent ad valorem.	3.0	2.7	90.0
610.66	Alloy cast iron	7 percent ad valorem plus additional duties.	[3] 7.0	6.5	92.9
	Cast-iron fittings, malleable:				
	Not advanced in condition by operations or processes subsequent to the casting process:				
610.70	Cast iron, other than alloy cast iron.	8 percent ad valorem.	8.0	7.5	93.8
610.71	Alloy cast iron	12 percent ad valorem plus additional duties.	[3] 12.0	11.4	95.0
610.74	Advanced in condition by operations or processes subsequent to the casting process.	22.5 percent ad valorem.	22.5	21.3	94.7
610.80	Other fittings	19 percent ad valorem.	19.0	17.8	93.7
642.96	Galvanized wire, 0.075 to 0.20 inch in diameter, if covered with plastics.	0.25 cents per pound.	2.0	1.9	95.0
642.97	Milliners' and other wire covered with textiles or other material.	15 percent ad valorem.	15.0	14.4	96.0

See footnotes at end of table, p. 80.

Comparison of ad valorem equivalents of U.S. rates of duty based on f.o.b. and c.i.f. values for imports—Continued

Item	Description	Rare of duty	Ad valorem equivalent based on the value of 1964 imports		
			F.o.b.	C.i.f.	Ratio c.i.f. to f.o.b. ad valorem equivalent
					Percent
Ex-644.22	Steel foil, not backed or cut to shape	18 percent ad valorem.	18.0	17.6	97.8
Ex-644.32	Steel foil, cut to shape, not backed	18 percent ad valorem.	18.0	17.6	97.8
Ex-657.09	Cast iron articles, not malleable, n.e.s.	3 percent ad valorem.	3.0	2.6	86.7
Ex-657.10	Malleable cast iron articles, n.e.s.	8 percent ad valorem.	8.0	6.8	85.0
Ex-657.20	Iron and steel articles, n.e.s.	19 percent ad valorem.	19.0	16.4	86.3
	Iron or steel pipes and tubes suitable for use as conduits for electrical conductors, and iron and steel fittings therefor:				
Ex-688.30	Pipes and tubes	10 percent ad valorem.	10.0	8.9	89.0
Ex-688.35	Fittings	19 percent ad valorem.	19.0	18.2	95.8

[1] Duty has been suspended by act of Congress almost continuously since March 1942.
[2] No imports.

Senator DIRKSEN. Mr. Norwood, are you here?
Mr. NORWOOD. Yes, I am.

STATEMENT OF BERNARD NORWOOD, ACTING SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; ACCOMPANIED BY THEODORE R. GATES, CHIEF ECONOMIST

Senator DIRKSEN. Are you going to testify very long?

Mr. NORWOOD. I can be quite brief, Senator. I believe it depends on questions you may have.

Senator DIRKSEN. You can be or you will be?

Mr. NORWOOD. I shall be brief, Senator.

Senator DIRKSEN. OK. You have got a short statement but I didn't want to have you come back this afternoon.

Mr. NORWOOD. Thank you very much.

Senator DIRKSEN. You work for my old friend Chris Herter.

Mr. NORWOOD. Yes, sir, I do.

Senator DIRKSEN. Do you see him now and then?

Mr. NORWOOD. Yes, quite frequently.

Senator DIRKSEN. And how is he?

Mr. NORWOOD. He is quite well, sir. He is on leave today. I am acting in his absence, but he has been as active as ever in this work looking forward to a busy period this coming fall and winter.

Senator DIRKSEN. When you see him, give him my felicitations.

Mr. NORWOOD. I will, sir.

Senator DIRKSEN. And if we are rough on you, you tell him that, too. [Laughter.]

So you proceed, Mr. Norwood.

Mr. NORWOOD. All right. I am pleased to appear before the committee, Senator, on behalf of the office of Governor Herter, the

Special Representative for Trade Negotiations in the Executive Office of the President.

I shall confine my present remarks to those aspects of the bill that are of particularly direct and immediate interest to our office, that is, to the aspects related to trade negotiations. In so doing, I shall deal only with the import data requirements. The data of the type sought on imports are substantially related to trade negotiations; those sought on exports, only marginally.

As a matter of convenience, I shall refer to the present U.S. import data system as being on an f.o.b. (or free on board) basis and to the parallel import data system proposed by the bill and generally used by most foreign countries as being on a c.i.f. (cost, insurance, ocean freight) basis.

Senator DIRKSEN. At that point, you said most foreign countries.

Mr. NORWOOD. Yes.

Senator DIRKSEN. Is it true of all other countries?

Mr. NORWOOD. No, it is not true of all other countries, Senator. Importantly, Canada, Australia, New Zealand, South Africa, I believe, are on the same basis, trade data and tariff basis, as the United States.

Senator DIRKSEN. Oh, yes.

Mr. NORWOOD. We are in the minority, Senator, but I think it may be appreciated that that doesn't necessarily mean that we are wrong.

Both the present U.S. system and most foreign statistical data and tariff systems vary in many details from a pure f.o.b. or c.i.f. basis. I do not believe, however, that it is necessary for our present discussion to examine these distinctions in full detail.

For purposes of trade negotiations and the underlying preparations for which our Office has primary responsibility, it is essential to have extensive data.

Price data are one necessary element. In arriving at useful price data, the availability of c.i.f. data, rather than f.o.b. data, does not in itself help us much. While c.i.f. data do bring us one step closer to a meaningful price comparison, it excludes significant elements that normally make up the price of an imported product at that place in the U.S. market where it actually becomes competitive with a domestic product. For example, c.i.f. data would not include the tariff, inland freight, or any costs attributable to repacking, assembly, and to markups at the distribution levels between the dock and the ultimate point of sale.

In examining comparative prices, we particularly want to know the trend of such prices over periods of time. We want to know how prices of domestic and foreign goods are moving in relation to each other. In such examination, it is not necessary that the prices be on the same basis. What is necessary is that the data be available on a consistent basis and for a sufficiently long period to permit price trends to be discerned clearly. This is possible whether our data or foreign data are f.o.b. or c.i.f.

In preparing for trade negotiations, data on a c.i.f. basis are necessary only in determining comparative prices. But particularly in considering articles on which we may offer tariff concessions, we must consider many factors in addition to comparative prices—all of which bear upon the competitiveness of U.S. goods in relation to foreign goods in the U.S. market. This involves many elements beyond prices: comparative costs, availability, reliability of supply, fashion, packaging, quality, reputation, consumer buying habits, advertising and other promotion, adequacy of distribution, financing, terms of sale, servicing, and many other factors.

In the actual conduct of the negotiations and in reaching a satisfactory conclusion, our principal attention is on the balance between the concessions we are offering in exchange for those we are receiving. This reciprocity can be measured in many ways, the most significant of which is in terms of the increase in trade that can reasonably be expected to result from the reduction of tariffs and the liberalization of other trade barriers.

This evaluation calls for a variety of information and judgments about: the value of trade being covered by the concessions, the depth of the cuts in tariffs or the significance of the removal of other barriers, expected changes in supply, demand, prices, and other factors; and in particular the responsiveness—or sensitivity—of the prices of the articles to tariff changes.

In comparing the value of trade covered by United States and other countries' concession, an adjustment must be made to place the data of all negotiating partners on the same basis. This has been done in past negotiations and will be done in the present negotiations. Since most countries are on a c.i.f. basis, an adjustment upward is made in the f.o.b. figures used for imports into the United States. This is a recognized operation. It takes place at a point when the negotiating "package" has begun to take shape.

For the present negotiation, in contrast to past negotiations, there is an additional need to compare United States and foreign data. This is the need to cope with the so-called tariff disparities issue.

The Ministers of the participating countries agreed that special attention should be given to situations in which one country has a high duty on a product whereas another country has a low duty on the same product. The EEC has been insistent that the high duty should cut proportionately more than the low duty. Although many formulas were discussed, no rule was agreed upon.

Since the tariff systems of most countries vary widely, in order to make any such comparison of duties, there must be a concordance between tariff classifications and between trade data to put them on the same basis. Trade statistics are needed to determine the commercial importance of individual articles and to show the incidence of the individual tariff rates.

Accordingly, we have developed a concordance of United States and EEC tariff classifications and have worked up a substantial body of trade statistics in order to be prepared on this issue. Part of these preparations has included development of c.i.f. adjustments necessary to put individual comparisons of duty incidence on the same basis.

In order to obtain the c.i.f. data that we need for the above three purposes—preparing for the negotiations, achieving a balanced result, and coping with the disparities issue—at our request, the Tariff Commission, with the assistance of the Bureau of the Census, has been preparing on a c.i.f. basis information on tariff rates and on trade. The Tariff Commission has explained to the committee what work is being done and has submitted the initial results of its work in the iron and steel sector. In our judgment, the work which the Commission has already completed indicates that all of our needs for c.i.f. data will be sucessfully met.

We believe, therefore, Senator, that there is no clear need for the new statutory requirement, as contemplated in Senate Joint Resolution 115, to collect and publish U.S. import data on a c.i.f. basis. We are already obtaining on a c.i.f. basis much more extensive and detailed data than in any previous trade negotiation. We shall have a chance to see whether the data being furnished are adequate for the negotiation. If so, our present opinion will be confirmed that a comprehensive new requirement is not necessary to meet the needs of our international trade and tariff negotiations; if present efforts prove not successful, we can consider the nature and extent of the deficiencies and propose new requirements. A statutory requirement enacted at this time, moreover, would not be of use for our current negotiations since the negotiations will have terminated before such requirements could yield any useful body of information.

It is for these reasons, Senator, that we believe establishment of new requirements for c.i.f. data is not warranted.

Senator DIRKSEN. How long have you been negotiating on steel?

Mr. NORWOOD. In the current negotiations at Geneva, Senator, the active period dates to November 1964. That was the time at which we submitted so-called industrial exception lists. There was an examination following that period, and there have been multilateral and bilateral dicussions ever since covering iron and steel and the full range of industrail commodities.

Senator DIRKSEN. But you didn't have any firm c.i.f. figures while you were negotiating, did you?

Mr. NORWOOD. No, we did not, Senator. We had some data. We had approximations at that early period. As we have moved into the negotiations, we have been preparing the additional data such as that introduced by the Tariff Commission. The key period in the negotiations where the data would be useful will be when there is the outline of a negotiating package between us and the other countries.

Also, if there is an invocation by the EEC of disparities, which we would assume would come, if at all, toward the end of the negotiations, the c.i.f. data would be of use to us at that time.

Senator DIRKSEN. If you didn't have firm data, would one be justified in saying that you were doing a little negotiating in the dark?

Mr. NORWOOD. I don't think it would be a serious loss, Senator. It depends upon how firm and how extensive the data are. The data which have been developed have come to us as a result of a sample. It is fairly detailed in the iron and steel sector. It may prove that it is for our negotiating needs more detailed than is necessary. In certain other sectors we may be satisfied with a single figure for an entire sector. We may be satisfied with even something less.

So it is hard to say at this time, Senator, that there would be any lack of data at such a time as it might prove useful to us. We have a fairly good idea of the areas of the tariff where such data might be useful, and we have in discussions with the Tariff Commission and the Bureau of the Census and Customs Bureau tried to work with them on their present sampling technique to provide us what we feel would be necessary.

Senator DIRKSEN. Does industry agree with you?

Mr. NORWOOD. I don't—in what sense, Senator? I am not quite sure. In terms of whether it meets our own negotiating needs or whether the data are accurate?

Senator DIRKSEN. Well, of course, you are going to negotiate for the rates, aren't you?

Mr. NORWOOD. Yes, we are, but when you ask whether the industry is satisfied, I don't think we are at the point where a negotiating package is in such shape that there is any critical need to consult industry on this negotiating factor. I would believe that the agencies responsible for the collection of statistics and the techniques used are in a position to determine the accuracy and adequacy of the raw material which they are using.

Senator DIRKSEN. At the bottom of page 4 of your statement you say:

> Since most countries are on a c.i.f. basis, an adjustment upward is made in the f.o.b. figures used for imports into the United States. This is a recognized operation. It takes place at a point when the negotiating "package" has begun to take shape.

How many of these negotiating packages have begun to take shape?

Mr. NORWOOD. I would say none at this moment, Senator. As you know, the current negotiations in Geneva have been moving rather slowly. There have been major problems that have had to be overcome. The agricultural issues have held up progress in the industrial field so that at this moment there is no clear shape to any package. It will not be until sometime in late fall that we will probably see the outlines of the various settlements or the overall settlement emerging.

Senator DIRKSEN. Yes. That reminds me of the background paper that was submitted to the Foreign Economic Policy Committee of the House, that is, a Subcommittee on Foreign Affairs. I think the essential part is this paragraph:

> An early attempt to get agreement on rules to govern agricultural negotiations proved futile. For this reason, and because the European Community's offers were not yet prepared, agricultural offers were not tabled at the same time as industrial offers, as originally intended. The EEC took the position it could not make agricultural offers in the Kenndey Round until its major Common Agricultural Policy regulations were agreed upon, and this work was not yet completed. *On grains, however, the GATT Ministers had decided that the Cereals Group should undertake the negotiation of an international grains arrangement. Accordingly in May 1966 major cereals trading nations exchanged proposals for an international cereals arrangement.* The essential features of such an arrangement, in the United States view, would be improved access to world markets, equitable sharing among exporters and importers of the job of adjusting production to demand, and multilateral sharing of food aid. The grains discussions have proceeded intermittently and have recently gained impetus from new provisions in the EEC negotiating mandate which appear to recognize the need for the three elements proposed by the United States.

How far has that gotten? You just mentioned that you weren't making much progress on agricultural commodities.

Mr. NORWOOD. When I say we have not made much progress, Senator, I certainly don't want to indicate that we are overly discouraged. The achievements of the negotiation now are, I think, less than anyone had hoped for several years ago, but we have recognized that we would have to go close to any deadline before coming to serious settlements.

With regard to the proposals on grain, proposals have indeed been made by a number of important countries, but they essentially remain on the table or are present on the table for the purpose of later discussion. There has not been enough serious discussion between the tabling of the proposals and the present data for any significant progress to have taken place with regard to a possible international cereals agreement. There has been only one meeting, a brief meeting, in fact, on this matter since the tabling of proposals in May.

Senator DIRKSEN. Is there anything else you have for the edification of the committee?

Mr. NORWOOD. I think I might just stress, Senator, if you permit me, that there have been indications noted in the course of today's hearings that it would be a good idea to have c.i.f. data and that it did appear that those statements supported the bill. The stress I would put on the data collection proposals which have been made is that they have allowed, as I understand them, the use of our present technique which is a sampling technique. On the basis of the sampling, we so far seem to be obtaining the data which we would find useful, and in the light of this present work, we feel that we shall probably get the data which we do need with regard to c.i.f.

I have nothing further, Senator.

Senator DIRKSEN. When does your authority expire?

Mr. NORWOOD. The authority to enter into agreements, Senator, expires June 30, 1967.

Senator DIRKSEN. That will be June of next year.

Mr. NORWOOD. That is right.

Senator DIRKSEN. That is roughly what—9 months.

Mr. NORWOOD. Some 9 months from now.

Senator DIRKSEN. That isn't very much time, is it?

Mr. NORWOOD. No, it is not very much time, Senator. We certainly do have a great sense of pressure, and over the next few weeks I think we shall see the rush that often takes place toward the end of major negotiations.

Senator DIRKSEN. And, of course, there will be a rush here next year to secure an extension of that authority, will there not?

Mr. NORWOOD. I have no proposal to make on that, Senator.

Senator DIRKSEN. Well, wouldn't you reasonably guess that somebody will want to extend this authority?

Mr. NORWOOD. There may very well be that interest, Senator, to have a proposal made. I think that whether a proposal is made or is supported would depend to a large extent on what we are able to do with the remaining period of current negotiation. I think at this moment I would find it impossible to say what the prospect is of any proposals emerging from the executive branch or from the Congress, certainly, or what course that proposal would take. Our interest in our office at the present time is making sure that we use as effectively as possible the authority which we do have and the opportunity which is presented by current negotiations.

Senator DIRKSEN. Now, the only agency in government that could extend that authority is the Congress, isn't that correct?

Mr. NORWOOD. That is right. It requires congressional authorization.

Senator DIRKSEN. Suppose they are very unhappy about the state of these figures and say, well, we can't make head or tail out of all this because we do not have figures on which you can rely. Where you have developed that doctrine or comparability, that could jeopardize a trade agreement, couldn't it?

Mr. NORWOOD. We have given a lot of attention, Senator—I am sure we have given more attention in the current negotiation than has been given in any previous negotiation by the United States to the question of data. We have done so for many reasons.

The present negotiation is the most extensive and perhaps the most important that we have ever engaged in. We are aware of the increasing interest of the Congress and the business community in the details of negotiation. We have a new administrative arrangement within the Government for the exercise of the Trade Expansion Act authority. We do have technical resources which today are better and more sophisticated than ever existed before. We have made use, for example, extensively of computers in our data program. We had in mind the collection and the analysis of data for the purpose of preparing for the negotiations, for conducting them, for assessing our balance, and for explaining to the Congress and the public the results of our negotiations.

I hope that at such time as we come to the conclusion, that we will be able to present an accurate and understandable picture of the outcome of this enterprise.

Senator DIRKSEN. Is everybody happy with whatever conclusions you have contrived thus far?

Mr. NORWOOD. With regard to data, Senator?

Senator DIRKSEN. Data, conclusions on ——

Mr. NORWOOD. I think we shall never be happy with conclusions with regard to data, but we certainly are—I think all of us who are directly involved in this—satisfied that we have done a much more effective job than ever before and that our needs which we do see are being met. Whether all those needs will be met, whether everybody in the government and outside will be satisfied, of course I cannot say, Senator.

Senator DIRKSEN. Of course, if you run somebody out of business and seek to comfort him by saying, you have been computerized, that doesn't make him any happier.

Mr. NORWOOD. Our experience with computers, Senator, has been that they are very impressive, have been very useful, but sometimes you find it necessary to take a pad of paper out and check on a computer. We have a large human element in our data program.

Senator DIRKSEN. It seems to me that Univac—is that a computer, by the way?

Mr. GATES. Yes.

Senator DIRKSEN. Didn't it have Truman defeated here some years ago?

Mr. GATES. You are correct.

Senator DIRKSEN. It didn't turn out that way at all.

Mr. GATES. That is the reason we do not rely solely on computers.

Senator DIRKSEN. Yes. Well, if that is it, that is it.

Mr. NORWOOD. Thank you very much, sir.

Senator DIRKSEN. I want to get to Mr. Upchurch if he doesn't take too long so we can send you all home and won't have to come back later this afternoon.

STATEMENT OF M. L. UPCHURCH, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE, AGRICULTURE DEPARTMENT

Senator DIRKSEN. Mr. Upchurch, you are from the Department of Agriculture?

Mr. UPCHURCH. Yes, sir.

Senator DIRKSEN. And you have a brief statement here. Would you be offended if I suggested to this well-attended committee that we put it in the record?

Mr. UPCHURCH. No, sir, I would not be offended at all.

Senator DIRKSEN. Let me ask whether there is any objection. I hear none. [Laughter.]

Now, since it is a short statement, maybe you can give us a short interpretation of it.

Mr. UPCHURCH. All right. I will be happy to submit the statement for the record, Senator Dirksen.

In general it says that the Department of Agriculture sees no advantage in Senate Joint Resolution 115.

Our statement deals mostly with S. 3522 which calls for the Secretary of Agriculture to make a report annually on comprehensive statistics relating to foreign trade in agricultural products. We see several problems with respect to the provisions of S. 3522 that one of which is, it would require substantial additional data collection than we are now doing.

I might add, Senator Dirksen, that much of the information requested in S. 3522 is already being published in a series of publications by the Department of Agriculture put out monthly called U.S. Foreign Agricultural Trade by Commodities. These publications carry statistical data and special articles on the agricultural trade.

In a number of special studies the Department has calculated the c.i.f. values of agricultural commodities. With that statement, Senator Dirksen, unless there are questions, I will be happy to rest.

Senator DIRKSEN. Well, there will be no questions, but I have got one coming. In one sense, at least, you are a man after my own heart because you say:

> Valuation of imports on c.i.f. basis would more accurately reflect value of merchandise imported in comparison with domestic prices.

Now, I agree with you. Better yet, you agree with me, and that is what we have been trying to find out.

But now you depart from character in the next sentence because you say:

> However, such reporting would not improve the accuracy of balance-of-payments statistics as now reported.

I never asked about the balance-of-payments statistics. So, you see, your batting average has dropped.

Mr. UPCHURCH. I will let the statement stand as it is, Senator Dirksen.

Senator DIRKSEN. You will let it stand.

Mr. UPCHURCH. Yes, sir.

Senator DIRKSEN. All right. That is good. I don't believe there are any questions that I have. You have directed this mainly at the Sparkman bill anyway.

Mr. UPCHURCH. Yes, sir.

Senator DIRKSEN. Well, I should feel hurt but I won't. Thank you. That is it.

Mr. UPCHURCH. Thank you.

(The prepared statement of Mr. M. L. Upchurch follows:)

STATEMENT OF M. L. UPCHURCH, U.S. DEPARTMENT OF AGRICULTURE

We are grateful for the opportunity to submit our views on SJ 115 and S. 3522. The Department does not support enactment of S.J. 115. It would not aid in calculation of balance of payments position of the United States and would be confusing in its classification of exports.

S.J. 115, a resolution to require that imports into the United States include landed value of articles imported, proposes that the Secretary of Commerce shall include the cost, insurance, and freight (c.i.f.) values of articles imported as reported by the Secretary of the Treasury in all reports of import statistics published by the Department of Commerce. It further states that the Secretary of the Treasury shall include the cost, insurance, and freight values of imports. These values are the foreign value plus the insurance and shipping charges incident to landing the imported articles at the port of entry.

Our imports, as now reported by the Bureau of the Census, represent the export value of commodities in the country of origin. This method of valuation is prescribed in the Tariff Act of 1930, as amended.

Valuation of imports on a c.i.f. basis would more accurately reflect value of merchandise imported in comparison with domestic prices. However, such reporting would not improve the accuracy of balance-of-payment statistics as now reported. The use of c.i.f. value import data in balance-of-payment statistics would require adjustments for freight, insurance and other services which often are not rendered by the country of origin of the imports.

The export proposal in S.J. 115 states that the Secretary of Commerce shall classify exports by three categories: (1) total exports, (2) exports of commodities produced under Government subsidies, and (3) exports under Government-financed programs.

At present, the Department of Agriculture is collecting and reporting data on exports of farm products shipped abroad under Government financed programs. These data are necessary in the operation of Department programs. We are striving to improve our method of data collection and analysis and are working with the Bureau of the Census toward this end. Needed improvements can be effected within the limits of resources available without the necessity of such provisions as those in S.J. 115.

S. 3522 specifies that the Secretary of Agriculture shall compile and publish an "annual standard reference work" containing certain statistical information with respect to the volume and dollar value of U.S. foreign trade in major agricultural commodities for the preceding calendar year, the trends in United States exports and imports of such commodities, and the effect of such trade upon the balance-of-payments of the United States.

Much of the information sought under S. 3522 is now published by the U.S. Department of Agriculture although not in the precise form requested. Summaries and analyses of the United States agricultural trade situation for calendar years are published in a monthly publication, *Foreign Agricultural Trade of the United States*, assembled by the U.S. Department of Agriculture's Economic Research Service. For example, a summary and analysis of the principal U.S. agricultural exports in calendar year 1965 was published in April this year. In the July 1965 issue and the current September 1966 issue, an analysis of the contribution of agricultural exports to the balance of payments was published. More detailed statistics were published in *U.S. Foreign Agricultural Trade by Commodities, Calendar Year*, a supplement to the monthly *Foreign Agricultural Trade of the United States*.

Certain provisions of S. 3522, if carried out, would require detailed study and substantial additional expenditures for collection of data. These provisions deal with (1) costs of transportation, insurance, and other expenses incidental to handling imports and exports, (2) the determination of the effect that imports and exports of all agricultural commodities have on the balance-of-payments position of the United States, (3) timing of publication of a statistical reference work, and (4) the examination and certification of it by the Comptroller General prior to its submission to the Congress.

Articles imported into the United States are generally valued in terms of their foreign export value. Thus, costs attributable to transportation, insurance, and other expenses incident to handling incurred between exportation abroad and importation into the United States, that is, typically ocean freight and insurance are not available to the Department of Agriculture from present statistics on each agricultural commodity. To obtain such information would require a system of statistical reporting and facilities to accumulate and summarize data. In addition to total freight and insurance costs, information would be needed to determine what portion of agricultural imports are shipped and insured by foreign firms.

Articles exported from the United States are valued "f.a.s." (freight alongside ship), that is, the export value includes actual or estimated inland freight charges from the interior place of shipment to the seaport or border point of exportation, and it excludes freight and other charges from the port of departure in the United States to the place of destination in the foreign country to which shipped.

The contribution of exports of agricultural commodities on the balance-of-payments of the United States is estimated in research studies of the Department of Agriculture. The effect of all imports, in the aggregate, on our balance-of-payments is now estimated by the Office of Business Economics in the Department of Commerce and published annually in the *Survey of Current Business*. To determine what effect agricultural imports have on our balance-of-payments, it is necessary to know payments made to foreign carriers and insurers of agricultural commodities. Such information for agricultural commodities only would have limited value without similar information for all imports.

The February 15 deadline as specified in S. 3522 would not be appropriate. The preliminary unrevised statistical data which the Bureau of the Census, Department of Commerce, furnishes to the Department of Agriculture first become available about February 15. Only a calendar year aggregate of U.S. foreign agricultural trade can be compiled from these data. The more detailed trade statistics become available April 1 at the earliest. The May 1 deadline permitted for the first four annual reports would be more desirable.

The provision relating to examination and certification by the Comptroller General of a report of the Secretary of Agriculture prior to its submission to the Congress is most unusual. It would cause a delay in the availability to the Congress and the public-at-large of statistical information. Coordination of information-collecting services of all Federal agencies is under the general supervision of the Director of the Bureau of the Budget in compliance with the Federal Reports Act of 1942. Further review by the Comptroller General would seem to be redundant.

I have sought to give some informal views on S. 3522. The Department of Agriculture will provide the Committee with a formal report on this bill in the near future.

Senator DIRKSEN. The hearing is adjourned until the hour of 2:30 p.m. That is post meridian.

(Whereupon, at 1:20 p.m., the committee recessed, to reconvene at 2:30 p.m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. The hearing will come to order. Our first witness this afternoon will be Mr. Frank Masterson, of the Industrial Fasteners Institute. Is Mr. Masterson here? We are allowing you 5 minutes, Mr. Masterson, not counting the time that we might want to question you about your presentation.

STATEMENT OF FRANK MASTERSON, PRESIDENT, INDUSTRIAL FASTENERS INSTITUTE, AS PRESENTED BY CHARLES J. WILSON, SECRETARY AND TREASURER, INDUSTRIAL FASTENERS INSTITUTE

Mr. WILSON. Mr. Chairman, my name is Charles J. Wilson. I am the Secretary and Treasurer of the Industrial Fasteners Institute. Frank Masterson is the President of the Industrial Fasteners Institute, and he asked that I present the following comments in his behalf.

The Industrial Fasteners Institute is an association of United States manufacturers of nuts, bolts, screws, rivets, and special formed parts.

The Industrial Fasteners Institute strongly supports Senate Joint Resolution No. 115. We favor the resolution because we think it essential that accurate and comparable import-export statistics be established to measure trade between the United States and other countries. Uniform and compatible statistics are vital so that our international trade negotiations may be conducted on a proper basis and so that our citizens at home will be accurately informed of our trade position.

The official foreign trade statistics currently being published by the Department of Commerce fail to reflect by a substantial margin the true value of imports to the United States. Imports are officially recorded on their foreign value, f.o.b. foreign port of shipment, with the result that freight and insurance charges incurred in transporting the goods to this country are excluded. Yet we believe it essential that transportation and insurance charges be included in order to set a proper and fair value on the imported goods.

Distortions in our foreign trade statistics also appear in the official valuation of exports from the United States. The official export statistics currently being used include exports not made under competitive conditions, such as nonmilitary shipments under title I through IV of Public Law 480, and shipments of agricultural products that are highly subsidized or given away.

The combined effect of both of these practices is that imports are undervalued by an amount estimated to be in excess of $3 billion, and exports are overvalued by an estimated $3 to $4 billion. If proper statistical valuation methods were used, we would find that the United States export trade surplus officially reported since 1960 becomes in fact a trade deficit. We think, therefore, that the asserted trade surplus cannot properly be used to justify further tariff reductions under the pending Kennedy round negotiations. And if the present method of computing our trade statistics is not corrected, false assumptions will continue to underlie the formulation of our tariff and trade policy.

The statistical valuation of our imports and exports was recently considered by the International Affairs Committee of the Institute. By unanimous vote, that Committee adopted a resolution supporting Senate Joint Resolution 115. This Institute resolution expresses the sentiment of our international affairs experts and I respectfully request that a copy of the resolution be made a part of the record here.

Finally, I think it would be helpful for the committee to have before it some figures which show in outline form the size and importance of the industrial fastener industry. I have with me a brief profile of our industry and ask that it be included in the record.

I am grateful to the committee for this opportunity to present the views of the Institute and its members.

(The resolution and the profile referred to follow:)

INDUSTRIAL FASTENER INDUSTRY RESOLUTION

Whereas, the foreign trade statistics which represent the official computations of imports into and exports from the United States should accurately reflect the competitive standing of U.S. producers;

Whereas, the official foreign trade statistics of the Department of Commerce fail to reflect by a substantial margin the value of imports, in that imports into the United States are officially recorded on their foreign value, or f.o.b. foreign port of shipment, thus excluding freight and insurance charges incurred in transporting the goods to this country;

Whereas, the official foreign trade statistics overvalue exports from the United States by a substantial margin, in that such statistics include exports not made under competitive conditions, such as nonmilitary shipments under Titles I through IV of Public Law 480, and shipments of agricultural products that are highly subsidized or given away;

Whereas, imports are undervalued by the statistical methods referred to above by an amount estimated in excess of $3 billion, and exports are overvalued by an estimated $3–4 billion;

Whereas, the officially asserted export trade surplus since 1960 becomes a trade deficit computed in accordance with the principles herein;

Whereas, the asserted trade surplus cannot properly be used to justify further tariff reductions under the pending Kennedy Round negotiations;

Whereas, continuation of the present method of computing our trade statistics would perpetuate false assumptions for the basing of our tariff and trade policy;

Now, therefore, Be It Resolved;

1. That the Industrial Fasteners Institute in its Annual Meeting extend its support to S.J. Res. 115 and H.J. 696 which, if enacted, would require the Departments of Commerce and Treasury to cause their reports on imports to reflect the c.i.f. value or landed cost of the merchandise in the future and to report separately all exports that arise from AID shipments, governmental agricultural subsidies and similar transactions;
2. That this support be made known to the members of the Senate Finance Committee and the members of the House Committee on Ways and Means, and
3. That this Institute recommend to its members active support of the above-cited Resolutions and that they communicate their support to their Members in the House and Senate.

PROFILE OF THE INDUSTRIAL FASTENER INDUSTRY

Government figures from 1963 Census of Manufactures:	
Manufacturing plants	573
Number of jobs	57, 618
Annual commercial shipments	$1, 225, 000, 000
Non Government estimate:	
Annual captive production	$300, 000, 000

More than 53 percent of the total man hours of production in 13 OEM industries are used in the assembly function in the use of nuts, bolts, screws, rivets and assembly methods. This figure is 72 percent in the electronics industry and up to 90 percent in the automotive industry.

The CHAIRMAN. Mr. Wilson, I did not realize that we were talking about such a great distortion. You claim here that the imports here are undervalued by $3 billion, and that our exports are overvalued between $3 and $4 billion.

Mr. WILSON. Yes, sir.

The CHAIRMAN. That is a fantastic adjustment. That would mean, then—or let me ask you this question: Would that mean, then, that you suspect the figures that Treasury gives and that Commerce gives us on trade are out of line by a total of $6 billion?

Mr. WILSON. Yes, sir.

The CHAIRMAN. That is fantastic. So they come and tell us that we have this big surplus, and if you just sit and make the simple adjustments that are in order it would be off that much.

Why do you say the exports are overvalued by $4 billion?

Mr. WILSON. I think, and I certainly do not wish to quote anyone, but I believe, this morning it was brought out that the goods which are brought in or exported under Public Law 480, and essentially are given away, are shown in the export statistics, and if I am not mistaken this morning it was indicated that this difference, broken out, indicated it to be about $3.1 billion.

The CHAIRMAN. Thank you very much, Mr. Wilson. If that is the case, we ought to know it. If it is the case I think we can get that information for you.

Mr. WILSON. Thank you, sir.

The CHAIRMAN. Now, Mr. Bill Jones of the National Livestock Feeders Association.

Do you have a prepared statement, Mr. Jones?

STATEMENT OF B. H. (BILL) JONES, NATIONAL LIVESTOCK FEEDERS ASSOCIATION

Mr. JONES. No, I do not, Mr. Chairman. With your permission, I would like to utilize this time for a brief summary statement, and then file a complete statement for the record.

The CHAIRMAN. Fine. You may do that.

Mr. JONES. My name is——

Mr. CHAIRMAN. If you get it in in time, we will print the statement in the record. We are going to keep this record open until Friday of next week because there are quite a few other people who have asked to put their statements in the record.

Go ahead.

Mr. JONES. Thank you. My name is B. H. (Bill) Jones. I am secretary and trustee of the National Livestock Feeders Association, with headquarters in Omaha, Nebr.

We firmly support the intent of Senate Joint Resolution 115, and S. 3522.

S. 3522, of course, applies only to agriculture, and is more fully comprehensive with respect to agriculture, but we do think the entire foreign trade area needs clarification.

We would like to see the provisions in the bill which provide for coordination with interested organizations in the administration of the act retained in final form.

When the committee took on the job a couple of years ago of determining the true situation with respect to meat and animal products, the chairman, I know, will recall the frustration which existed with respect to import figures. There were at least four or five sources of published data, and it was impossible to reconcile these, and it was impossible also to make meaningful breakdowns.

The committee's work contributed to the solution of this problem of different sources, and the committee is in a position now, we feel, to contribute toward clarifying the U.S. agriculture's competitive position in foreign trade, and toward bringing about improvement in the compilation and distribution of trade data and statistics by

(1) calling for a clean and distinct separation of exports for dollars for movements under Government-financed programs and under export payments, and (2) for calculation of imports on the same basis as other trading nations.

We were greatly concerned for some time about the manner in which the volume and the value of agricultural exports and imports had been reported to policymakers and for public consumption. We were encouraged, and heartily endorse the knowledgable comments made by Senators Dirksen and Sparkman with respect to the need for refinement and clarification of import and export figures.

As the members of this committee know, the method used by the United States in recording import value differs from that used by other major trading nations, and since this has been covered to a great extent this morning, Mr. Chairman, why, I shall not go further on that subject.

With respect to the use of total export figures, however, I would like to spend some little time. The United States position in agricultural trade has been seriously distorted through the use of the figure designated as total exports, and in using this in direct comparison to imports to figure agriculture's balance and to indicate our competitive position in world trade.

The total figure has been, and still is, widely used and publicized by the Secretary of Agriculture and others without any explanation whatsoever of what it includes.

There have been numerous features and press releases of this nature, a very recent one being a release dated August 19, just this month, 1966, which I shall attach to the statement submitted for the record.

Failure to explain the total export figure has led to false conclusions that the United States has enjoyed a favorable balance of trade for some years. This and other impressive and easily presented statements, such as the production of 1 acre out of every 4 harvested is exported, exports account for 16 to 17 percent of the total cash receipts from foreign marketings, and the like, we feel, are seriously misleading and inaccurate in the real world of foreign trade.

The CHAIRMAN. May I just say by way of agreeing with you as far as our own domestic economy is concerned, this food that we are giving away, and these other giveaway commodities, would have about the same impact on our economy as if we just dumped them into the ocean. Would you agree with that? It is a fine thing to do, and I suppose those people are hungry, but we just got through giving away hundreds of millions of dollars of grain to India.

Now, as far as the American economy is concerned, it would have had the same effect as if we just dumped it into the ocean, would it not?

Mr. JONES. Yes, Mr. Chairman. The fact of the business is——

The CHAIRMAN. Of course, the Indians need it, I understand that. But as far as what it does to our economy when somebody comes to us and says, "Look at the wonderful trade balance we have," and counts that as trade, he might as well just count it as an item dumped in the ocean.

Mr. JONES. We would heartily agree with you, Mr. Chairman, and we would again say when a businessman gives a gift or something to someone he does not credit it to the income side of his ledger. This is what we do on this type of shipment.

The CHAIRMAN. Yes, sir.

Mr. JONES. When we say as a result of not learning this whole truth that agricultural producers, industry leaders and Government officials have reached a false and favorable conclusion as to the proportion of trade, we are not playing it down, but we would like to have it accurately portrayed in the public press, particularly.

Now, if we refer back to the August 19 release which I mentioned, it announces an increase in agricultural exports for the fiscal year of 1966, and it contains the usual statements which set forth a very enviable picture for United States agriculture.

Anyone reading and taking the release at face value would conclude that United States agriculture is indeed in an excellent position. Details are not yet available on shipments on the various forms of assistance, but if we subtract out only the commodities which normally move under export payments, we immediately reduce the total figure of $6.7 billion quoted in the release to $4.5 billion, which is the equivalent of our imports for fiscal 1966.

Then, if we apply a c.i.f. figure of the global average of 17½ percent, as we have been given, we wind up with an $800 million deficit actually, and this does not include all of the products given away and donated on the various Government-financed programs.

If we go back to fiscal 1965, for which we do have more adequate figures, we see a great disparity in the total export figure.

Let us just look at that, and we can dig out at least complete figures here. If we subtract the Government-financed programs and the movement under export payments, and here there might be some argument as to whether you should subtract these out or not, as to how much would move without the export payment and how much would not, all we are saying is that it did not move without the export payment. We are not arguing about how much it would have moved if the export payment had not been applied.

If we do this, we wind up with $621 million as a deficit, a $621 million deficit, in agriculture, rather than the claimed $2 billion excess or overage.

Then, if we apply c.i.f. to this of 17½ percent, we come up with the almost unbelievable figure of $1.3 billion deficit in fiscal 1965 instead of the claimed $2 billion overage.

Now, it is true that the Department of Agriculture is not breaking down exports, and we commend the men who are working in this area for what they are doing. But the information is far from being in the form readily available and usable by Congress and others, and I think the Senators would back us up on this. In fact, the layman or the uninformed professional will not be able to properly interpret the figures, and the material supplied to the news media, and this is our source of great contention, is highly misleading from its lack of completeness and proper explanation.

With respect to livestock and meat specifically, we would like to see the publicized breakdown include the figures called for under the new import law, Public Law 88–482.

With that, Mr. Chairman, we respectfully urge favorable consideration by the committee of these proposed measures.

The CHAIRMAN. May I say, Mr. Jones, when I was a freshman Senator around here, before I came on this committee, I thought I would make a speech about foreign trade and what a fine thing it was. After all, we had the port of New Orleans right there in Louisiana, and all the New Orleans people who make money out of trade, of course, are strong for it, as they well should be.

I sent for the figures, and I regret to say that if you go and read that speech I made and see all those lovely figures I put in the record, it would imply that this was just lovely. I regret to find how erroneous those figures were, based on what you say, because I think you are right about it. I believe those figures were very, very misleading. I thought enough of that speech to mail it out. I regret that I am so badly misinformed publicly about this tremendous favorable balance we had when, in fact, it was subject to all these discounts we were talking about.

Mr. JONES. Mr. Chairman, we do not wish to play down at all the importance of trade. We are interested in seeing it expanded, but we are interested in seeing our policy decisions and the industry have figures that are properly explained so that they know on what basis these decisions are made.

The CHAIRMAN. You just do not like for people to push you around and give you a lot of hurrah, which is not correct. You would like to know what the facts are.

Mr. JONES. Yes, sir.

The CHAIRMAN. And, frankly, I think you are right. I believe our committee needs to know that, and having heard your testimony and some others, I am determined that we are going to get the real figures, and if not the precise figures, we will get an estimate close enough so we can know about where it is. I will cooperate with you in helping to clear up the kind of misinformation that I helped to spread around about 10 years ago myself, not knowing any better.

Mr. JONES. Thank you, Mr. Chairman. We are particularly concerned about the information that is made available in the form it is made available to the press because this is where, after all, most of us get the information that we need, and that we——

The CHAIRMAN. Here is the kind of misinformation people get. I do not agree with the Wall Street Journal on some of their editorial policies, but I would say they have very fine reporters down here, and when they are talking about what is going on, their reporters are about as good as any; in fact, I think in some respects they are even better.

Here is a Wall Street Journal staff reporter writing a story saying:

> The U.S. trade surplus narrowed in July as imports rose .3 per cent while exports fell one per cent from the preceding month, the Commerce Department said.
>
> Imports for July climbed to a seasonally adjusted $2,206,800,000 from June's $2,114,900,000. Seasonally adjusted exports declined to $2,460,400,000 from $2,485,800,000.

After building up this committee for what used to be great big figures, then it says:

> For the latest four months, imports have run at an adjusted annual rate of $25,590,000,000, about eight per cent above the pace of the preceding four-month period. The adjusted annual rate of exports in the last four months has been $28,925,000,000, about one per cent higher than the rate for the earlier period.
>
> Thus the four-month $3,335,000,000 surplus at an annual rate was down from the $4,921,000,000 rate of the four preceding months.
>
> The export figures don't include shipments under the Defense Department's Military-Assistance Program that amounted to $99,900,000,000 in July.

Well, when they make that statement you would be led to believe that is taking out this particular thing that should not be considered.

All you are saying is that, as I take it, you did not have any surplus of $3,325 million. If you include insurance and you include the freight, ocean freight, and you take out the giveaways, you might wind up on the minus side instead of on the plus side. That is what you are saying.

Mr. JONES. Yes, sir.

The CHAIRMAN. And somebody is debating, quarreling with you, about what the trade policy will be, so you would like to get the correct figures so that you would not be shot at with a $3 billion surplus, but with a deficit.

Mr. JONES. We would also like to have our negotiators clearly informed on this, as well.

The CHAIRMAN. I hope we can get some information. We are sending one of our Senators over there to consult with those fellows. We send a Senator over there from time to time, and I would suggest that some of you fellows make a point to talk to Senator Hartke. Be sure he understands this, because he is going to make a trip over there soon. We are going to be sending others, and we would like for them to know what they are talking about so that when they negotiate they will come up with the right answer.

Mr. JONES. I will be sure to send him a copy of our statement, sir.

The CHAIRMAN. Fine. Thank you so much, Mr. Jones.

(The prepared statement of Mr. Jones follows:)

STATEMENT OF THE NATIONAL LIVESTOCK FEEDERS ASSOCIATION BY B. H. JONES, ASSOCIATE SECRETARY-TREASURER

The National Livestock Feeders Association is a voluntary, non-profit, non-political trade organization of persons engaged in the business of feeding and finishing livestock for the slaughter market. Membership exists in twenty-three states, with major concentration in the North Central States. There are nearly one hundred State and Local Livestock Feeders Associations affiliated with the National Association.

THE NATIONAL LIVESTOCK FEEDERS ASSOCIATION FIRMLY SUPPORTS THE INTENT OF S. J. RES. 115 AND S. 3522

S. 3522, in contrast to S. J. Res. 115, applies only to Agriculture, and is, therefore, more comprehensive with respect to Agriculture specifically. No doubt, the entire foreign trade area is in need of clarification. We would like to see the provisions in the Bill (S. 3522), which provide for coordination with interested organizations in the administration of the Act, retained in the final version.

When this Committee took on the job a couple of years ago of determining the true situation with respect to meat and meat-product imports, the members of the Committee will recall the frustration which existed with respect to the import figures. There were at least four to five sources of published data, which were impossible to reconcile, and from which it was difficult to make meaningful breakdowns.

The Committee's work contributed to the solution of the problem of several different sources of data; and now, the Committee is in a position to contribute toward the clarification of U.S. Agriculture's competitive position in foreign trade, and toward bringing about improvement in the compilation and distribution of trade data and statistics by calling for:

(1) A clear and distinct separation of exports for dollars from movement under Government-financed programs and under export payments; and

(2) Calculation of imports on the same basis as used by most other trading nations.

We have been grossly concerned for some time about the manner in which the volume and the value of agricultural imports and exports have been reported to policy-makers and for public consumption. We were encouraged by, and heartily endorse, the knowledgeable comments made by Senators Dirksen and Sparkman with respect to the need for refinement and clarification of import and export figures.

There are two main sources of distortion in the data and statistics readily available to policy-makers, to industry, and to the public in general:

(1) Non-comparability of data which results from the use of a different method for recording and reporting import value than that used by most other major trading nations of the world; and

(2) The unqualified use of the term "exports" to cover all commodity and product movement from our shores, without adequate explanation as to what the total figure includes—as the sponsors of the measures under consideration have stated, these figures should not be accepted without qualification.

Non-Comparability of Import Value.—As the members of this Committee know, the method used by the United States in recording and reporting import value differs from that used by most other major trading nations of the world; and, therefore, the United States balance-of-trade figures are not comparable to those calculated by most other major trading countries. This leads to false conclusions as to the position of the United States relative to other nations.

Surely, the c.i.f. data should be made available to the Congress and to others charged with policy-making in the foreign trade area and for general distribution to the industries and the public; and a uniform system should be established among countries to hold misinterpretation to a minimum, and to give as true a picture as possible of the relative trading positions of various nations.

Use of Total "Export" Figure.—The position of the United States in agricultural trade has been seriously distorted through the use of the figure designated as total exports—using this in direct comparison to the value of imports to calculate Agriculture's balance of trade and to indicate the competitive position of the United States in agricultural trade.

The total figure has been, and still is, widely used and publicized by the Secretary of Agriculture and others without proper explanation of what it includes. There have been numerous speeches and press releases of this nature; a very, recent example is the U.S. Department of Agriculture release dated August 19 1966, a copy of which is attached to this statement.

Failure to explain the total export figure has led to the false conclusion that U.S. Agriculture has enjoyed a favorable balance of (competitive) trade for some years. This and other impressive and easily-remembered statements, such as: "the production of one acre out of every four harvested is produced for export"; "exports account for 17% of the total cash receipts from U.S. farm marketings"; "three-fourths of the U.S. agricultural exports are now dollar-earning commercial sales"; and the like are seriously misleading and highly inaccurate in the "real world" of foreign trade in agricultural products. Please note the play on words in the use of "dollar-earning"—not dollar sales—and the term "commercial sales", which also includes products moving under export payments.

When a businessman donates to a charitable cause, he does not enter the amount of that contribution in the income side of his ledger; yet, this is exactly what the U.S. Government does in the case of certain agricultural shipments abroad. For example, we give away a boatload of wheat, ship it to a foreign country, and then credit its value to the credit side of the U.S. balance for Agriculture.

As a result of not being made aware of the "whole truth," agricultural producers, industry leaders and Government officials have reached a false and inflated conclusion of the importance of foreign trade to the health of U.S. Agriculture.

Referring back to the U.S. Department of Agriculture release dated August 19, 1966, previously mentioned: the release announced an increase in agricultural exports for fiscal 1966. It contains the usual statements setting forth a very enviable picture for U.S. Agriculture. Anyone reading and taking the release at its face value would conclude that we are indeed in an excellent competitive position. In fact, the release would seem to be solely for this purpose, rather than setting forth in a clear and concise manner the facts as they stand.

Details for fiscal 1966 on shipments under various forms of assistance are not yet available to us; however, if we subtract the commodities which normally move under export payments (wheat, cotton, rice, and dairy), we immediately reduce the total figure of $6.7 billion, quoted in the release, down to $4.5 billion—the equivalent of agricultural imports for fiscal 1966. Then, if we proceed to figure import value by including c.i.f., as nearly all other major trading nations do, we end up with an $800 million deficit—and this does not allow for all of the Government-financed movement—rather than the claimed $2.2 billion excess under imports. (The estimated overage needed to cover c.i.f. was calculated at the 17.5% global average set forth in the statements which accompanied the introduction of S.J. Res. 115.)

To give the Committee an example of the great disparity in the picture painted for Agriculture by the use of the total export figure, let us look at fiscal 1965, for which we can search out rather complete (revised) figures. A total export figure of $6.1 billion was used and published for agricultural exports. This was compared to imports for consumption (not including durable goods made from agricultural products) of $4 billion. A closer look at the $6.1 billion figure, however, reveals that nearly $1.7 billion moved under Government-financed programs and that over $1 billion of the sales designated as commercial sales for dollars moved with aid of export payments—making a total of $2.7 billion and leaving only $3.4 billion of exports which moved with no Government assistance. This figure compared to agricultural imports, leaves a deficit of around $600 million.

To go one step further, applying 17.5% c.i.f. to the import figure of $4 billion, adds $700 million and leaves a deficit in agricultural trade of $1.3 billion, rather than the claimed $2 billion favorable balance for U.S. Agriculture.

It can be argued, of course, that at least some of the so-called commercial sales which moved with the help of export payments would have been consummated in the absence of such assistance. We readily concede this; all we are saying is that this volume, in fact, *did not* move without export help and this should be made clear in any reference to agricultural exports.

It is true that the Department of Agriculture is currently breaking down exports into several categories, and we highly commend those who were conscientiously engaged in this work for the job being done. The fact still remains, however, that the information is not being furnished in a readily available and usable form to Congress and others. The layman and the uninformed professional will find it difficult to properly interpret the published figures.

And the material being supplied to the news media is highly misleading from lack of proper explanation and from improper emphasis on the total export figure.

With respect to livestock and meat, specifically, we would like to see the published breakdown include the figures called for under the Meat Import Law (Public Law 88-482), or at least the basic figures from which these can be calculated.

Favorable Committee Action.—We respectfully urge the Committee to favorably consider the proposed measures.

[Exact copy]

UNITED STATES DEPARTMENT OF AGRICULTURE,
Washington, August 19, 1966.

(For release Sunday, Aug. 21)

Agricultural Exports Set Record; Help Balance of Payments:

Secretary of Agriculture Orville L. Freeman announced today that United States agricultural exports climbed to an all-time high of $6.7 billion in the fiscal year that ended June 30.

The Secretary said the increase of more than $600 million—all of it in commercial dollar-earning exports—was helpful to the U.S. balance of payments. Farm exports in fiscal year 1965, at $6.1 billion, also were a record.

Commercial agricultural exports in the most recent fiscal year were twice the size of competitive agricultural imports. On an over-all basis, total agricultural exports were $2.2 billion larger than total agricultural imports.

The 3 U.S. farm products in greatest demand by foreign consumers were wheat, feed grains, and oilseeds, principally soybeans. Record exports of each in the 1966 fiscal year exceeded $1 billion. Actual exports were:

Wheat and flour, $1,403 million, up 13 percent from the previous year.
Feed grains, $1,351 million, up 44 percent.
Oilseeds and products, $1,224 million, up 10 percent.

Secretary Freeman cited the teamwork of the Department of Agriculture and 46 private trade cooperators whose sales promotion efforts in 71 countries were an important factor in establishing the new export record. This promotional effort showed up not only in increased sales of wheat, feed grains, and soybeans but also in larger dollar-earning exports of hides and skins, fruits, vegetables, rice, poultry meats, and meat and meat products.

Three-fourths of U.S. agricultural exports are now dollar-earning commercial sales; one-fourth are concessional type exports under the Food for Peace program. Commercial exports rose nearly $700 million in the 1966 fiscal year to a $5.1 billion total. The dramatic growth in these exports is shown by comparisons with previous years: $4.4 billion in fiscal 1965, $3.5 billion in fiscal 1963, $2.5 billion in fiscal 1959.

Japan continued to be the largest foreign buyer of U.S. farm products—$914 million in the year just ended. Japan, in recent years, has been increasing such buying an average of 16 percent a year and soon may become U.S. agriculture's first billion-dollar customer.

Other members of the Big Ten cash buyers of U.S. farm products in fiscal 1966 were: Netherlands, $515 million; Canada, $482 million; West Germany, $476 million; United Kingdom, $435 million; Italy, $277 million; Spain, $201 million; Belgium-Luxembourg, $183 million; France, $142 million; Denmark, $85 million.

Food for Peace exports continued in fiscal 1966 to avert hunger and support economic development in a number of less-developed countries. Such Government program shipments totaled $1.6 billion, compared with $1.7 billion the previous year. Wheat was the leading product shipped, with food-short India alone receiving 262 million bushels.

U.S. agricultural exports have been built to a point where 1 acre out of every 4 of U.S. cropland now produces for export (78 million acres). American farmers are exporting over half their production of wheat, rice, hides and skins, and dried edible peas; over one-third of their soybeans, hops, tallow, grain sorghums, nonfat dry milk, and prunes; one-fourth of their production of tobacco and raisins, and one-fifth of dried whole milk, cotton and lemons.

U.S. farmers, the Secretary of Agriculture said, have become the world's biggest exporters. They supply over 20 percent of world agricultural trade. They get one-sixth of their income from exports.

The impact of this big export movement is felt both on farms and in cities. Hundreds of thousands of wage and salary earners make their living by backstopping U.S. agricultural production and exporting operations.

The CHAIRMAN. The next witness is Mr. William Stoeffhaas of the Bicycle Manufacturers Association.

If you will wait just a moment, I am going to read your statement, and I will then let you summarize it.

If we cannot get the executive branch to give us the proper figures to put this thing in perspective, I am going to have this committee do it. We will just do it for them if they won't do it, because these figures ought to be there.

If you want to go ahead and summarize this statement, you may do so.

STATEMENT OF WILLIAM F. STOEFFHAAS, CHAIRMAN, TARIFF COMMITTEE, BICYCLE MANUFACTURERS ASSOCIATION, INC.

Mr. STOEFFHAAS. My name is William F. Stoeffhaas. I am chairman of the Tariff Committee of the Bicycle Manufacturers Association, Inc., and also chairman of the board of Arnold, Schwinn & Co of Chicago, Ill.

Our association is composed of American bicycle manufacturers who account for more than 95 percent of the bicycles produced in this country.

Our industry has been badly hurt by low-priced bicycles imported from other countries in the past, and in recent years have yielded over 20 percent of our domestic market to these foreign imports, despite modernization of our industry and introduction of the latest techniques of bicycle manufacturing.

Further, it should be noted that 6.7 percent of bicycles being imported into the United States are coming in from Iron Curtain countries under Communist rule and there is every indication that this will increase in the future. Also, if the English pound is devalued again, as many think it will be, this will have a direct impact on the American bicycle industry by substantially increasing imports of foreign made bicycles into the United States as it did the last time the pound was devalued.

Therefore, we are deeply concerned that statistics compiled by the U.S. Department of Commerce accurately portray our trade balance. This is important to our membership because these statistics provide the basis upon which the executive departments of Government and the Congress evaluate the competitive standing of the United States in world trade and make policy decisions in this area. For example, concessions are more likely to be made by our representatives at international trade conferences such as GATT if they are led to believe that we have, as a nation, a rosy trade surplus rather than no surplus at all.

The statistics currently tabulated by the U.S. Department of Commerce are misleading in that they fail to include the cost of freight and insurance in evaluating imports and they also fail to separate out goods shipped abroad under governmental programs in valuing exports.

In 1965, the Department of Commerce reported exports of merchandise from the United States at $26.56 billion, against imports of $21.36 billion for the same period. This rosy apparent trade surplus of $5 billion, which would be erased by proper reporting, has resulted in little attention and consideration being given to injurious imports of various commodities from abroad.

Our official trade statistics have portrayed a handsome export surplus ranging annually from $4.5 to $6.7 billion over the past 4 or 5 years. Much of this trade surplus would be erased except for the failure of our official statistics to include ocean freight and marine insurance (cost, insurance, and freight) in calculating the dollar value of imports into the United States.

The cost at foreign shipping point, used by our official statistical reports (f.o.b.) is not the real cost; and very few other countries report their imports on the basis of foreign value, as we do. This hurts our industry particularly since bicycles are being imported in large quantities from Japan, West Germany, Great Britain, and other countries at great distances where freight and insurance constitute a substantial dollar amount. If freight and insurance were added to the current bicycle import dollar figures, the impact would be very substantial in increasing those figures. We feel that freight and insurance are a part of the cost of our imports and should be handled that way statistically. In 1965, for example, this resulted in an understatement of U.S. imports by some $3.7 billion.

It is suspected that the principal objection to the c.i.f. basis of reporting lies in the repercussions that might be expected to follow. The Department of Commerce could no longer issue glowing reports on the health of this country's foreign trade and its competitive standing in world markets. Such reports have been used in the past in support of arguments that our foreign trade policy has been highly successful and that our tariffs can safely be further reduced drastically without fear of serious economic consequences.

There is a second major distortion in our trade statistics because these statistics presently include all shipments (except military) made under AID programs as well as the exports of highly subsidized farm products such as wheat and cotton. If such shipments, estimated at $3.5 billion, are added to the $3.7 billion cited above to account for freight and insurance, a distortion of $7.2 billion in our 1965 trade picture is introduced. Thus, instead of a $5.2 billion trade surplus, we have a $2 billion trade deficit for 1965.

The obvious remedy is to report our imports on a c.i.f. basis and exclude from our exports the goods that we ship abroad under governmental programs. We strongly support Senate Joint Resolution 115 introduced by Senator Dirksen on October 7, 1965, to achieve this result. The purpose of the resolution is not to change radically the methods of collecting statistics on our trade, but to provide industry, Government, and the public with statistics which will meaningfully reflect the true competitive position of the United States in international trade.

We submit that the present method of reporting statistics results in significant distortion of our trade balance and competitive position. We submit, further, that these distortions have had the effect of influencing our national trade policy.

If American industry is shown to not be in a favorable position either with respect to imports coming into this country or in competing for markets abroad, the economic feasibility of further tariff reductions should be seriously questioned. As we pointed out earlier, our industry has relinquished over 20 percent of its domestic market and we find it extremely difficult to compete abroad against low-priced foreign bicycles. Our exports of bicycles to foreign countries are almost nonexistent.

We ask that Senate Joint Resolution 115 be adopted so that realistic statistics are available to guide our national trade policy in the future.

Thank you for allowing us this opportunity to present our views.

The CHAIRMAN. Thank you very much, sir.

The next witness is Mr. J. O. Hendrickson of the Cast Iron Soil Pipe Institute.

STATEMENT OF JEROME O. HENDRICKSON, EXECUTIVE VICE PRESIDENT, CAST IRON SOIL PIPE INSTITUTE

Mr. HENDRICKSON. Mr. Chairman and members of the committee, my name is Jerome Hendrickson. I am executive vice president of the Cast Iron Soil Pipe Institute, 1824–26 Jefferson Place, NW., Washington, D.C.

The Cast Iron Soil Pipe Institute is a national trade association. It represents 21 members of which produce about 95 percent of all the cast iron soil pipe and fittings manufactured in the United States. Approximately half of its members are classed by Government standards as small business.

On March 9 and 10, 1966, at the Sheraton-Dallas Hotel in Dallas, Tex., the Cast Iron Soil Pipe Institute passed unanimously at its regularly constituted meeting the following resolution:

Whereas, the foreign trade statistics issued by the Department of Commerce, which represents the official computations of our imports and exports, fail to reflect the full cost of our imports by a wide margin, on the one hand, and overstate our exports by inclusion of Foreign Aid and similar noncompetitive shipments abroad, on the other;

Whereas, these practices have the effect of grossly exaggerating the competitive standing of private American exporters in foreign markets, leading to official claims of large annual export surpluses, ranging since 1960 from $4.5 billion to $6.7 billion;

Whereas, these surpluses were achieved by the statistical operation recited above whereby (1) our imports are officially recorded on their foreign value, or f.o.b., foreign port of shipment, thus excluding freight and insurance charges incurred in transporting the goods to this country, thus undervaluing imports some $3 billion, and (2) our exports include all non-Military AID shipments, such as agricultural products sold for foreign currencies, under Food for Peace program, or given away, and other transactions that do not reflect competitive advantages;

Whereas, the discrepancy is so broad that proper valuation of our imports by inclusion of shipping costs, and stripping our exports of subsidized and giveaway shipments, would convert the so-called export surplus into a deficit;

Whereas, the proposed 50 per cent tariff reduction under the Kennedy Round is justified by our supposed handsome export surplus, as reflecting a strong competitive position in world markets which in fact, with the exception of very few products, does not exist;

Whereas, continuation of the present method of computing our trade statistics would perpetuate false assumption for the basing of our tariff and trade policy: Now, therefore, be it

Resolved, That the Cast Iron Soil Pipe Institute in its regular meeting held March 9 and 10, 1966, in Dallas, Texas, extend its support to S.J. Res. 115 and H.J. Res. 696 which, if enacted, would require the Departments of Commerce and Treasury to cause their reports on imports to reflect the CIF value or landed cost of the merchandise in the future and to report separately all exports that arise from AID shipments, governmental agricultural subsidies and similar transactions.

In addition, Mr. Chairman, I wear a second hat. I am the secretary of the National Conference of the Plumbing-Heating-Cooling Industry. The national conference is an organization of the leading trade association executives who represent all segments of the plumbing, heating, and cooling industry.

On May 5, 1966, the national conference held its annual meeting at the Madison Hotel in Washington, D.C. At this meeting, the following resolution was passed with no dissent:

Whereas, the official trade statistics published by the Department of Commerce have produced a false impression of the competitive strength of this Country in foreign markets and of the ability of domestic industries to withstand import competition within this Country, because, on the one hand, imports have been systematically undervalued, and on the other, exports exaggerated by inclusion of AID and subsidized shipments to foreign countries;

Whereas, the undervaluation of imports arises from the use f.o.b., foreign points of shipment, as the basis of valuation, while ocean freight and insurance charges are omitted, thus undervaluing the actual costs of imports some 15 per cent to 20 per cent;

Whereas, a correct valuation of imports and the separation of AID and other governmentally assisted exports from competitive exports would reflect our true competitive situation in the world, this being a deficit rather than a surplus position in point of trade balance;

Whereas, S.J. Resolution 115 and H.J. Resolution 696 would correct the misleading reports hereinabove referred to: Now, therefore, be it

Resolved, That the National Conference of the Plumbing-Heating-Cooling Industry in its annual meeting held May 5, 1966, in Washington, D.C., declare to support S.J. Resolution 115 and H.J. Resolution 696 and make known this support to the appropriate members of the House and the Senate of the United States.

Speaking both for the Cast Iron Soil Pipe Institute and the National Conference of the Plumbing-Heating-Cooling Industry, I wish to state that we are vitally interested in the foreign trade policy of this country and particularly in the policy adopted toward tariff reduction. Our products are subject to strong import competition and the more we are exposed to it because of further tariff reductions, the more difficult become our operations on a profitable basis.

Foreign trade policy is necessarily guided by the present overall state of our export-import balance. If this is favorable, the inclination will be to cut the tariff on the grounds that our industries are in a strong competitive position.

If this favorable balance is a false one, if it is greatly exaggerated because of unsound statistical practices, the policy based on it will be misguided. We simply ask that our import-export statistics faithfully reflect the actual competitive position of this country, not only in world markets, but also in this country in the face of imports.

Thank you for this opportunity to present our views on Senate Joint Resolution 115.

In summary, I would just like to say one thing. We simply ask that our import-export statistics faithfully reflect the actual competitive position of this country, in the face of imports.

The CHAIRMAN. Thank you very much.

Mr. HENDRICKSON. Thank you very much.

The CHAIRMAN. Mr. J. H. Hume here? Mr. Hume had asked to testify, and if he wants to submit a statement we will print it later, but apparently he is not here.

Mr. Clark Wilson, is he here?

Mr. STRACKBEIN. Just a second, Mr. Chairman. My name is Strackbein, and I have a telegram from Mr. Hume. I have it with me, in which he simply asked me to state their support of Senate Joint Resolution 115 without his actually making a statement.

The CHAIRMAN. Fine. Mr. Strackbein, if Mr. Hume wants to send us a written statement on behalf of his group, why, we will, of course, be glad to have it. We will print it in the record, and we will keep the record open until Friday of next week for that purpose.

Mr. STRACKBEIN. Thank you.

The CHAIRMAN. Is Mr. Clark L. Wilson here?

Mr. WILSON. Yes, sir.

The CHAIRMAN. I read your statement, Mr. Wilson, and I would appreciate your summarizing it. It is a good statement.

STATEMENT OF CLARK L. WILSON, CHAIRMAN, LEAD-ZINC PRODUCERS COMMITTEE

Mr. WILSON. Mr. Chairman, I appear as the representative of the domestic Lead-Zinc Producers Committee, representing practically all of the domestic zinc mining industry in the United States, and in addition, a good portion of the lead and zinc smelting operations here in the United States.

We appear in support of the Resolution 115, as indicated in my statement. We hope to same day appear before you on a real personal basis for some work that will be——

The CHAIRMAN. I think you might have one error in your statement and I want to ask you if this is not an error. You say here in the middle of your fifth paragraph that Governor Herter said that:

> Our exports exceed our imports by roughly $5 million which is persuasive evidence that our producers, if given access to markets overseas, can successfully compete to a very healthy degree.

Shouldn't that figure be $5 billion?

Mr. WILSON. That is absolutely correct.

The CHAIRMAN. We will correct that, then.

Mr. WILSON. I appreciate your calling my attention to it.

In summary, I would say, Mr. Chairman, that our industry has had long years of trouble with import competition, and we feel that incorrect reporting tends to increase these troubles.

We support 115 because we believe it would call the attention of the Government, as well as industry, to specific problems of specific industries, and in so doing bring about a healthier domestic industry, and particularly many natural resource industries in the United States.

I believe the statement details out particular interest in this, and unless you have further questions I will submit it.

The CHAIRMAN. Let me just get this straight with you in what you say over here on your second to the last paragraph. You say that, in the second to the last paragraph, you say, that by leaving out the— that by at least declaring value on f.o.b. basis they make these lead imports appear to be $214 million.

Mr. WILSON. Again, I should have—this is million, that is correct.

The CHAIRMAN. Pardon me?

Mr. WILSON. $214 million.

The CHAIRMAN. That is right.

Mr. WILSON. That is the correct figure.

The CHAIRMAN. But if you make them add the——

Mr. WILSON. Ten percent.

The CHAIRMAN (continuing). Ten percent, then it goes up to about $235 million.

Mr. WILSON. That is correct.

The CHAIRMAN. So that that works out to about $235 a ton.

Mr. WILSON. Yes, sir.

The CHAIRMAN. As I understand it, you say that our production cost here is about $280 per ton.

Mr. WILSON. What I meant, Senator, is take our domestic prices and compare the same tonnage at a domestic price valuation showing that we also have——

The CHAIRMAN. You do not mean $214 million and $235 million, you mean $214 a ton, I take it.

Mr. WILSON. No, sir. The total imports were $214 million.

The CHAIRMAN. I see, yes.

Mr. WILSON. And this converts to about $235 per ton. Since there was an amount of 1 million tons of lead and zinc combined imported——

The CHAIRMAN. I see.

Mr. WILSON. What I am saying is that by the time you add insurance, freight, duties, the fact that these things can be produced more cheaply in foreign countries, we are up against a real stiff——

The CHAIRMAN. They can be produced more cheaply, but not much more cheaply, is that the point? They can produce the lead and zinc in foreign countries because of their lower wage rate, but not as much cheaper as they pretend. In other words, the difference is not nearly as much.

Mr. WILSON. They would like our prices over here, Senator.

The CHAIRMAN. I say they like to get our prices in our market. This is what I boil this down to.

Mr. WILSON. Yes.

The CHAIRMAN. But there is not as much disparity and not as much advantage to importing that lead and zinc by making it appear, as using these misleading figures, is what you are saying.

Mr. WILSON. Yes, sir.

The CHAIRMAN. All right. Well, thank you very much, sir.

(The prepared statement of Mr. Wilson follows:)

STATEMENT OF CLARK L. WILSON, CHAIRMAN OF THE LEAD-ZINC PRODUCERS COMMITTEE

I am Clark L. Wilson, Chairman of the Lead-Zinc Producers Committee. Members of the Committee I represent account for at least 90% of the domestic mine production of lead and about 80% of the domestic mine production of zinc. The members of our Committee also refine lead and zinc ores, producing refined lead, slab zinc and some manufactured items.

Mr. Strackbein, Chairman of th Nation-Wide Committee on Export-Import Policy, has properly and correctly called our attention to the fact that there must be a drastic review in the analysis of factors that are basic to the definition of our balance of trade and its use in the formation of a national trade policy.

This was well summarized in the conclusions of his discussion of this matter as printed in the *Congressional Record* of October 7, 1965 in connection with the introduction of S.J. Resolution 115. The Resolution would require that the reports on imports into the United States include the landed value of articles imported; consistent with the current system in reporting imports by nearly all other countries.

We can see no reason whatsoever for "kidding ourselves" that a favorable commercial trade balance exists, when the export-import statistics are not reported on the same basis. It is our understanding that the so-called "commercial export surplus" of 1964 would actually have been a deficit if imports were reported on a c.i.f. basis and subsidized agriculture products were deleted from the list of commercial exports.

If this was "just a statistical exercise," there might be no cause for concern, but this subject of an apparent United States surplus balance of commercial trade is being used as a reason for our participation in the current Geneva negotiations to reduce our import restrictions up to 50%. In April, 1963 before the Chamber of Commerce Governor Herter commented as follows: "Our exports exceed our imports by roughly $5 billion which is persuasive evidence that our producers if given access to markets overseas can successfully compete to a very healthy degree". This certainly is not the case with our industry.

The United States lead-zinc industry is concerned with the general principles and practice of our foreign trade policy as ours is a prime example of a domestic business suffering from chronic import problems. I would like to briefly summarize our import experience as the background for our interest in S.J. Resolution 115.

We have worked for years with the Congress, the Executive Departments and the Tariff Commission to enact legislation that would provide an import control program mutually satisfactory to the domestic producer and consumer, and to the importer. Several members of the Senate Finance Committee are currently active sponsors of legislation that would provide a lead-zinc minerals policy.

We do require substantial imports each year of lead and zinc ores and metal. Our experience has been that whenever a world surplus of these metals exists, the unneeded supplies flood our markets, the prices drop and our mines are forced to cut-back and close. As the cycle of supply and demand reverses, our industry cannot physically reactivate swiftly enough to respond to our needs and at the same time the imported material seeks foreign markets, causing a further aggravation to a tight supply situation. This cycle repeats itself with resulting damage to all facets of the industry. A part of this cycle and the import problem is the increased entry of manufactured lead and zinc items as world metal supplies exceed demand. We know this happens from actual experience, as manufactured items were imported as an "end-run" around the lead-zinc import quota limitations during the period 1958–1965. We appeared before the Tariff Commission and the Trade Information Committee in opposition to inclusion of any lead-zinc items on the list for Geneva negotiations, as any reduction in the duty for any lead-zinc items will be detrimental to our United States industry.

In 1965, imports of unmanufactured and manufactured lead totaled approximately 385,000 tons and for zinc approximately 617,000 tons. This compares with our exports of all products at the rate of 34,000 tons for lead and 18,000 tons for zinc. The imports had a declared f.o.b. value of approximately $214 million and this entry value was understated by approximately 10% raising the total to $235 million. Based on this corrected total, the value of the lead and zinc imported averaged $235 per ton. Our United States average combined market price value for the entry of these lead-zinc products, is estimated at approximately $280 per ton. From these figures I would emphasize the following two points: (1) the disparity in production costs between foreign and domestic operations as illustrated, for example, by foreign wage rates that are a small percentage of ours, does not permit our industry to compete in world trade under normal market conditions, and (2) the statistics of declared entry value do not give the correct import information. One fact is quite apparent; using trade balances, be they correct or incorrect, as an argument to reduce United States import tariffs will not be an incentive worth considering as far as the lead-zinc export trade is concerned.

Mr. Chairman, our industry has been seeking a reasonable solution to equitable sharing of our market since 1950, since we recognize that some imports of unmanufactured lead and zinc are required to serve the United States consumer. However, we must have realistic import controls and correct reporting of the imports that affect our industry. We urge enactment and implementation of S.J. Resolution 115, as an important step in recording and understanding the correct position of our commercial trade balance.

The CHAIRMAN. We will continue these hearings tomorrow, and Mr. Strackbein will be one of our first witnesses when we meet tomorrow.

Thank you very much, gentlemen. The Senate has been very busy today, and it has been difficult to keep Senators in this committee room, but we will see to it that they all know about this, and we look look forward to seeing you tomorrow at 9 o'clock. We will be recessed until 9 o'clock tomorrow morning.

(Whereupon, at 3:40 p.m., the committee recessed, to meet at 9 a.m., on Thursday, September 1, 1966.)

FOREIGN TRADE STATISTICS

THURSDAY, SEPTEMBER 1, 1966

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

The committee met, pursuant to notice, at 9:00 a.m., in room 2221, New Senate Office Building, Senator Clinton P. Anderson, presiding.

Present: Senators Long (chairman), Anderson, and Dirksen.

Senator ANDERSON. The hearing will come to order.

Today we conclude hearings on Senate Joint Resolution 115 and on S. 3522. These measures would provide us with statistical data relating to imports which is not available at the present. Yesterday we heard from Government witnesses. Some of them told us the present system is satisfactory because that is the way balance-of-payments statistics should be kept. That is just fine. The bills before us would not change balance-of-payments statistics. They relate to balance-of-trade statistics. There is a gap in the available material, and we are not being furnished with information which would close this statistical gap.

Today we have witnesses representing both importers and domestic interests. Their testimony will help us view the statistical issue in proper perspective.

Our first witness this morning is Mr. O. R. Strackbein of the Nation-Wide Committee on Import-Export Policy.

You may take a seat and begin your statement, Mr. Strackbein.

STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, I have a statement, a part of which I would like to read into the record.

Senator ANDERSON. The rest of it will be carried in full.

Mr. STRACKBEIN. And the remainder I would like to have in the record.

Senator ANDERSON. You may have your full statement in the record.

Mr. STRACKBEIN. Yes, but I would like to summarize it and go over it.

Senator ANDERSON. Go right ahead.

Mr. STRACKBEIN. First I want to say that this statement is in support of Senate Joint Resolution 115 which calls for modification of the official export and import statistics released periodically by the Department of Commerce.

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The need for the proposed changes is most urgent if the Congress and the public are to be properly informed of the competitive status of American industry and agriculture in world trade.

Present practices in reporting both exports and imports serve to conceal rather than to illuminate the standing of this country's industries and agricultural pursuits in world markets and within this country vis-a-vis imports.

The misleading character of these statistics arises from two principal sources:

1. Our official export statistics include shipments under AID, Public Law 480, as well as so-called commercial exports of wheat, wheat flour, raw cotton and other subsidized agricultural products.
2. Our official import statistics are based on f.o.b. values, foreign point of shipment. Therefore they do not include ocean freight and marine insurance.

The magnitude by which this practice undervalues our imports is under dispute; but it is substantial. Tabulations of trade between this country and Japan, and this country and the United Kingdom indicate a heavy distortion of the balance if the freight and insurance charges on imports are omitted from our statistics; and they are omitted. I should like to present for inclusion in the record an analysis of this trade to show the distorted effect produced by failure of this country to include freight and insurance charges, while both countries do include these charges in their official import statistics.

So at this point if I may, I would like to introduce into the record to follow this statement an analysis of our import and export trade with the two countries mentioned; namely, the United Kingdom and Japan, and the purpose of this is to illustrate what happens as a result of our practice of collecting import and export statistics on one hand and the practice followed by those two countries, I mean, just to illustrate.

When we ship to Japan let us say a billion dollars, just in round numbers, that is our export figure, Japan, when they report their imports from the United States, this comes out at about $1,230 million by virtue of the fact that they do include freight and insurance incurred in shipping from the ports of this country to the ports of entry in Japan.

Now, on the other hand, when Japan ships to us a billion dollars, the same amount as we shipped over there, let us say, just for purposes of illustration, we record the import from Japan at a billion dollars, that is to say, we do not add this ocean freight and iusurance. So that on the face of it, it would appear that we had enjoyed a favorable balance of trade with Japan of about 23 percent or some $230 million. Japan has over the years, until 1965, apparently enjoyed—let me put it the other way: the United States has apparently on the basis of these statistics been enjoying an export surplus in our trade with Japan in recent years until 1965 when even on the basis of current f.o.b. computation, that is, not including the c.i.f. figures on our imports from Japan, we ran a deficit of some $400 million in our trade with Japan.

Now, had the insurance and freight been included in our figures on Japan, this deficit would have been more like $750 million rather than $400 million. But up to last year, it appeared from our statistics and the Japanese statistics that we had been enjoying an export surplus in our trade with Japan, whereas in fact, if we tabulated imports from

Japan on a c.i.f. basis we would have incurred a deficit over a period of 3 or 4 years.

Senator ANDERSON. The committee will be glad to receive those because Senator Dirksen was asking yesterday, if we just took a couple of countries, or one country, you have done a fairly exhaustive job with Japan.

Mr. STRACKBEIN. And I have the same thing with respect to the United Kingdom.

I want to make this further observation. According to the representative of the Department of Commerce who appeared yesterday as a witness, their estimate was that the difference between f.o.b. and c.i.f. range from 8 to 10 percent, and I have concluded it would be nearer 17½ percent, taking these two countries as an example, and arriving at a global figure by giving a weight of zero to Canada and Mexico.

Now, there is quite a difference between 8 to 10 percent and 17½ percent.

I would like to have an explanation from the Departments concerned in this why the differential between f.o.b. and c.i.f. as noted here in our trade with England and Japan. In the case of Japan it was about 22 percent. In the case of England it was about 23 percent.

What else would the British Government or the Japanese Government in computing their imports from the United States, what else would they put in there, what other items besides freight and insurance, that would swell that difference from 10 percent to 22 or 23 percent? There is no explanation that I can see other than that they add freight and insurance and other charges incidential to shipping. Mind you, these statistics that I quote from Japan and England—these statistics are from the official publications of those two countries.

Senator ANDERSON. My attention was just called to the fact the Tariff Commission did list the steel situation as 17 percent which agrees with your figure.

Mr. STRACKBEIN. That comes much closer to my figure. I was going to refer later to a tabulation presented yesterday by the Tariff Commission in which they showed the differential there between f.o.b. and c.i.f. around 16 percent which does come near, but that related only to steel.

Senator ANDERSON. We appreciate your suggestion and there are many questions I assume that will need further answers and the staff will prepare those. Thank you very much for that suggestion.

Mr. STRACKBEIN. Now, then as I say here, the magnitude by which this practice undervalues our imports is under dispute but it is substantial. Tabulations of trade between this country and Japan and this country and the United Kingdom indicate a heavy distortion of the balance if the freight and insurance charges on imports are omitted from our statistics, and they are omitted.

Most countries, it should be added, follow the British and Japanese practice.

Now, comments on the two foregoing points mentioned follow: First, as to the exaggerative effect on our exports produced by inclusion of foreign aid shipments and agricultural exports generated by governmental subsidies extended to certain crops, such as wheat and and cotton, a few comments are in order.

As a measure of competitive standing the need of subsidizing in order to export is a direct demonstration of our inability to compete on the basis of the prevailing domestic prices. Otherwise there would be no need of a subsidy.

With respect to agricultural products—you as a former Secretary of Agriculture, Senator, are certainly familiar with the extent of the subsidization of wheat and cotton to make it possible to meet the world prices on exports from this country—with respect to agricultural products, to repeat, two breakdowns are necessary to arrive at what might be called straight private competitive exports.

First, exports under Public Law 480, food for peace, et cetera, represent one element that should be stripped from the total. When I say should be stripped from the total I mean in order to arrive at the commercial competitive exports.

These exports, that is, those under Public Law 480, and so forth, are paid for wholly or in great part by this country. Second, large volumes of wheat, wheat flour, and cotton are exported through commercial channels, which is to say, outside of foreign aid; but they are subsidized to the point of meeting world prices. Therefore they should not be included in export statistics if these, that is, the export statistics, are to reflect our true competitive standing in world markets for these products.

The fact is that the export figures as presently reported have been used and continue to be used as evidence of our favorable competitive standing. It is this practice that is objectionable; and it cannot be halted so long as the present statistical practices in this field remain unchanged.

Official statistics that lend themselves to misleading public use without the possibility or likelihood of rebuttal because there is no ready access to the underlying facts, are an invitation to misrepresentation. When the statictics are safely used in this fashion to substantiate public policy, or employed advantageously, but unjustifiably, in shaping of great issues, the importance of having at hand statistics that reflect the realities in the case is readily appreciated. The Congress is entitled to them without having to go behind the statistics to test their integrity and validity by time-consuming researches. Official statistics should be above suspicion. The public is even more helpless than the Congress in this respect, I may say the public has no legislative reference service at its beck and call such as the Members of Congress do have.

The public must receive official statistics on faith. Moreover, if the taint of unreliability infects official statistics in a field as important as foreign trade, public confidence in all official statistics will suffer. Without such confidence, good government itself will break down.

We now proceed with an analysis of our export statistics.

Agricultural exports in the year ended June 30, 1965, totaled $6.09 billion. Of this total $1.6 billion were exports under Government-financed programs. Beyond that exports of $1 billion were made "with export payments." The total of these two types of transactions was therefore $2.6 billion. This left $3.5 billion exports in the form of private commercial sales without subsidy. In the same period imports of agricultural products amounted to $3.9 billion, or some $400 million more than our private competitive exports.

Now, Mr. Chairman, I would like to point out that the Department of Agriculture in their publicity lay claim to a rather handsome export surplus but when it is analyzed in this fashion, we see what the surplus consists of. It shrinks.

It is sometimes said that other countries also subsidize their exports. No doubt this is true to a degree, but as for their subsidizing their exports to penetrate this market with coffee or bananas, or with tea, spices, cocoa beans, cane sugar, leaf tobacco, which represent well over half of our agricultural imports, the contention is without substance. I give a citation here as to the source of the statistics I have quoted above and they are found in the "Foreign Agricultural Trade of the United States" published by the U.S. Department of Agriculture, June 1966, table 1, page 7, in the event that anyone wishes to verify the statement.

Exports under AID are, however, not confined to agricultural products. In 1964 nonagricultural merchandise exports financed by U.S. Government grants and capital totaled $1.4 billion. That again is taken from sources of the Department of Agriculture and cited here.

Added to the $2.6 billion of agricultural products that move out under governmental assistance and foreign aid, the total of assisted exports, including the nonagricultural, comes to $4 billion.

It should be said here that the Department of Agriculture has at least produced the statistics necessary to arrive at the foregoing conclusions. The professional staff is to be commended for its integrity. However, once produced, these statistics seem to be carefully disregarded and left buried in obscure publications that for some reason the newspapers also leave unexplored. Official statements emanating from the top officers of the Department are unsullied by the unsavory fact that our competitive commercial exports of agricultural products are at a deficit—even when imports are reported not on their landed value but on their foreign f.o.b. value. Instead, great claims are made about the success of the export efforts of the Department. The public is not sufficiently versed in the underlying facts to question the validity of the exaggerated claims. Therefore false notions about our status in world agricultural trade abound, unjustifiably optimistic and complacent.

Now we may turn to the import side of the equation.

The failure to include freight and insurance in our official tabulation of import values distorts our trade balance by minimizing the cost of imports and therefore swelling our export balance unjustifiably.

To repeat, nearly all other countries do report their imports on the c.i.f. basis; and this serves a better purpose in reflecting the true state of affairs. An example, purely hypothetical, will help to explain this statement. I will not read this, Mr. Chairman, because I covered that verbally at the outset.

Senator ANDERSON. You commented on that previously.

Mr. STRACKBEIN. So we turn to the middle of page 6. Because of this odd practice of ours, Japan is able to say that she imported $230 million more from us than we imported from her; and she can prove it by our official statistics. That $230 million, of course, represents the difference between the $1 billion of our exports to Japan and the way that she computes her imports by including insurance and freight which amount to $200 million.

Senator ANDERSON. If this were properly reported, do you think the million dollars would about balance on both sides?

Mr. STRACKBEIN. No. Actually our exports to Japan last year were $2 billion point some fraction and our imports were $2.4 billion. That is on our basis of computation. As I said before, while that shows a deficit on our part of $400 million, if we included insurance and freight from Japan to the United States, this deficit would be more in the neighborhood of $630 million rather than $400 million.

We are shown as enjoying an export surplus in our trade with Japan. That is up until 1965 it was so shown, even though de facto we were incurring a deficit.

Needless to say such unfounded claims have been made repeatedly not only by Japan in the past but by England and other countries, to whose interest it was to cast this country in the role of an unreconstructed high tariff offender, as a means of obtaining onesided tariff concessions from us in GATT conferences. Our State Department not once to the knowledge of this witness publicly called attention these many years to such statistical sleights of hand.

In 1965 we imported more from Japan than she bought from us even on the distorted basis just explained. Imports from Japan were $2.401 billion while our exports to Japan were $2.041 billion, leaving a deficit of nearly $400 million. Had our imports been reported on a c.i.f. basis, as it should if the actual cost of the imports had been reported, the deficit would have been nearer $750 million I said a minute ago, $630 million. Depending on what figure you use, you see, what percentage you use attributable to freight and insurance. Here I used 15 percent, whereas, actually, I think, according to the statistics that I have offered for the record, it was actually 23 percent. But since that is under dispute, it probably would be better to take the conservative view of it and say it was something along this magnitude.

There are those who say that there is no distortion because we also report our exports on an f.o.b. basis; point of shipment. We do; and it is the proper basis, since the exporters are paid on that basis. By the same token, importers pay on the c.i.f. basis. Their bill, the bill the importer pays, is the landed cost. It is not the f.o.b. price foreign port of shipment. Transportation and insurance companies, foreign or domestic, collect the charges incurred in moving the goods to or from the other countries. However, our exporters do not pay these charges unless they happen to quote a delivered price, but then their net is still the value of the goods at the port of shipment. If the exporter elects to quote a delivered price, that does not enhance his net return on the goods.

However, exporters do not pay these charges while importers do pay these charges as a part of the cost of the goods.

Now, yesterday, one of the witnesses, I think it was from the Department of Commerce, said that if we insist on computing our imports on a c.i.f. basis while we compute our exports on an f.o.b. basis, port of shipment, this would result in an asymmetrical result, unsymmetrical, asymmetrical, meaning the same thing, I presume.

Now, as I see it, that is not the case. We are concerned with establishing the competitive standing of American producers, American manufacturers, in world markets on the one hand, and their standing in the face of imports within this market. Now, when we import goods, the goods do not cost f.o.b. Liverpool or f.o.b. Yokohama. They cost the importer what it takes to lay those goods down in this country. That is what he is out of pocket.

Now, when we ship abroad, the exporter, even though he may quote a delivered price, and I think that is a rather rare practice, his company receives as payment for the goods the price laid down at the port of export.

Senator ANDERSON. Mr. Strackbein, the problem is we have got about seven or eight witnesses. I hope you will more or less summarize the rest of your paper.

Mr. STRACKBEIN. Right. Now, as for the freight and insurance charges, these do show in the balance of payments, of course, and there as to whether they are a credit to us or a debit to us depends on who carries and who insures these imports and exports, and in the transportation, we are running a deficit of about $200 million a year. As you probably are aware, our merchant marine carries only slightly over 8 percent of our total international trade. So in the balance of payments, this figure will show, but we are talking about the balance of trade and trying to arrive at the competitive position of our producers in this country.

Senator ANDERSON. Just summarize if you will.

Mr. STRACKBEIN. Yes. I am looking through here now to see just where I can pick up again.

I arrive at a figure—one was the exaggeration of our exports by inclusion of certain items such as AID which we feel should not be included. We do not say they should not be reported. Of course they should be reported. But there should be a separate report which shows a net, commercial competitive trade. So by subtracting from the exports this figure, I think it was $4 billion, and then adding to the imports to bring them to a c.i.f. basis, we reach the conclusion that the discrepancy is about $7.2 billion instead of an export surplus of $5.2 billion. That is to say, there was a deficit of $2 billion, the difference between the $5.2 billion claimed as a surplus on the one hand and the $7.2 billion distortion in the statistics. So instead of having a surplus in 1965 in our exports of $5.2 billion, we ran a deficit of $2 billion on the basis of private commercial competitive trade.

In 1966 it would appear that the deficit, computed on this basis, would be about $3 billion.

That this country is in fact in a weak competitive position is evidenced by two phenomena.

1. The U.S. share of world exports of manufactured goods has shrunk 20 percent in the past 10 to 12 years. Half of the shrinkage has occurred since 1960. This does not mean an absolute shrinkage; rather it means that other countries have been gaining relentlessly at our expense. Half of the shrinkage has occurred since 1960 and still continues.

2. American investments in other countries have been running at an unprecedented level. This phenomenon of itself is an indication of the strenuous efforts of industry to become competitive in foreign markets by operating from within those countries rather than shipping from this country.

The great exception to our recession as an exporter of manufactured products is found in industrial and electrical machinery and equipment. This is to be expected because our foreign plants draw heavily on American machinery. If machinery were excluded from the statistical calculation our weakness in foreign markets would be greatly accented. In nearly all classifications of finished consumer goods we are in a weak position.

Mr. Chairman, our official trade statistics run the perilous risk of inducing not only complacency and blindness in a matter of great national implications, but lead to the notion that our tariff can safely and beneficially be further reduced under the Kennedy round. This follows from the deceptive notion that we enjoy a handsome export surplus and can well afford a generous sharing of our bounty.

It is an indefensible statistical practice that produces the blinding and misleading effects that are so clearly and obtrusively visible in our official foreign trade reports.

Senate Joint Resolution 115, perhaps modified in some of its aspects to avoid undue cost and labor, would make it possible to read our foreign trade reports without becoming drunk with optimism and being misled onto unfortunate policy trails. No legislative proposal could have a much better reason for early enactment.

That concludes the statement, Mr. Chairman. I thank you for the opportunity to testify.

Senator ANDERSON. Thank you. Be sure to give us that pamphlet on the calculations.

Mr. STRACKBEIN. Yes. May I point out that just now, August 1966, the Office of Overseas Reports, U.S. Department of Commerce, OBR 66–09, table 1, page 3, is an account of the U.S. merchandise trade from 1958 to 1965 and shows export surpluses, 1963, of $5.3 billion, 1965 of $5.2 billion, and no mention whatsoever is made of the basis upon which these surpluses are calculated. In other words, the practice continued in spite of the fact that the Commerce Department has been on notice and has been made aware of the complaints about this kind of report.

Senator ANDERSON. Thank you very much.

(The prepared statement and material submitted by Mr. O. R. Strackbein follows:)

PREPARED STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY

This statement is in support of S.J. Res. 115 which calls for modification of the official export and import statistics released periodically by the Department of Commerce.

The need for the proposed changes is most urgent if the Congress and the public are to be properly informed of the competitive status of American industry and agriculture in world trade.

Present practices in reporting both exports and imports serve to conceal rather than to illuminate the standing of this country's industries and agricultural pursuits in world markets and within this country *vis-a-vis* imports.

This misleading character of these statistics arises from two principal sources:

1. Our official export statistics include shipments under AID, Public Law 480, as well as so-called commercial exports of wheat, wheat flour, raw cotton and other subsidized agricultural products.

2. Our official import statistics are based on f.o.b. values, foreign point of shipment. Therefore they do not include ocean freight and marine insurance.

The magnitude by which this practice undervalues our imports is under dispute; but it is substantial. Tabulations of grade between this country and Japan, and this country and the United Kingdom indicate a heavy distortion of the balance if the freight and insurance charges on imports are omitted from our statistics; and they are omitted. I should like to present for inclusion in the record an analysis of this trade to show the distorted effect produced by failure of this country to include freight and insurance charges, while both countries do include these charges in their official import statistics.

Most countries, it should be added, follow the British and Japanese practice.

Comments on the two foregoing points will follow.

First, as to the exaggerative effect on our exports produced by inclusion of Foreign Aid shipments and agricultural exports generated by governmental subsidies extended to certain crops, such as wheat and cotton, a few comments are in order.

As a measure of competitive standing the need of subsidizing in order to export is a direct demonstration of our inability to compete on the basis of the prevailing domestic prices. Otherwise there would be no need of a subsidy.

With respect to agricultural products two breakdowns are necessary to arrive at what might be called straight private competitive exports. First, exports under P.L. 480, Food for Peace, etc., represent one element that should be stripped from the total. These exports are paid for wholly or in great part by this country. Second, large volumes of wheat, wheat flour and cotton are exported through commercial channels, which is to say, outside of foreign aid; but they are subsidized to the point of meeting world prices. Therefore they should not be included in export statistics if these are to reflect our true competitive standing in world markets for these products.

The fact is that the export figures as presently reported have been used and continue to be used as evidence of our favorable competitive standing. It is this practice that is objectionable; and it cannot be halted so long as the present statistical practices in this field remain unchanged.

Official statistics that lend themselves to misleading public use without the possibility or likelihood of rebuttal because there is no ready access to the underlying facts, are an invitation to misrepresentation. When the statistics are safely used in this fashion to substantiate public policy, or employed advantageously but unjustifiably in shaping of great issues, the importance of having at hand statistics that reflect the realities in the case, is readily appreciated. The Congress is entitled to them without having to go behind the statistics to test their integrity and validity by time-consuming researches. Official statistics should be above suspicion. The public is even more helpless than the Congress in this respect. It must receive official statistics on faith. Moreover, if the taint of unreliability infects official statistics in a field as important as foreign trade, public confidence in all official statistics will suffer. Without such confidence good government itself will break down.

We now proceed with an analysis of our export statistics.

Agricultural exports in the year ended June 30, 1965, totaled $6.09 billion. Of this total, $1.6 billion were exports under "Government-financed programs." Beyond that exports of $1.0 billion were made "with export payments." The total of these two types of transactions was therefore $2.6 billion. This left $3.5 billion exports in the form of private commercial sales without subsidy. In the same period imports of agricultural products amounted to $3.9 billion or some $400 million more than our private competitive exports.

It is sometimes said that other countries also subsidize their exports. No doubt this is true to a degree, but as for their subsidizing their exports to penetrate this market with coffee or bananas, or with tea, spices, cocoa beans, cane sugar, leaf tobacco, which represent well over half of our agricultural imports, the contention is without substance. (Foreign Agricultural Trade of the United States, U.S. Dept. of Agriculture, June 1966, Table 1, p. 7.)

Exports under AID are, however, not confined to agricultural products. In 1964 nonagricultural merchandise exports financed by U.S. Government grants and capital totaled $1.4 billion (Foreign Agricultural Trade of the United States, U.S. Dept. of Agriculture, July 1965, Table 1, p. 8.)

Added to the $2.6 billion of agricultural products that move out under governmental assistance and foreign aid, the total of assisted exports, including the nonagricultural, comes to $4 billion.

It should be said here that the Department of Agriculture has at least produced the statistics necessary to arrive at the foregoing conclusions. The professional staff is to be commended for its integrity. However, once produced, these statistics seem to be carefully disregarded and left buried in obscure publications that for some reason the newspapers also leave unexplored. Official statements emanating from the top offices of the Department are unsullied by the unsavory fact that our competitive commercial exports of agricultural products are at a deficit—even when imports are reported not on their landed value but on their foreign f.o.b. value. Instead, great claims are made about the success of the export efforts of the Department. The public is not sufficiently versed in the underlying facts to question the validity of the exaggerated claims. Therefore false notions about our status in world agricultural trade abound, unjustifiably optimistic and complacent.

Now we may turn to the import side of the equation.

The failure to include freight and insurance in our official tabulation of import values distorts our trade valance by minimizing the cost of imports and therefore swelling our export balance unjustifiably.

To repeat, nearly all other counties do report their imports on the c.i.f. basis; and this serves a better purpose in reflecting the true state of affairs. An example. purely hypothetical, will help to explain this statement.

Let us say that we sell to Japan $1 billion in goods of all kinds. This is the amount of money our exporters will receive for their sales to Japan. Our exports to Japan will then show up as $1 billion in our official trade statistics.

When these goods reach Japan their cost to Japanese importers will not be $1 billion but more nearly $1,230,000,000 indicating an enhancement of $230 million which would represent shipping, insurance, and handling costs. Japan will then report imports at $1.23 billion from the United States.

When on the other hand, Japan exports to us $1 billion she records her exports to us that sum, f.o.b. point of shipment, such as Yokohama. We, however, unlike Japan, also record our imports of these goods at $1 billion, although they obviously cost us, not $1 billion, but something in the magnitude of what our exports of a billion dollars to Japan cost her importers, which is to say, about $1.230 billion.

Because of this odd practice of ours, Japan is able to say that she imported $230 million more from us than we imported from her; and she can prove it by our official statistics. We are shown as enjoying an export surplus in our trade with Japan! Needless to say such unfounded claims have been made repeatedly not only by Japan in the past but by England and other countries, to whose interest it was to cast this country in the role of an unreconstructed high tariff offender, as a means of obtaining onesided tariff concessions from us in GATT conferences. Our State Department not once to the knowledge of this witness publicly called attention these many years to such statistical sleights of hand.

In 1965 we imported more from Japan than she bought from us even on the distorted basis just explained. Imports from Japan were $2.401 billion. Our exports to Japan were $2.041 billion, leaving a deficit of nearly $400 million. Had our imports been reported on a c.i.f. basis, as it should if the actual cost of the imports had been reported, the deficit would have been nearer $750 million.

There are those who say that there is no distortion because we also report our exports on an f.o.b. basis, point of shipment. We do; and it is the proper basis, since the exporters are paid on that basis. By the same token, importers pay on the c.i.f. basis. Their bill is the landed cost. Transportation and insurance companies, foreign or domestic, collect the charges incurred in moving the goods to or from the other countries. However, our exporters do not pay these charges while importers do pay them as a part of the cost of the goods.

In point of fact this country has incurred a deficit in international transportation since 1958. (Statistical Abstract of the United States, 1965, Table 1222, p. 856.) This is not surprising since American flag vessels carry only about 8½% of our total trade. However, the balance of trade is not concerned with who collects the freight and insurance. This is a matter that pertains to the balance of payments and not the balance of trade. While trade is the predominant item in the balance of payments, it is a separate operation. We are concerned about the competitive standing of our industries and agriculture in the field of foreign competition. The items in the balance of payments that consist of services, transportation, investment flow, tourist trade, etc., are not a part of the balance of trade. This has to do with exports and imports of merchandise. Competitiveness is a question of what we get for exports and what we pay for imports in comparison with other countries. The balance of payments has other concerns.

The undervaluation of our imports, to repeat, is substantial. I believe that the percentage is at least 15%. Indications are that it is higher, if we explore the difference between Japanese and British reports of our exports to those countries, which to them are imports from us, on the one hand, and our exports to them, as reported by us, on the other. This difference over a period of three years, has averaged between 20% and 25%. This is to say when these countries report our exports to them as *their import from us* they come out with a figure over 20% higher than our exports. If there are other elements of cost in those official foreign trade reports of Japan and England to explain the wide differential on grounds other than freight, insurance and other shipping costs, these should be isolated and exposed to view.

Until that is done, the estimate of 15% as representing a global average percentage applicable to our imports to bring them to the true cost level, seems reasonable.

If we use that percentage our total 1965 imports, instead of being at the level of $21.3 billion should have been recorded as $24.5 billion or $3.2 billion above the officially reported level.

If we add this undervaluation of our imports to the overvaluation of our exports ($4 billion), we come to a discrepancy of $7.2 billion. Instead of an export surplus of $5.2 billion as reported for 1965, there was a deficit of $2 billion. In 1966 the deficit, at the present indicated level of imports and exports, will be well over $3 billion on the basis adopted here instead of a surplus of $3.9 billion, as recently estimated on the basis of Department of Commerce reports.

That this country is in fact in a weak competitive position in world markets is evidenced by two phenomena:

1. The U.S. share of world exports of manufactured goods has shrunk 20% in the past ten to twelve years. Half of the shrinkage has occurred since 1960. This does not mean an absolute shrinkage; rather it means that other countries have been gaining relentlessly at our expense. Half of the shrinkage has occurred since 1960 and still continues.

2. American investments in other countries have been running at an unprecedented level. This phenomenon of itself is an indication of the strenuous efforts of industry to become competitive in foreign markets by operating from within rather than shipping from this country.

The great exception to our recession as an exporter of *manufactured* products is found in industrial and electrical machinery and equipment. This is to be expected because our foreign plants draw heavily on American machinery. If machinery were excluded from the statistical calculation our weakness in foreign markets would be greatly accented. In nearly all classifications of finished consumer goods we are in a weak position.

Mr. Chairman, our official trade statistics run the perilous risk of inducing not only complacency and blindness in a matter of great national implications, but lead to the notion that our tariff can safely and beneficially be further reduced under the Kennedy Round. This follows from the deceptive notion that we enjoy a handsome export surplus and can well afford a generous sharing of our bounty.

It is an indefensible statistical practice that produces the blinding and misleading effects that are so clearly and obtrusively visible in our official foreign trade reports.

S.J. Res. 115, perhaps modified in some of its aspects to avoid undue cost and labor, would make it possible to read our foreign trade reports without becoming drunk with optimism and being misled onto unfortunate policy trails. No legislative proposal could have a much better reason for early enactment.

Concealment of U.S. Global Competitive Lag

By O. R. Strackbein, Chairman, The Nation-Wide Committee on Import-Export Policy, September 15, 1965

The international competitive position of the United States has been the subject of controversy in recent years. The predominant theme has been that this country is indeed competitive as shown by the continuing high surplus in our merchandise export-import account. In 1964 this surplus was $6.9 billion, higher than in 1963 when it was nevertheless a very comfortable $5 billion and in 1962, when it stood at $4.3 billion. There was a "healthy" growth, it was said, from year to year; and, on the face of it, that was true. Hence the easy conclusion that all was well in our foreign trade merchandise account.

Only those who are familiar with the make-up of our balance of payments account were in a position to question the validity of the glib assumption that an export surplus in our merchandise account automatically was cause for exuberance.

The question is of concern because the status of the U.S. competitive capacity in international trade has a vital bearing on our trade policy, among other aspects of foreign economic policy, and on the employment problem of this country.

In order to test this status several aspects of our trade balance will be examined here:

1. The make-up of the export surplus;

2. The basis of import-tabulation used by this country compared to that of other countries, and the distortion caused by it;

3. The balance in receipts and payments in export and import transportation (shipping);

4. The declining share of world exports enjoyed by this country in recent years;

5. The trend in our exports and imports of manufactured products.

These five headings will be examined in the order of their appearance.

I. THE MAKE-UP OF OUR EXPORT SURPLUS

As mentioned above, our export surplusages of the past three years have ranged from $4.3 billion to $6.9 billion (the 1964 surplus). The year 1964 may therefore be selected for examination because that surplus was the highest of recent years.

While the surplus does not include military aid shipments, it does include AID and Public Law 480 shipments plus the so-called "commercial" exports of wheat, wheat flour, raw cotton, rice, dairy products, etc., that although not a part of AID or P.L. 480 shipments, were nonetheless *subsidized* shipments, and cannot therefore be considered as evidence of the positive competitive capacity of either our industry or agriculture.

In 1964 (fiscal year ended June 30) exports of agricultural products "under Government-financed programs" amounted to $913 million. Those exported "with export payments" but recorded as "commercial sales for dollars" amounted to an additional $1,380 million: wheat and wheat flour $604 million, cotton $530 million, milled rice $132 million, and smaller amounts in dairy products, tobacco, oil seeds and products, and peanuts.

The two combined, i.e., exports under "Government-financed programs" and "commercial sales for dollars" "with export payments", were $2.293 billion. (See Foreign Agricultural Trade of the United States, May 1965, U.S. Dept. of of Agriculture, p. 7.)

Turning now to our exports of *non*agricultural products, the 1964 (calendar year) exports "financed by U.S. Government grants and capital" were $1.407 billion. (Foreign Agricultural Trade of the United States, July 1965, U.S. Dept. of Agriculture, p. 8.)

If the two are combined we find that $3.7 billion of our exports agricultural and nonagricultural (the first category during the fiscal year 1963–64 and the second for the calendar year 1964), were not private commercial unsubsidized transactions, as they must be if they were to represent competitive sales. (The lack of dovetailing of the two sets of statistics, with an overlap of six months is not regarded as serious. If agricultural exports bulked larger in 1964 because of sales of wheat to Russia, so did total 1964 exports.)

If the $3.7 billion of exports are subtracted from the total surplus of $6.9 billion, the latter is reduced to $3.2 billion. No doubt our export surplus could be increased beyond the $6.9 billion if we elected to subsidize yet more exports.

2. THE BASIS OF IMPORT-TABULATION USED BY U.S. COMPARED WITH OTHER COUNTRIES

The United States tabulates its imports on the basis of f.o.b. value, foreign port of shipment, or, in any case, without addition of insurance and shipping charges to U.S. port of entry. Nearly all other countries on the contrary, do compute their imports on the basis of cost, plus insurance and freight, or c.i.f.

The difference is appreciable. With the exception of Canada and Mexico, the cost of insurance and shipping charges range from some 15% to 25%. Of total imports some 20% come from these two countries. Therefore an average global percentage would need to be reduced by 20% in order to reflect the omission of these two countries.

Two other leading countries among our trading partners by which a test may be run are Japan and England. Each of these records its imports on a c.i.f. basis.

Our exports to Japan, of course, are the same as the Japanese imports from us. Therefore if we set down our exports to Japan over a three-year period, such as 1962–64, and match these exports with the Japanese imports from us during the same years, the difference between the f.o.b., our port of export, and the c.i.f. value, Japanese port of entry, can be calculated. By covering three years the distortion caused by goods in transit in either direction at year's end and year's beginning, will be minimized. The following table will show the value of U.S.

exports to Japan as computed by the United States and the value of Japanese imports from this country, as tabulated by Japan.

[Dollars in thousands]

Year	U.S. exports to Japan [1]	Japanese imports from U.S. [2]	Difference (percent)
1962	$1,415,000	$1,809,000	+27.8
1963	1,714,000	2,077,000	+21.2
1964	1,908,000	2,336,000	+22.4
3-year total	5,037,000	6,222,000	+23.5

[1] U.S. official tabulation.
[2] As tabulated by Japan on c.i.f. basis.

From this table we see that our exports to Japan were enhanced in value an average of 23.5% during the three-year period of 1962–64 as a result of Japanese tabulation of her imports on a c.i.f. basis rather than f.o.b. U.S. port of export.

According to this tabulation Japan imported $1.185 billion more from us during the three-year period than our statistics show as U.S. exports to Japan during the 1962–64 period.

If we now examine our imports from Japan, first as reported by our official import statistics and then by adding to those figures a percentage equal to the Japanese addition to our exports to them, i.e., by adding constructed shipping insurance and shipping costs, we will arrive at a proper basis for striking a trade balance between the two countries. The next table will show U.S. imports from Japan, as tabulated by U.S., together with what the values would be laid down at U.S. port of entry if the insurance and shipping charges westward were the same as eastward to Japan from the U.S. The same percentages of increment or increase resulting from the calculation in the first table will be used. Thus will the cost of U.S. imports from Japan approximate the c.i.f. value, U.S. port of entry. This will place our imports on the same basis as Japanese imports from this country.

[Dollars in thousands]

Year	United States imports from Japan [1]	Same import if enhanced to c.i.f.[2]	Amount of increase (percent)
1962	$1,357,000	$1,734,000	27.8
1963	1,498,000	1,815,000	21.2
1964	1,769,000	2,165,000	22.4
3-year total	4,624,000	5,714,000	23.5

[1] As recorded by United States on f.o.b., foreign point of exportation.
[2] By same percentage as Japanese imports exceeded our exports.

If next we show U.S. exports to Japan as computed by U.S., as already shown in the first table, and match them with U.S. imports from Japan on the constructed c.i.f. basis as shown in the immediately preceding table, we may strike our trade balance with Japan in the same manner as Japan and most other countries strike their trade balances:

[In thousands]

Year	United States exports to Japan	United States imports from Japan (c.i.f.)	United States deficit
1962	$1,415,000	$1,734,000	$319,000
1963	1,714,000	1,815,000	101,000
1964	1,908,000	2,165,000	257,000
3-year total	5,037,000	5,714,000	677,000

The next table will show the balance of trade between United States and Japan as computed by United States and disseminated as the official trade statistics by the U.S. Department of Commerce.

[In thousands of dollars]

Year	United States exports to Japan	United States imports from Japan	Apparent United States surplus
1962	1,415,000	1,357,000	58,000
1963	1,714,000	1,498,000	216,000
1964	1,908,000	1,769,000	139,000
3-year total	5,037,000	4,624,000	413,000

Our official three-year export surplus in our trade with Japan in the amount of $413 million is thus converted into a deficit of $677 million. The 1962 surplus of $58 million becomes a deficit of $319 million; the surplus of $216 million in 1963 becomes a deficit of $101 million, and the 1964 surplus of $139 million is changed into a deficit of $257 million.

Yet, all this time our national policy has been based on the erroneous notion that Japan, struggling as she was, was somehow unable to overcome the deficit in her trade with us. We were evidently on the face of it more competitive in the Japanese market than Japan was in the U.S. market.

If we keep in mind, further, that Japanese imports of U.S. raw cotton was highly subsidized by this country as a means of selling abroad and that the same was true of our exports of wheat and wheat flour to Japan—not indeed as a matter of foreign aid, but as a matter of being competitive in world markets—the deficit in our trade with Japan assumes even greater proportions. In 1964, for example, we exported to Japan $130 million of cotton and $110 million of wheat. (See FT 410, 1964, U.S. Exports, Dept. of Commerce.) These exports are recorded as "commercial sales" by the Department of Agriculture, and no doubt correctly so, but they were not sales that demonstrated our economic competitiveness.

Added to our constructed deficit of $257 million in our merchandise trade with Japan in 1964, the total deficit rises to $497 million so far as private commercial unsubsidized exports are concerned.

With respect to our merchandise trade with the United Kingdom the situation is quite similar. First we shall again show U.S. exports, as reported by the U.S. Department of Commerce and United Kingdom imports from us, as reported by official U.K. sources. We shall again use the three-year period of 1962–64 so that the year-end and year-beginning distortions caused by goods in transit in both directions will be minimized:

[Dollars in thousands]

Year	United States exports to the United Kingdom [1]	United Kingdom imports from United States [2]	Difference (percent)
1962	1,074,000	1,333,000	+24.1
1963	1,161,000	1,395,000	+20.0
1964	1,468,000	1,790,000	+22.0
3-year total	3,703,000	4,518,000	+22.0

[1] United States official tabulation.
[2] As tabulated by the United Kingdom.

From this table we see that the value of the U.K. imports from the U.S. increased in value by an average of 22.0% during the three-year period as a result of the c.i.f. tabulation base used by the U.K. According to this tabulation the U.K. imported $815 million more from us during this period than we exported to her, f.o.b. U.S. port of export.

Next we shall examine our imports from the U.K., first as reported by our official import statistics and then by adding the percentages by which the U.K. imports exceeded our exports (representing the cost of insurance and shipping charges).

This will give us an equal base for determining export surpluses or deficits in the two-way trade. The assumption is that the charges for shipping from the U.K. to the U.S. is virtually the same as in the reverse direction. We will add to our import figures from the U.K., which are f.o.b. U.K., the same charges the U.K. adds to our exports in order to arrive at the c.i.f. basis:

[Dollar amounts in thousands]

Year	U.S. imports from the United Kingdom[1]	Same imports raised to c.i.f.[2]	Amount of increase (percent)
1962	$1,005,000	$1,247,000	24.1
1963	1,079,000	1,294,000	20.0
1964	1,141,000	1,396,000	22.0

[1] As reported by United States on f.o.b. basis, foreign point of exportation.
[2] Placed on c.i.f. basis, U.S. port of entry, by use of percentages shown in preceding table.

Next we set our exports to the U.K., as computed by the U.S. for the same period against the calculated U.S. imports from the U.K. as shown in the immediately preceding table. It will then be possible to draw a balance in our trade on a roughly even basis with the U.K. method and that of nearly all other countries.

[In thousands of dollars]

Year	United States exports to the United Kingdom[1]	United States imports from the United Kingdom, c.i.f.[2]	U.S. deficits
1962	1,074,000	1,247,000	173,000
1963	1,161,000	1,294,000	133,000
1964	1,468,000	1,396,000	[3] 72,000
Total	3,703,000	3,937,000	234,000

[1] According to U.S. tabulation.
[2] As constructed and previously explained.
[3] Surplus.

The final table shows the apparent surplus in merchandise exports enjoyed by the U.S. during the years 1962–64 according to official U.S. statistics as published to the world, to Congress and the American people:

[In thousands of dollars]

Year	United States exports from United Kingdom[1]	United States imports from the United Kingdom[2]	Apparent Surplus
1962	1,074,000	1,005,000	69,000
1963	1,161,000	1,079,000	82,000
1964	1,468,000	1,141,000	327,000
Total	3,703,000	3,225,000	478,000

[1] Official U.S. exports (exclusive of "special categories" or military supplies).
[2] Official U.S. imports. (Statistical Abstract of the United States, 1964, table 1129; and Overseas Business, OBR 65-20, U.S. Department of Commerce, April 1965.)

Here we see an apparent three-year surplus of $478 million converted into a deficit of $234 million. Yet, again, the world has been allowed to believe that we have been enjoying a comfortable surplus in our trade with the United Kingdom, thus demonstrating a competitive prowess we do not possess.

As in the case of Japan, among our exports to the United Kingdom are subsidized items such as cotton, wheat and rice, much lower, however, than our exports of these items to Japan. In 1964 the total for the three products was some $60 million, and these should not be counted as demonstrating our ability to compete commercially in the U.K. market.

It is difficult to obtain reliable import-export statistics for purposes of measuring U.S. trade with Western European countries other than the U.K., because destinations are not always known. Shipments to internal countries with no seaports are often credited to the countries where the goods are landed. Goods may then be transshipped, thus maximating exports to some countries while understating those to other countries. Trade with Japan and the U.K. is not as subject to such aberrations.

The contiguity of the United States to Canada and Mexico also offers a problem in any endeavor to reach a global mark-up that would bring our import statistics onto a par with those of other countries. About 20% of our imports come from these two sources. While some shipping charges are incurred on shipments from Canada and Mexico to this country, they are small compared with those incurred from countries lying farther away. In arriving at a global factor or percentage of inflation to be applied to our total imports a reduction of 20% should be made to account for our imports from Canada and Mexico.

If we calculate an average of the two countries we have tabulated, i.e., a mark-up of 23.5% on our imports from Japan and 22% on those from the United Kingdom over the 1962–64 period, we arrive at 22.75%. If we subtract 20% from this 22.75%, to account for Canada and Mexico, we arrive at 18.20%.

It would seem safe to say then that a global percentage of 17½% should be a fair approximation to the actual difference between the U.S. import figures and what they would be if we converted to a c.i.f. basis.

It must be kept in mind that some European countries use a lower percentage when converting their own imports from f.o.b. to c.i.f. France is reported to use 10%. Such lower conversion factors are justified in those instances in which most of the trade comes from near rather than far countries. For example, in 1963 of Western Europe's $63.2 billion of total exports, $40.4 billion went to Western Europe, or very nearly two-thirds. In the EEC countries $25.8 billion in exports of a total of $37.5 billion also went to Western Europe. Therefore the conversion factors used by the European countries to convert from f.o.b. to c.i.f. do not apply to the United States. Our factor must be appreciably higher because, with the two exceptions mentioned, all other imports come from farther away. Some 80% of our imports come by ocean transportation, over half of it from Europe, Asia and Africa in 1963, thus incurring heavy shipping costs.

We may now with reasonable confidence apply a global conversion factor to our total imports.

In 1964 total imports by the United States, for consumption, were 18.6 billion. If the conversion factor of 17½% is used, this total will be increased by $3.25 billion, bringing the total to $21.85 billion.

Our total 1964 merchandise exports were $25.3 billion. (Survey of Curren Business, U.S. Department of Commerce, July 1965, p. S–2.) Thus our export surplus would fall to $3.5 billion from $6.7 billion.

If we now bring forward the calculation that showed that of our total 1964 exports the $3.7 billion that moved under the various categories of Governmental assistance, *we are left with a global deficit of $200 million in our private unsubsidized commercial merchandise export account.*

3. THE BALANCE IN RECEIPTS AND PAYMENTS FROM SHIPPING CHARGES

It might be thought that this deficit might be overcome by the earnings of our merchant marine in carrying our trade and that of other nations.

The day of such surpluses disappeared in 1958 when it shifted from a surplus of a bare $2 million to a growing deficit. This reached $113 million in 1959 and after some zigzagging rose to $300 million in 1963. In 1950 receipts exceeded payments by $215 million; in 1955, by $102 million. (Statistical Abstract of the United States, 1964, Table 827.) This decline has occurred despite shipping subsidies that have grown from $133 million in 1959 to $226 million in 1963. (Ibid., Table 524.)

These accumulations bring the trade deficit to some $725 million in 1963.

4. U.S. DECLINING SHARE IN WORLD EXPORT TRADE

The *share* of the United States in World Exports has declined markedly in recent years. With two principal exceptions this shrinkage has been borne predominantly by manufactured products. Because of the high degree of subsidization in one form or another, the exports of agricultural products have expanded, thus demonstrating that our exports respond to the foreign aid and other methods by which this country pays for or helps pay for the exports. 1955 agricultural exports were $3.2 billion; in 1964 they had doubled to $6.3 billion. In the same period imports went only from $3.9 billion to $4.0 billion.

By volume total U.S. exports rose from an index of 100 in 1958 to 126 in 1963. World exports in the same period moved from 100 to 141. Our *agricultural* exports rose to 165 during the same period in *value*.

The following table shows the extent to which exports by *volume* have increased more (the United Kingdom among the leading trading nations excepted) from other countries than from the United States:

[Index: 1958=100 [1]]

Country	*1963*	*Country*	*1963*
United States	126	France	162
United Kingdom	120	Belg-Lux	173
Netherlands	149	Japan	198
Sweden	151	Italy	206
West Germany	156	Canada	133

[1] Statistical Yearbook, United Nations, 1964, p. 487 ff.

In the same period our imports went from 100 to 133 or 7 points higher than our exports.

From 1953 to 1963 the U.S. share of total world exports declined from 19.0% to 15.0% or by 20%. From 1958 to 1963 it declined from 18.3% to 15% or by 18.2%. This means that our lag began in the late 1950's.

5. TRENDS IN EXPORTS AND IMPORTS OF MANUFACTURED PRODUCTS

With respect to exports of *manufactured* goods the United States did less well even than with exports as a whole. The next table will show the trends in exports of manufactured goods from 1958 to 1963, where 1958=100:

[Index: 1958=100 [1]]

Exports of Manufactured Goods

Country	*1963*	*Country*	*1963*
United States	117	France	165
United Kingdom	118	Belg-Lux	161
Netherlands	162	Japan	209
Sweden	163	Italy	235
West Germany	155	Canada	134

[1] Statistical Yearbook, United Nations, 1964, p. 496.

Here again the United States lagged spectacularly behind all the other leading industrial countries (except the United Kingdom) in exports of manufactured products. Whereas our total exports had increased to 126, our exports of manufactured goods rose only to 117, and both lagged far behind Europe and Japan.

If we turn to exports of manufactured products other than machinery and transport equipment (mostly automobiles), we find that the U.S. share between 1958 and 1962 declined from 19.1% of the world's total to 15.4%. Total world exports of such manufactures increased 37%, that of the United States, only 10.7%. (See Statistical Yearbook of the U.N., 1963, p. 468. The 1964 Yearbook dropped this table.) In these statistics Canada was combined with the United States, but this fact could be regarded as producing only a minuscule effect.

Even though U.S. exports of chemicals increased from $1.438 billion in the 1956–60 period to $1.922 billion in 1963, our share in world chemical exports dropped by 17% from 1955 to 1962. (Statistical Abstract of the U.S., 1963 and '64, and Statistical Yearbook of the U.N., 1963.)

With respect to machinery and transport equipment the decline was from 34% of the world's total exports in 1955 to 26% in 1962, a decline of 23.5%. This group includes automobiles. The U.S. share has fallen sharply in the exportation of automobiles in the past decade. However, our machinery exports have prospered in recent years in response to heavy direct foreign investments. (See below.)

If further evidence is needed to demonstrate the U.S. lag in international trade in manufactured goods by volume, it may be found in the trend of both our exports and imports compiled by the Bureau of International Commerce, U.S. Department of Commerce. By an index in which 1957–59=100, our exports of crude foodstuffs rose from 104 in the 1956–60 period to 158 in 1963 (prel.). This represented the upward swing of our exports of subsidized agricultural products and Public Law 480 shipments.

During the same period our exports of *finished* goods rose from 101 to only 113—a marked contrast. The one rose 58%; the other only 13%.

The opposite trend was visible in our imports. Crude foodstuffs rose from 98 to only 107. By contrast imports of finished goods rose from 100 to 152. (See Statistical Abstract of the United States, 1964, Table 1230.) Imports of semimanufactures went from 100 to 132. Crude material imports virtually stood still, moving from 99 to only 101.

If these trends are translated into employment it will be appreciated that they are very adverse to this country. Trading of unprocessed goods for finished goods as represented by the recent trend, is not productive of employment, but quite the opposite.

There can be no doubt about the unenviable status of the competitive prowess of the United States in world markets. If we examine export trends a little more closely the deplorable position of most of our manufactured products, exclusive of machinery other than automobiles, will become apparent.

Machinery exports have boomed because of our heavy investments in foreign productive facilities. In 1964 we enjoyed a "favorable" export balance in machinery to the extent of $4.7 billion. Exports of machinery exclusive of automotive and aircraft rose by $2.34 billion from 1959 to 1963.

The only other item showing a large surplus was in chemicals, one of $1.6 billion, a large part of which consists of raw material or semimanufactures. If these two items, in which our export surplus was $4 billion, are removed from our calculation it follows that our trade in virtually all other nonagricultural items must have left us with a higher deficit and a much greater lag in relation to world exports than might be guessed from the total balance.

According to detailed export-import statistics for 1962 (U.S. Statistical Abstract, 1964, Tables 1222 and 1223), our exports recorded a deficit over imports with respect to a long list of broad categories. The total of this deficit was $4.6 billion. The greater part of these deficits were recorded by petroleum ($1.3 billion), nonferrous metals (copper, lead and zinc, etc.) ($560 million and paper and manufacturers ($516 million). If subtracted from the $.4.6 billion deficit, this nevertheless left $2.1 billion in our trade deficit in exports of a long list of items including rubber and manufactures, cotton and wool manufactures, sawmill products, wood manufactures, steel mill products, beverages and related products, leather manufactures, meat and products, fish and products, silk and manufactures, toys, athletic and sporting goods, precious metals, jewelry etc., leather, and stone, cement and lime—all of which recorded export deficits in 1962, even by U.S. tabulation.

That the deficit has grown in recent years may be seen from a comparison with the 1956–60 period. At that time the deficit was $3.3 billion averaged over the five-year period, compared with the $4.6 billion deficit of 1962.

If we again eliminate the three leading deficit items, i.e., petroleum, nonferrous metals and paper and manufactures, the 1956–60 deficit drops to $1.3 billion. It rose to $2.1 billion in 1962.

A change in statistical compilation by the Department of Commerce prevents comparison of the preceding statistics with those of 1963 and 1964. However, the excess of imports of "other manufactured goods" not including machinery, automobiles, petroleums and chemicals, rose from a mere $57 million deficit in 1958 to $1.68 billion in 1964. This confirms the trend. Nevertheless we went into another tariff-cutting round in 1960.

CONCLUSION

The foregoing analysis must lead to drastic revision of several factors that are basic to policy formation of a national trade policy.

1. The United States has been running and continues to run a deficit instead of enjoying a massive export surplus, as generally believed, in its merchandise export-import account in terms of private commercial unsubsidized exports.

2. We are in a growing deficit position in the exportation of many of our broad product classifications, other than machinery and transport equipment, foods, crude materials and minerals. In some of these we are also running a sharp deficit: petroleum and nonferrous metals.

3. Our *imports* have been shifting from raw materials toward finished goods and semi-finished goods to the detriment of industrial employment in this country.

4. Our *exports* have been shifting toward agricultural products and raw materials, plus machinery in the field of manufactured goods. Machinery exports have

been stimulated by our heavy foreign investments, which in turn reflect the reaction of our industries to our noncompetitive status at home and abroad vis-a-vis foreign competition.

5. Our exports have become increasingly dependent on governmental assistance of one kind or another.

6. Further tariff reductions should be shelved until our industries regain their one-time competitive status at home and abroad.

Senator ANDERSON. Mr. Steinberg.

STATEMENT OF DAVID J. STEINBERG, SECRETARY AND CHIEF ECONOMIST, COMMITTEE FOR A NATIONAL TRADE POLICY, INC.

Mr. STEINBERG. Good morning, gentlemen. My statement is brief and I do not expect to need, for the formal presentation, the 15 minutes which the committee has graciously allocated to me.

I am David J. Steinberg, chief economist for the Committee for a National Trade Policy. The committee speaks for no special interest concerned with any particular sector of U.S. production or trade. Our sole concern is the development and preservation of a trade policy that advances the national interest of the United States. Our testimony in this hearing deals only with trade policy considerations, and reflects our belief in freer international trade.

We are in opposition to this proposed resolution for many reasons, including the following:

(*a*) The proposed changes in the recording of U.S-trade data are not only of no significant value in determining the U.S.-trade balance, the international competitiveness of U.S. goods, or the effect of imports on the American economy; the additional information required in recording imports of specific products would involve significant burdens on American importers and consequently generate obstacles to trade expansion.

(*b*) We question the clear purpose of the many economic interests supporting this proposed resolution; namely, to get the Government to record import and export statistics in ways that serve their ill-conceived attempts to prove that the United States is in a weak competitive position and consequently not able to offer significant trade concessions in international neogtiations.

Aside from the burden which this resolution would tend to impose on U.S. importers, there would appear to be little reason, on trade policy grounds, to oppose the requirement of additional data in the official recording of U.S. imports and exports—that is, if it were not for the predictable, egregious misuse of such trade data by those who have consistently opposed our Government's efforts to achieve new goals of trade liberalization in this country's total national interest.

If your committee should report out this proposed resolution, we believe you would have a responsibility to make clear the many pitfalls which should be avoided in using such adjusted trade statistics to support arguments on the competitiveness of the American economy.

There is obviously a need to keep this country's international competitive position under careful review and to devise the best techniques to achieve this purpose. The proposed Senate resolution does not serve this need. It would, in fact, we believe, do the opposite. Designed to correct what its supporters regard as deception in the way U.S. trade data, as now reported, are used for assessing this country's competitive position, it would itself lead to serious deception.

At best, those who advocate the proposed resolution as a device for their efforts to prove weaknesses in the U.S. competitive position overlook many important points in their efforts to adapt trade data to fit their analytical needs. These points that they tend to overlook including the following:

(*a*) U.S. imports, regardless of how recorded, include substantial amounts of products which are either not produced in this country—for example, tea, natural rubber, bananas—or are required by American industries to supplement inadequate supplies available from our own resources—for example, wool and a large assortment of minerals. Something in the neighborhood of perhaps half the imports of the United States may be said to be noncompetitive. Precision in such delineations is blunted by huge difficulties of definition. But a large percentage of our imports is without question noncompetitive with American production. People with propensities for adapting U.S. trade data in attempts to prove declining competitiveness in this country's foreign trade position should make such adjustments in the import data alongside their steps—which the proposed resolution would assist—to magnify the value of imports and reduce the value of exports.

(*b*) Although large amounts of U.S. exports are products shipped to U.S.-owned plants abroad, such shipments in most cases reflect choices between procurement in the United States and procurement abroad, and are not necessarily tied to U.S. goods.

(*c*) Most shipments of U.S. goods under the foreign-aid program involve purchases which would be made in the United States in any case, if the importing country had (i) the necessary foreign exchange without foreign aid, or (ii) using U.S. funds, the freedom to buy wherever it could make the most advantageous purchases.

(*d*) U.S. export subsidies do not reflect U.S. competitive weakness; they enable U.S. agricultural products covered by price-support programs to move into world markets at world prices. American products for which export subsidies have been provided—for example, cotton, wheat, rice, tobacco—can compete anywhere under free-market conditions.

(*e*) Determining the competitiveness of U.S. goods in the world economy is a highly complex exercise requiring careful analysis on a product-by-product basis, and data far more elaborate than even those which the proposed resolution would provide.

The widespread use of the U.S. trade balance—as now formulated—to indicate the impressive international competitiveness of American goods is itself vulnerable to criticism when it reveals no recognition of the various factors on both imports and exports which should be taken into account in judgments regarding international competition. However, the antidote to such arbitrary use of the overall trade figures is certainly not what is now proposed in the subject resolution, and particularly at the price of incresaed burdens on U.S. importers and the seriously erroneous deductions certain to be made from such changes in the recording of U.S. trade data. The Senate has every reason to concern itself with the adequacy of our trade figures, the suitability of balance-of-trade calculations, and the competitiveness of American goods and the American economy as a whole in international commerce. However, it would fall seriously short of its responsibility in these respects if it adopted the proposed resolution, even if the legislative history indicated the caveats to which we have referred. If this resolution should pass your committee, we cannot overemphasize the importance of such caveats. We are confident the Senate does not wish to encourage a new round of deceptive arguments by opponents of freer international trade in their continuing efforts to change the course of the highly successful trade policy which the Congress set in motion more than 30 years ago and so impressively reaffirmed as recently as 1962 in enacting the Trade Expansion Act.

In conclusion, gentlemen, freer international trade is forward motion in the service of the free enterprise system and the highest objectives of American policy both at home and abroad. It is disconcerting, indeed, to find ourselves faced even today with strong, highly effective pressures either to stop the clock or to turn it back. Those responsible for such pressures, and those who yield to them, reveal a less than adequate appreciation of the principles of free enterprise, the responsibilities of entrepreneurs in such a system, and of the imperatives of U.S. policy in a rapidly changing world. Thank you very much.

Senator DIRKSEN. That last big mouthful was your opinion, was it not?

Mr. STEINBERG. Yes, sir.

Senator DIRKSEN. It has taken us 30 years to get our eyes open.

Mr. STEINBERG. I did not hear that, sir.

Senator DIRKSEN. I say it has taken us 30 years to get our eyes open to the deception that you refer to in these trade figures and at long last come to grips with reality and find out where we really are.

Mr. STEINBERG. Well, as my statement indicated, sir, I hold no brief for the way in which people use this trade balance—the $5 billion, $6 billion, whatever it may be—as an arbitrary indication of the competitiveness of the American economy. In fact, I myself do not recall any time that I have used such a figure, because just using the figure obscures so much in terms of what is in the export data and what is in the import data that, unless you explain what you mean by the trade balance, I think the use of that balance is misleading. But I do affirm, sir, that in my judgment, in spite of these difficulties regarding the use of data, the American economy is strongly competitive today.

The CHAIRMAN (presiding). You know, this morning there was an editorial in the Washington Post, advancing some ridiculous arguments about why we should not do something about the 1 million Americans living over in Europe at taxpayers' expense. Oddly enough, in talking about whether we should or should not move them out, it discussed neither the best reason for keeping them there nor the best reason for bringing them home. It just proceeded to give a lot of ridiculous ideas, such as if we keep those troops over there it might help Erhard win the election against Willy Brandt, and various and sundry reasons why we should not do that because Erhard might come to visit us sometime and pay us a call. Reasons of that sort.

But the resolution that we put in yesterday stated very clearly that some of us think we ought to bring some of those people back. One thing, De Gaulle has asked us to get out of France and we have to leave. We either have to go to war with France or get out of there, and so those troops will have to leave France. Since nobody else did what they were supposed to do under the NATO agreement, some of us think at least if we perform as well as the best performer they have got over there, that we will be doing all right. We said in our resolution that the big reason for doing this is our fiscal and monetary problems. We are running out of gold; we are going broke. Those people over there have enough credits to empty Fort Knox, Ky., the way it is right now.

One of the reasons we are led to believe that we can continue to follow these policies that cost us tremendous outlays of our international monetary stock is that we have this $5 billion favorable trade surplus. When you check into that you find out that is not true either. Instead of having a surplus you have a deficit. When you check it out, you find, just as we said in the resolution, that the reason we have to do this is not that we are mad because Germany did not keep her word, not that we are mad because De Gaulle did not keep his word, not that we are mad because Britain did not do their part. It is just that we are broke. As Senator Symington likes to say about this matter, there were two little boys trying to get another little boy to play craps with them and he said, I cannot play craps with you for six reasons. What are the six reasons? Well, in the first place I do not have any money. Just forget about the other five reasons. [Laughter.] And that is the basis of what we said in our resolution yesterday.

Now, what you say here is relevant to that problem. We are asked to go for a trade policy where we give away advantages to people who want to put more things in this country, perhaps without getting something equal in return. The easiest way to make a bad agreement is to be under a misapprehension of the facts when you start out. I think we had better get the right figures and tell about this deficit instead of surplus so we will know what we are trying to do.

Mr. STEINBERG. But, Senator Long, I am not saying that we have a trade deficit. And I am not saying that the way in which the U.S. Government records its export data and import data is a fallacious method.

What I am saying here, in order to show a balanced judgment of this, is that while I oppose Senate Joint Resolution 115 for various reasons, I also hold no brief for the arbitrary use of this $5 billion, or whatever is the trade balance figure, as an indication all by itself that the American economy is highly competitive in the world and can afford anything in terms of the scope of our relationships with the world.

Senator DIRKSEN. But, Mr. Steinberg, yesterday we approved a Food For Peace bill, so we will be giving away another $5 billion, and, or course, it has got to be shipped and it has to be evaluated at least because we take it from Commodity Credit Corporation. Every year they are up here to repair their capital stock which is a mandate of the Corporation, and so it takes money out of the trade movement. But it will show up in the trade balance. So if we have a $5 billion surplus now, give them another $5 billion in Food For Peace, we will have a $10 billion surplus. Then when we start bargaining around or do this, they say, oh, we can afford to be compassionate and generous. We can afford to lower the bars now because, look, we have got a $10 billion surplus and international trade is a two-way street, when, as a matter of fact, it will be a colossal deception. You cannot do business on the kind of figures we have been using.

And now you have one other thing you say in the statement on which I have to comment. You said—

it is disconcerting indeed to find ourselves faced even today with strong, highly effective pressures either to stop the clock or to turn it back.

I do not know of a soul in this universe who has pressured me to introduce Senate Resolution 115. Why, Mr. Strackbein was here a moment ago. He is more or less a professional. I do not think Mr. Strackbein has been in my office in the last 4 years or maybe longer.

So you speak about pressures. I do not know of anybody that has put any pressure on me. I put some pressure on myself in the interest of the integrity of our figures because when Government does this and sends them out broadcast, it is a deception and after a while there is a complete loss of confidence in Government statistics, and it is about time we are beginning to question a lot of these statistics, like the gross national product, where you get $60 billion with inflation right off. Nobody talks about and nobody talks about the duplications in that figure but hail this great thing. Seven or eight hundred billion dollars of gross national product. We can afford any old thing.

When we finally ascertain the truth, and this is the only way to ascertain it, then for the first time we can render a balance sheet on this country and see where we are. And it has not been done in 180-odd years and it is time we have a balance sheet and show where we are, liabilitywise and assetwise. And that includes our foreign trade.

Mr. STEINBERG. Sir, nothing I have said should be interpreted as implying any pressures on the distinguished Senator from Illinois.

Senator DIRKSEN. Oh, I am sure of that.

Mr. STEINBERG. I know, sir. I do not want to impute any unsavory motives to what you have introduced in this resolution. I can understand the reasons you have given. I fully agree that the data, whether it be GNP or whether it is trade data, should be as clear as possible and tell the American people the complete truth and not try to deceive anybody. Sometimes what some may regard as deception or deceptiveness is not intentional on the part of the people who use it. They are doing the best job they can.

I can see the point you are making but I think, sir, that the real need is not Resolution 115. The real need is on the part of government people in this instance, and others who use these figures, to make more responsible use of the figures that are available. When they do discuss the competitive position of the United States, I think they are at fault if they say "Look at our huge export surplus," without bothering to explain some of the refinements that one has to understand for a proper interpretation of that export surplus.

So the need, sir, is I think better analysis and better public usage and more explanations of these figures rather than the kind of requirement of additional data that you refer to.

Senator DIRKSEN. Where you get with an analysis of a mistaken figure, you wind up with a larger mistake.

Mr. STEINBERG. No. Sometimes there is too much quest here for very simple answers. There is no simple answer. There is no simple figure that describes the competitive position of the United States. People ought to be more responsible, that is really what I am saying, in their choice of figures to show whether we are competitive, and not try to search for one figure.

Now, I dare say that whether or not 115 passes the Senate, I fully expect in the years ahead that my opponents in the trade policy vineyard will make every effort to show the American people a very simple figure to indicate what they regard as a measure of the competitive position of the United States. And the figure that they will find, that they will calculate, will be one that will unsoundly increase the imports and unsoundly decrease the exports and then they will say "Look, we have no trade balance at all."

So that anyone who really searches for a simple figure to measure American competitiveness is at fault. This is a highly complex subject and this is really the point I am making.

Senator DIRKSEN. Mr. Chairman, I think this little statement from the Wall Street Journal ought to be incorporated in the record.

The CHAIRMAN. So ordered.

(The article referred to follows:)

[From the Wall Street Journal, Aug. 25, 1966]

U.S. TRADE SURPLUS NARROWED DURING JULY AS IMPORTS ROSE 4.3 PERCENT

Exports Declined by 1 Percent From June to an Adjusted $2,460,400,000; 4-Month Excess Total Also Fell

(By a Wall Street Journal Staff Reporter)

WASHINGTON.—The U.S. trade surplus narrowed in July as imports rose 4.3 percent while exports fell 1 percent from the preceding month, the Commerce Department said.

Imports for July climbed to a seasonally adjusted $2,206,800,000 from June's $2,114,900,000. Seasonally adjusted exports declined to $2,460,400,000 from $2,485,800,000.

The department's Census Bureau cautioned as usual, though, that one month's movement in the trade statistics isn't necessarily significant.

The trade surplus is the major favorable factor in the U.S. balance of payments. Other transactions in recent periods have combined to cause a payments deficit, which occurs when foreigners acquire more U.S. dollars than they return to the U.S.

For the latest four months, imports have run at an adjusted annual rate of $25,590,000,000, about 8 percent above the pace of the preceding four-month period. The adjusted annual rate of exports in the last four months has been $28,925,000,000, about 1 percent higher than the rate for the earlier period.

Thus the four-month $3,335,000,000 surplus at an annual rate was down from the $4,921,000,000 rate of the four preceding months.

The export figures don't include shipments under the Defense Department's military-assistance program that amounted to $99,900,000 in July.

Senator DIRKSEN. What he says, I will just skeletonize:

July imports rose 4.3 percent, exports fell 1 percent. For the latest 4 months, imports have run at an adjusted annual rate of $25.5 billion, and export for the last 4 months at an annual rate of $28.9 billion.

So we are in a beautiful position for the 4 months, a surplus of $3.3 billion.

I do not believe it and it is not true, and that is the deception that is in this thing, and it has got to be cured.

Now, what do you think would have happened when Henry Eiffel, the great Belgian engineer, went to the Board of Commissioners in Paris and said, I want to build the Eiffel Tower and they said no. Winds up from the Atlantic will blow it over. I will tell you what I will do to show you my confidence in my engineering data. I will put a platform up 550 feet and I will live there for 6 months.

He had a hard time with them but he built it. The people in Paris expected it to blow down. It has been there I think for 65 years.

He knew his stuff. His engineering data was sound.

Now, that is all I ask. I want the trade data to be sound and accurate and true.

Mr. STEINBERG. I say hear, hear.

Senator DIRKSEN. How in the world are you ever going to cure your problems unless you do, and no engineer in this town would undertake to build one of these many buildings that go up unless he takes his soundings and he knows all about stresses and strains and he builds accordingly and they stand.

Now, if we are going to hew out a proper trade policy it is going to be done only on the basis of factual data that will stand up in the sunlight.

I have nothing more to say.

Mr. STEINBERG. Sir, the data that we need, most of the data we need for this purpose, are available. The Government people ought to be presenting it to the American people——

Senator DIRKSEN. Oh, they ought to.

Mr. STEINBERG (continuing). In highly intelligent fashion but that does not mean that—that does not justify the enactment of 115, it seems to me.

Senator DIRKSEN. Oh, is that so?

Mr. STEINBERG. That is my belief, sir.

Senator DIRKSEN. That is one man's opinion.

Mr. STEINBERG. Yes, sir.

The CHAIRMAN. Did you hear the example I gave yesterday about the fellow running a little air service, the airplane business?

Mr. STEINBERG. No, sir.

The Chairman. Well, some friends of mine bought a little airplane and they were working their way through college teaching kids how to fly. The two older brothers signed up to go away to war just before we got into war. They were ferrying planes to Britain.

The younger brother took over and ran the business on a cash-in, cash-out basis. At the end of every day he had more money than he started out with, but after a year he was broke. He went down and hired an accountant to help him figure it out and the reason was he had no reserve for depreciation. He was not setting aside anything to replace capital.

So when the year was gone, he found the depreciation expense—the plane was pretty well worn out, and the lease had expired and those two big items fell due and he was just out of business.

Now, that is why you hire an accountant, so you will think about overhead and you will think about depreciation and depletion. It seems to me all we are talking about here is that we would just like to know what the whole picture is, not just part of it. We do not want to pick out the bright part and omit the gloomy.

Mr. STEINBERG. I could not agree more. The question is, how do you get it and I must say that when I first read 115 many months ago, and was trying to figure out what I would say about it if hearings ever took place, my feeling was that perhaps we could not oppose this absolutely. After all, how can one oppose a requirement for additional data on anything? The more data available the better. But we had one proviso, at least I did, and that was I could not oppose it absolutely unless the Senate Finance Committee in its report to the Senate, reporting this out, spelled out some of the caveats the people who use such additional data ought to keep very much in mind so as to avoid misinterpretation of the data.

But then as time went on I thought about this some more and it occurred to me that this requirement of c.i.f. data, in addition to the f.o.b. data now required, would tend to impose additional burdens on American importers because of the kinds of additional statistics of freight and insurance that they would have to work out for individual products under specific tariff schedules, and I sounded out some business people on this, spoke to some people in Government about it who are more familiar with the operation of the import trade than I am.

I asked, "Would it tend to impose burdens on U.S. importers?" And without exception they said that it would. And therefore it was after this kind of reflection that we came before you today with the kind of judgments you see in the statement.

Senator DIRKSEN. Did somebody have a chance to put in the other side of the case to your business friends or was it an ex parte proceeding?

Mr. STEINBERG. The other side being what, sir? The point you have been making this morning? Well, I understand fully the other side. You see, my feeling is, sir, that if you are going to make changes in the trade figures in order to come up with a trade-balance figure that adequately measures the competitiveness of the American economy, I think you ought to take out half the American imports because they are noncompetitive with American production, roughly.

Senator DIRKSEN. By the way, before we conclude, I have got to admit of one pressure on this. It is 40 years old because it is 40 years ago this year that I was elected to take over the finances of this city. The man who preceded me was old enough to be my father. He was elected term after term. He was glorified, lionized to the skies.

We had a municipal streetcar system, six rides for a quarter. Everything was ducky. So I march into the clerk's office when I took over and I said, "Let me see your streetcar account." He said, "Well, it is very simple. We keep it all in one book. On this page what we take in every day, what the motormen turn in, combination motormen-conductors. On this page what we pay in repairs, et cetera. At the end of the month, we draw a line, we have got a surplus."

I said, "Let me see your depreciation account." He said, "Depreciation account?" I said, "Yes." He said, "Well, we have none." "Well", I said, "Have you looked at these streetcars? They are ready to fall over—collapse." I said, "How are you going to buy new streetcars"?

"Well," he said, "You cannot buy them unless they levy and appropriate out of the city treasury." "Well," I said, "I got the impression that six rides for a quarter, this was a self-sustaining business," and here I was going to wind up needing a hundred thousand dollars to buy new streetcars and no money, not a nickel. I said, "This is a great way to run a railroad."

Now, we installed a system and we got rid of those cars and went to buses and it is still municipally owned, but at least it is on a basis where the figures accurately reflect what the condition is.

That is the thing I inherited 40 years ago. So you can see this is nothing new with me. This has just been building up. Where are the facts?

Mr. STEINBERG. Well, I am——

Senator DIRKSEN. The real facts?

Mr. STEINBERG. I am all for the facts and I am all for the real facts. May I just make a very brief comment. I know there is no time to discuss the balance-of-payments situations but, if I may, I would like to say that I do not think we are going broke and I do not think that the American balance-of-payments problem, much as we should be concerned with it, is as serious as it has been painted to be and here again, sir, there is the question, How do you measure the balance, the total balance of payments? There are many views as to what is a proper balance. But I do not think we are going broke. I thought I would say that——

Senator DIRKSEN. Did you find anything about balance of payments in Senate Resolution 115?

Mr. STEINBERG. No, sir; nothing at all. I am just responding to a comment that was made from the other side of this table.

Senator DIRKSEN. Thank you.

The CHAIRMAN. Well, you will find a lot of differences of opinion about that balance of payments.

Mr. STEINBERG. I know that.

The CHAIRMAN. And we have a bill in this committee right now that we think we are planning to pass which is trying to do something about that. The Secretary of the Treasury thinks that the situation requires action and that we had better start protecting our balance of payments. There are a lot of Senators and a lot of Congressmen and a lot of people in the Bureau of the Budget and a lot of people in business who think it has gotten to the point that we have to start getting our house in order. It is not good, and something has to be done about it.

Mr. STEINBERG. I just think, sir, that much as I believe we should economize on all sorts of things—both at home and in our payments to the rest of the world—I am very much concerned about the kinds of proposals that have been made with respect to economy, because I think that they have not really been thought through. Some of these proposals on how to solve the balance-of-payments problem, I think, would only tend to hurt our balance-of-payments position.

The CHAIRMAN. Thanks very much.

Mr. Leonard Shayne.

STATEMENT OF LEONARD SHAYNE, CHAIRMAN OF THE CUSTOMS COMMITTEE OF THE NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.

Mr. SHAYNE. Sir, because I am a stranger in these Halls, I would like to take a moment to introduce myself. My name is Leonard Shayne. I am chairman of the customs committee of the American Importers, on whose behalf I here appear. For 12 years, I lectured on foreign trade at the Baruch School of Business Administration in the City College of New York. For 20 years I have been a foreign freight forwarder and a customs broker and in the latter capacity during this time I have prepared or supervised the preparation of more than 300,000 customs entry documents and shippers' export declarations which are the directors of U.S. Government import and export statistics.

The National Council of American Importers has previously submitted a statement to be incorporated in the record, and this morning I submitted an additional statement which I would appreciate having incorporated. But I shall, if I may, make a few remarks entirely aside from both of these statements and try, if I may, to address myself directly to the matters which you and the Honorable Senator Dirksen have raised this morning.

I must, however, take a moment to state our policy position regarding bill S. 3522. We welcome the assembly and publication of data which will be of help to the Congress and to interested persons. However, it is to be hoped that this can be accomplished by the Secretary of Agriculture with the use of data already available to him and without imposing additional burdens of redtape and reporting on exporters and importers. We trust that this will be incorporated in the bill.

Reporting requirements can be very costly to us and in these times we and, indeed, the Nation, can little afford additional nonproductive expenses.

We note with approval the requirements in this bill that the reports be reviewed by the Comptroller General, for him to certify whether or not such reports are in conformity with generally accepted accounting principles. As far as Senate Joint Resolution 115 is concerned, we note that there is no requirement in this resolution that such reports be in conformity with generally accepted accounting principles.

Sir, we are not surprised at this omission as we deem it impossible for such reports to conform to those principles or to principles of good statistical practice if they are to include something described as landed value. We are interested in the truth. We agree with Senator Dirksen that what is wanted is data which is accurate, true, and sound. We also agree with his comment, where do you get with an analysis of mistaken figures? You end up with a bigger mistake.

Sir, when I was a boy, my father once put a question to me that went like this: "Son, if you have five apples of unequal size, how would you divide them equally among seven boys?" I looked at him with a look of puzzlement on my face, and his answer to me was "Make applesauce."

I am very much afraid that the approach to the statistical problem which we all face in analyzing our foreign trade, which is proposed by this resolution, is one which will make applesauce of our trade statistics. I do not think that we will learn anything from it.

Let me point out, if I may, just some of the complications that arise. Out statistics at present are based on something described as—and it is an idealization—foreign value. They are not exactly that, sir. They are said to be that, but they are not. Those import statistics come from the customs entry. They are the values shown on the customs entry. But the Congress in its wisdom, in order to arrive at entered values, has prescribed nine formulas. Seven of these formulas are alternates. Two of them are special formulas to apply to special price.

An importer must analyze the circumstances of trade surrounding his purchase or import in order to decide which of these formulas apply. The Customs must reanalyze it to see if the importer has done the right job and then the importer must calculate his duties based upon the entered value which he calculates.

This is a long, laborious, difficult problem. The proponents of this bill come along and in a very few words, in a very simple way, they say, and I put, simply, in quotations, "Well, now, let us add to that foreign value the cost of transporting the goods to the United States and the cost of insurance."

Sir, if we must calculate one value for entry purposes and another for the purposes of arriving at landed values, we are going to be in a very difficult situation because there are many problems and complications surrounding landed values. For example, sir, if you were to import something at the port of New Orleans by vessel and import the same thing at the port of Los Angeles by vessel, you would arrive at two different landed values. If you were to import them by airfreight you arrive at still another landed value. There is a countless multiplicity of landed values which would apply to the same article from the same source at the same foreign value but imported at different ports by different means. This imposes one problem.

There are others but I am not going to waste your time by going into them because it is in our statement. I would like to plunge to the heart of the matter which is to analyze the suggestions that have been made by Mr. Strackbein which indicate that landed values would give a truer picture of our foreign trade but we do not agree. To begin with, sir, we look upon the United States as a family. If my wife sends my son Billy down to the corner grocery store, which I consider to be foreign, to bring back a bag of groceries costing $5, and she pays my son Billy a dollar for doing it, the cost to my family of that bag of groceries is $5, not $6, because she paid Billy a dollar and Billy is part of our family.

If, on the other hand, she pays the groceryman the dollar to deliver the groceries to us, then that bag of groceries cost our family $6.

I quite agree in that instance the landed value is the real cost to the United States. But in the instance where the goods are, now to switch similes, imported on American vessels and insured by American companies, landed values as a cost to the American people are a false picture and since we have trade going on in both ways, if we properly account for our import trade we are going to have a mixture of these two kinds of statistics. We will not have reasonable or meaningful answers.

Sir, let us carry the situation a step further. It has been said we should value exports at the net export price at the point of export and that we should value imports at the landed price at the point of import. Doing a little arithmetic along this basis, and realizing that all the world's exports are all the world's imports, we would end up roughly speaking with total world exports of $135 billion but at the same time with statistics showing total world imports at $150 billion.

Now, according to the principles of accounting which I learned, debits equal credits. Credits equal debits. An import is an export. An export is an import. They are equal but not when you have some form of statistics which end up making imports always higher than exports.

Mr. Strackbein submitted a report. It is part of the resolution which Senator Dirksen submitted to the Senate. This report had some figures in it which purported to show that whereas the Department of Commerce inaccurately, he says, reported our trade for the 3 years 1962, 1963, and 1964 with Japan as an export surplus, the real fact, he says, is that we had an import deficit. Senator Dirksen viewed these figures with some alarm, and well he might. If we had an export deficit, I would not be happy about it, and if these figures showed incorrectly what was happening, that is, if the Department of Commerce figures showed incorrectly what was happening, I would not be happy about that either.

But I submit to you, sir, that the figures that I think are incorrect and would show incorrectly what happened are the figures that Mr. Strackbein has submitted because of the methods that he has used to analyze them.

Mr. Strackbein says, sir, that we should take U.S. imports and value them at the landed values in the United States, that we should take U.S. exports and value them at the value, at the points of exportation from the United States, and that when we compare these, we end up with a U.S. deficit for the 1962, 1963, and 1964 figures of $677 million.

The Department of Commerce said, on the other hand, if we take exports and imports valued at their point of export from the respective countries, we end up with a U.S. surplus of $413 million.

The question is who is right? We certainly have two opposite points of view.

Well, what I did was to submit this to analysis on the basis of using Mr. Strackbein's figures from the opposite point of view. Let us look at the Japanese trade figures, take a trip to their country, look at Mr. Strackbein's figures, see what it shows about Japanese trade with the United States.

The CHAIRMAN. Pardon me just one moment. I will be right back.

(There was a short recess.)

The CHAIRMAN. Sorry to keep you waiting. Let us see. Could you summarize this?

Mr. SHAYNE. Yes, sir. I am about to make my closing remarks.

I was pointing out that according to the proposed method in Senate Joint Resolution 115 of valuing our imports at the landed values in the United States and valuing our exports only at the value at the point of export, that according to this method, if one analyzed our trade from 1962 to 1964 and accepted those figures, one would end up with a U.S. deficit with Japan of $677 million.

So I say, well let us take the same figures. Let us see what it does to the Japanese analysis of the trade on the other side. We would expect an equal reaction, left to right reversal, but otherwise equal as good accounting methods would bring about. But when we do that and we use the Japanese export figures at their port of export and use their import figures as c.i.f. landed figures in Japan, lo and behold, we end up with a Japanese deficit also. So both countries trading with each other show deficit figures.

Now, I submit that that kind of accounting is not very good accounting. It is not very illuminating. It is not going to shed a lot of light on the subject. It is not going to help any one of us to understand what is going on.

That is the sum and substance of our arguments.

The CHAIRMAN. Well, I have heard it said many times that figures do not lie but liars figure. When I try to make a case, or when anybody tries to make one, we get whatever information we can and we use it the way we think we ought to, to buttress our case, or to lead to a conclusion. My thought about the thing is that if somebody would like to have certain information and it is not too difficult to get, I just want to get it and see what it shows.

I notice here that Commerce said yesterday that they are sufficiently far ahead on this project that in perhaps 2 months they will be in position to publish for the public c.i.f. information for the first 6 months of 1966 and they will continue this project for the second 6 months of 1966, at the conclusion of this calendar year, and they will publish for the two half-years as well as the whole year what the c.i.f. adjustments would be.

They will do that, we think on a reasonable estimate basis.

Now, I have some doubt whether it would serve the point to spend a million dollars to get one-tenth of 1 percent closer to something you can get with a good estimate. It might be that some of the additional information that we might be interested in could also be summarized. A lot of that, I understand, is published already.

Mr. SHAYNE. Sir, we go along with that. We are just extremely worried about the amount of burden that might be thrown on us if we are asked to calculate a separate c.i.f. value for every article that we import. This would be very costly to us, very burdensome and very costly to the Government as well.

The CHAIRMAN. Well, we might be close enough just arriving at a good intelligent guess. So far as I am concerned, if you are within one-tenth of 1 percent of what you want to know, spending another million dollars perhaps serves no particular purpose. So we will try to find a way to work it out not to be too burdensome on you or others.

Mr. SHAYNE. Thank you.

(The statements of Mr. Shayne follow:)

STATEMENT BY LEONARD M. SHAYNE, REPRESENTING NATIONAL COUNCIL OF AMERICAN IMPORTERS

POLICY POSITION

NCAI is strongly opposed to the Joint Resolution (S.J. Res. 115 and H.J. Res. 696) presented to the House and Senate in October 1965. This resolution, under the guise of proposing more accurate statistics of the U.S. foreign trade accounts, actually proposes one-sided changes that would create an erroneous impression about the role of imports in the overall U.S. balance of payments. The purpose appears to be to lay the groundwork for further moves to restrict imports. We find the resolution to be factually incorrect, theoretically unsound, and internationally provocative and self-defeating. NCAI considers the joint resolution to be a purely protectionist measure which is against the interest of American consumers and the U.S. import industry, obstructive of U.S. international trade policy and devoid of statistical or theoretical virtue. NCAI recognizes the need for continuous efforts to improve our international trade statistics, and to negotiate statistical procedures that will improve international comparability. Unfortunately, the proposed changes do not lead in this direction. For all these reasons, NCAI opposes both the spirit and the letter of the joint Resolution.

BACKGROUND

At the present time, *import* statistics compiled by the Bureau of the Census of the U.S. Department of Commerce, report the dollar value of imports on the basis of their market value packed and ready for shipment at the port of exportation in the country of origin. It may be said, therefore, that import statistics are based on the FOB value. In *export* statistics, value reported is based on the value of exports at the United States seaport, border point, or airport of exportation. This value also may be said to be the FOB value of articles exported from the United States. In other words, FOB is the basis for reporting *both* imports and exports. The United States has always reported value of imports and exports on this basis.

In effect, these resolutions would direct the Secretary of Commerce to report *imports* on the basis of CIF value, but do not require him to report *exports* on the same CIF basis. They would not require the Secretary to discontinue the present system of reporting imports and exports.

According to the sponsors of these resolutions, reporting *imports* on the basis of their CIF value is required in order that a more accurate appraisal may be made of their effect on United States economy. They claim that FOB value results in an appreciable undervaluation of the cost of imported goods, thus making imports look small in relation to exports. This overstates the size of the export surplus and in turn exaggerates the importance of the export surplus as a plus factor in the calculation of U.S. international balance of payments.

On the basis of the present method of compiling statistics, an export surplus of $6.9 billion was reported in 1964. But the sponsors claim that on an FOB basis, imports are undervalued by 17½%. Adding this 17½% to the $18.6 billion of 1964 imports to put them on a CIF basis would result in an increase of $3.25 billion, bringing the total value of 1964 imports to $21.85 billion on a CIF basis. This would cut the trade surplus of $6.9 billion for 1964 to $3.65 billion, or almost in half. (This on the basis of reporting exports on FOB and imports on CIF.) In the same way, if imports are reported on a CIF basis, the large export surplus shown in U.S. trade with individual countries will diminish, or disappear. For instance, instead of an export surplus of $139 million in trade with Japan in 1964, the U.S. would have an import surplus of $257 million.

There can be only one explanation for the demand that imports be reported on a CIF basis, and to identify those exports whose production is "subsidized" by the Government, i.e., military assistance supplies, grant-in-aid supplies, surplus agricultural commodities sold to certain countries for their currency and not for dollars under P.L. 480, etc. This is to show that imports are larger than they are reported to be; and that actual commercial exports for which the U.S. obtains dollars are not as large as we have been led to believe. This situation has two consequences: (1) The claim can be made that imports worsen the balance of payments situation; and (2) the claim can also be made that the U.S. boast of being able to compete in world markets is exaggerated because the large export volume is bloated by including in it goods given away, or for which worthless foreign currencies are accepted.

By pressing these views, imports can be shown to be the villain in the piece. Then it would be easy to agitate all kinds of restrictions on them and for torpedoing the Kennedy Round, since if the U.S. cannot compete, it cannot afford to participate in any move which would require reduced rates of duty and other non-tariff barriers to international trade.

In speeches in the Congress, the sponsors attributed all the information and reasons for introducing their resolutions to O. M. Strackbein, the high priest of protectionism. For this reason, there is very good ground for believing that the reason for these resolutions is not the U.S. balance of payments position or its competitive position in world markets, but to create another protectionist device for the restriction of imports, including eventually, assessment of duty on the CIF value, with the consequent increase in the amount of duty importers must pay.

FACTS WHICH DESTROY SPONSORS' ARGUMENTS

Freight & Insurance

The sponsors of the resolution have claimed that freight and insurance constitute some 17% of the landed value of imports. The Department of Commerce obtains from Customs, data on the transportation costs of imports, and provides this information to the International Monetary Fund and other international agencies which use CIF import figures for international comparison. Data on insurance are not available in sufficient detail to measure their share of the landed value of imports, but the IMF makes reasonable estimates of the insurance costs, and is thus able to compute U.S. imports CIF. Their CIF import data for the United States, published in their monthly bulletin, have run about 10% above the FOB figure—a little more than half the amount quoted by supporters of the resolution. Even this is too high. The relevant figure for balance of payments purposes should exclude payments to U.S. shipping and insurance companies, since such payments do not involve a dollar outflow. If this adjustment were made, the CIF import numbers would probably be no more than 6 or 7% higher than the FOB import numbers. It would be useful for analytical reasons, though costly, to obtain the direct foreign exchange cost of U.S. imports, to be reported in the balance of payments tables as a memorandum within the service import account.

This is *not* what is recommended in the Resolution, and it would yield a much smaller figure than the Resolution's sponsors seem to desire.

U.S. shipping and insurance companies earn from foreigners not only in connection with U.S. exports, but in connection with trade between third countries. The total of such foreign earnings (a service export on our balance of payments) has been almost equal to the total shipping and insurance expenditures made by U.S. companies to foreigners. Therefore, if U.S. *exports* of merchandise, insurance and transportation services were balanced against *imports* of merchandise, insurance and transportation services, the balance would not look much different than the merchandise trade balance as presently calculated.

Government Subsidized Exports

The Resolution proposes that the Department of Commerce in all its publications of trade figures show exports, the production of which has been Government subsidized, as well as exports otherwise financed by the U.S. Government. It should be noted that Commerce now provides separate data on exports financed by Government programs. Two comments should be made on the proposed statistics: First, if all exports which contain any Government subsidy were included, precious little would be left. What is intended, of course, is to classify primarily farm exports in a way that would suggest that the exports would not have been made in the absence of the subsidy. Such classification would be most misleading, since it can be argued on economic grounds that in the absence of all Government subsidies, U.S. farm exports would be at least as large as they have actually been. Second, to subtract from our exports those directly financed by the U.S. Government under U.S. aid programs (as can be done with currently available statistics) is an ambiguous procedure. Most trade experts would agree that some part of exports under U.S. aid programs would have been made commercially in the absence of the aid program. These are difficult problems, not solved by simple statistical tricks such as the proposed export classification.

Services

Although it is reasonable to include the import of *services* as a part of imports, and even to isolate those service imports connected with merchandise imports, it is important to treat exports in a symmetrical manner when striking a trade balance. The two commonly used measures in U.S. statistics are the *merchandise trade balance*, in which both exports and imports are measured FOB, and the *balance on goods and services*, which includes tourist travel, military expenditures, and numerous other items as well as freight and insurance connected with trade. If a third balance, including freight and insurance, is to be added, the logic of international accounting would suggest that imports, plus the foreign exchange cost of freight and insurance against the imports, be balanced against exports, plus payment to U.S. companies for freight and insurance costs that may be involved. Since freight and insurance costs of imports are somewhat greater than freight and insurance earnings by U.S. companies from U.S. exports, the U.S. surplus on this basis would be somewhat smaller than as presently calculated. The underlying trends in our trade balance would not be significantly modified, however.

Additional Statement by Leonard M. Shayne, Representing National Council of American Importers

QUALIFICATIONS OF WITNESS

My name is Leonard M. Shayne, Chairman of the Customs Committee of the National Council of American Importers, on whose behalf I here appear. For twelve years I lectured on foreign trade at the Baruch School of Business Administration of City College of New York. For twenty years I have been a foreign freight forwarder and a Customs broker. In the latter capacity during this time I have prepared or supervised the preparation of more than 300,000 Customs entry documents and Shippers Export Declarations which are the direct source of U.S. Government import and export statistics.

It is obvious from the foregoing that I have a personal interest in the growing foreign trade of the U.S., but I also have strong beliefs in its contribution to the well being of the people of the United States.

The National Council of American Importers has submitted a written policy statement on the S.J. Res. 115 and I submit for your further consideration an additional written statement herewith. I appreciate this opportunity to amplify these written statements by a few remarks.

POLICY POSITION REGARDING BILL S. 3522

With regard to S. 3522 requiring the Secretary of Agriculture to report each year certain information relating to the import and export of Agricultural commodities, the National Council of American Importers welcomes the assembly and publication of data which will be of help to the Congress and to interested persons. However, it is to be hoped that this can be accomplished by the Secretary of Agriculture with the use of data already available to him without imposing additional burdens of red tape and reporting on exporters and importers, and we trust this will be incorporated in the bill. Reporting requirements can be very costly to us, and in these times we, and indeed the nation, can little afford additional non-productive expenses. We note with approval the requirement that the reports be reviewed by the Comptroller General for him to certify whether or not such reports are in conformity with generally accepted accounting principles.

POLICY POSITION REGARDING S.J. RES. 115

NCAI is strongly opposed to S.J. Res. 115 which would require reports on imports into the United States to include the landed value of articles imported. We note no requirement in this resolution that such reports be in conformity with generally accepted accounting principles. We are not surprised at this omission as we deem it impossible for such reports to conform to those principles or to principles of good statistical practice.

Reasonable men interested in the truth should be interested in additional facts and figures to shed some light on the breadth and dimensions of our foreign trade. However we question the validity of the evidence based on the figures it is proposed to have importers submit and government agencies tabulate, and we do not think it would be worth the cost and effort involved.

PRESENT IMPORT STATISTICS

May we briefly review the kind of import statistics we have at present and their source. They are defined as "generally the market value in the foreign country . . . reported on import entries in accordance with Sec. 402 and 402a of the Tariff Act . . ." More precisely, the import values presently shown in Dept. of Commerce publications are the "taxable" value (in tariff parlance, the "dutiable values") which are indicated by importers on the tax returns (known as "Customs entries") which are filed on each import shipment at the time of its arrival. These values are calculated by applying to each imported article the proper one of seven alternate formulae (or two additional formulae for special merchandise) which Congress deemed necessary to legislate in order to arrive at a fair approximation of the "market value in the foreign country". The formulae are extremely complex and have been subject to continual litigation in the Customs Courts in order to determine the meaning of every sentence, clause, word and comma therein. Needless to say the calculations are difficult and laborious and must be reviewed and audited by Customs Appraisers.

It is the "dutiable" values which are then used for our import statistics, for you see gentlemen, we Customs brokers and importers are filing tax returns and calculating taxes. The import statistics are a by-product.

Some characteristics of these figures are worth noting:

1) They do not coincide exactly with commercial reality, that is, the money actually paid for the imports in the markets of foreign countries do not equal the figures shown as the value of the imports. The various valuation methods prescribed in our Tariff make some import figures appear *higher* than the actual purchase prices. For example, goods dutiable on American Selling Price such as "sneakers" (rubber soled shoes with canvas uppers) or Coal Tar chemicals and pharmaceuticals will show generally much higher import values. Perfumes from France valued at "Cost of Production" (a mis-nomer in that it means something else) will often show higher import values. There are many other articles similarly valued which only a very knowledgeable person will be aware of.

2) For a particular commodity from one foreign supplier there will be but one import value regardless of variations in the size of the shipment, the method of shipment, or the port of the U.S. to which shipped. The one value is fixed at the moment of, and at the point of exportation.

3) The import statistics as the U.S. collects them are a grab-bag of dollar amounts without regard to the methods of valuation used. Notwith-

standing this they probably approximate roughly and generally the market values in the foreign countries at the ports of export.

4) The present import values, like the present dutuable values, have the merit of being the same for everyone regardless of the port of importation. (Landed values will be found to differ for various ports of importation.)

PROBLEMS AND SHORTCOMINGS OF PROPOSED STATISTICS ON IMPORT VALUES

The proposal before you is to amass additional statistics which will include in the value of imports the costs of delivery to this country from each foreign source. To the commercial reality of the cost of actual merchandise, and to the tariff methods of determining import values of merchandise, is to be added the additional task of establishing import values including insurance and shipping charges incident to landing the articles at the port of entry. But, gentlemen, the proposed method for establishing import values in this new category is but poorly defined, and no matter what detail you may add, there will be substantial problems—and we importers are the ones who will bear the brunt of it.

As an example of one type of problem, if we evaluate and calculate "constructed value" (only one of the 9 U.S. methods) as the basis for entry under Sec. 402 of the Tariff Act, the proposal states that we must add landed costs to "foreign value". Are we therefore to evaluate and calculate "foreign value" (another of the 9 U.S. methods) also under Sec. 402a, to which we must then add shipping charges? and insurance charges?

Our present system has the merit of arriving at but one import value for all imports of the same article from the same source at the same time. Under the proposed method there will be many different landed values for the same imported article. Many factors will affect landed values such as size of shipment, method of shipment, distance, preferences of buyers, or commercial necessities. As an example, for the same article, with the same foreign value, from the same source, we will have many landed values—one for shipment to New York and another for Chicago, and a third for Los Angeles. At this point we have 3 possible landed values. If air freight is used, we increase to 6 possible landed values. The number of landed values multiply as there are variations in air freight rates as shipments get larger or smaller or bulkier. The possibilities continue to multiply again due to the many variations in ocean freight rates depending upon whether one has chartered, used conference or non-conference lines, or has a contract with the conference or not.

Now add the variations of insurance costs which result from various rates applicable to different modes of shipment, different methods of packing, different risks to be covered, and different rates applied by different underwriters. At this point we are in a jungle of figures and are staggered by the multiplicity of possible landed costs. Under S.J. Res. 115 all these differing figures will be merged in the statistical compilations, but the burden of calculation and report by importers and of verification by Customs officials will be enormous. And if you merge a mass of such dis-similar figures, are the results of any real meaning? We submit that the calculation of these additional statistics would be very burdensome and very costly to importers and government agencies alike, and that these statistics would be of doubtful value. The information desired by this resolution does not exist in a data processing computer, gentlemen, requiring merely the pressing of a button. It will require real hard old-fashioned pencil and paper work and will impose a real hardship in the processing of millions of import shipments annually.

ANALYSIS OF LANDED VALUES OF IMPORTS AS A NATIONAL COST

Let us see what the proposed landed value import figures are supposed to yield. It appears that what is sought is the cost to the U.S. of imports in dollars which affect our balance of payments. If the imports are brought to this country in U.S. vessels and insured with U.S. insurance companies, then we are paying these dollars to ourselves as a nation and the landed value import statistic is an overstatement and gives a false picture of national dollar costs. It is a false picture of the effect on the balance of payments.

It is a fundamental error for balance of payment purposes to add all shipping and insurance costs to foreign merchandise costs in order to arrive at landed values. Shipping costs and insurance costs are costs necessarily incurred, but should not be accounted for as merchandise costs. They are separate and distinct and do not inure to the benefit of the foreign seller. They inure to the benefit of the provider of these services who may be foreign or may be American, but rarely is the same party as the foreign seller.

If we make a purchase abroad, and it is shipped to the U.S. in an American vessel and insured by an American underwriter, then its net cost to the U.S. is the foreign cost of the merchandise—not its landed value.

If we make the same purchase abroad and pay foreigners to transport and insure it, then its cost to the U.S. is indeed the landed cost.

However, precisely the same rules must then apply to foreigners who buy from us, and their purchases from us should be similarly measured if we want to fairly represent the situation. Accordingly our export statistics would have to be similarly "enhanced" to show "delivered" values instead of the values at port of export which we now show.

But these statistical procedures lead to difficult and confusing statistics with some imports of an article being properly valued at net cost to the nation and other imports of the same article being differently valued because imported on foreign flag vessels. The proponents' error is in treating shipping and insurance costs as merchandise costs by including all as part of the landed value of the merchandise. Breaking such figures down on a national basis, as an example, one importation of Japanese cameras on a Norwegian Flag vessel, insured by an English insurance company, requires the following treatment in order to be properly tabulated: the foreign value of the cameras to be shown as part of the total merchandise imports from Japan. The freight component must then be tabulated as part of the *merchandise* imports from Norway even though it is freight. The insurance component must be similarly tabulated as *merchandise* imports from England even though it is insurance cost. We begin to see how formidable accurate statistical analysis becomes in this kind of accounting.

Our present method avoids this complication by treating merchandise costs as merchandise costs, and shipping costs as shipping costs, and insurance costs as insurance costs. Each is tabulated and each is properly accounted for in our balance of payment statements *according to what it is*, under present U.S. Government procedures.

ERRORS IN ACCOUNTING METHODS APPLIED BY PROPONENTS

Lastly we must question the method of accounting used by proponents of this proposal which led them to declare that a more accurate appraisal of the effects on the United States economy of imports into the U.S. would be obtained if such reports also show landed values of imports. The question has been raised as to how truly our present statistics reflect our real balance of trade and it has been suggested that valuing imports at landed cost value would more accurately reflect the balance and might indeed reflect a deficit or close to a deficit at the present time. They suggest that all nations (and the U.S. particularly) should account for imports at landed values, and exports at values at the point of export.

In the method of accounting which I have learned, every debit is balanced by an equal credit, every sale matched by an equal purchase. If all nations were to account for their imports at landed costs, and account for all their exports at the costs at the point of export, then total world imports would exceed total world exports.

Using rough estimates as to trade totals for the purposes of illustration, but using the same methods of accounting and analysis as used by O. R. Strackbein in his analysis submitted to the Hon. Senator Dirksen, we find the following. Total exports of the world (valued at point of export) would equal say 135 billion dollars. But, on the other side of the coin, the same amount of goods valued at total imports enhanced by landed costs, would equal perhaps 150 billion dollars.

If every nations' exports are every other nations' imports, the two amounts should be equal. 135 billion dollars in exports does not equal 150 billion dollars in imports—the debits and credits do not balance.

If we agree that this does not seem to be in accordance with generally accepted accounting principles, then does accounting for exports at *delivered costs* abroad solve the problem? To do so we must add shipping and insurance costs to the export figures of 135 billion dollars in merchandise exports (thus adding the same amount as we added to merchandise imports in order to arrive at landed values) and we get 150 billion dollars in exports. However, although our accounts are now in balance, what we have done is to double the shipping and insurance costs. We have counted them once as part of the exporters' delivery costs and on the same items expressed as imports we have counted them a second time as landed costs. Worldwide shipping costs and insurance costs will be represented as twice what they actually are.

However, the proponents of the resolution do not propose the above procedure. They do not propose adding delivery costs to export figures—they only wish to add landed costs to import figures. The effect of this, as has been illustrated above, is to reflect a continual worldwide net deficit in merchandise trade. This seems somewhat ridiculous to me. Perhaps it does to you also.

The proper method of accounting is to evaluate merchandise at the point of export for both exports and imports—then export and import values will be equal and in balance worldwide.

To repeat, the shipping costs and insurance costs on the same goods are landed costs to the importer, but the very same costs are delivery expenses to the exporter of those goods. To avoid counting them falsely as one or the other, and thus falsifying the figures as to surplus or deficit in trade accounting, it is proper to account for them separately and allot them in the balance of payments according to whether they are national earnings or expenses.

Examples of the peculiar, and we believe incorrect, results brought about by the accounting and statistics favored by the proponents of this bill can be found in the charts submitted by O. R. Strackbein and appended to the statement of the Hon. Senator Dirksen upon presenting J.R. 115 to the Senate.

Totals 1962,1963 and 1964 (per O.R.Strackbein):

	U.S.REPORTS U.S.EXPORTS TO JAPAN	JAPAN REPORTS IMPORTS FROM U.S.
(1)	$ 5 037 000 000 FOB Port U.S.	$ 6 222 000 000 CIF
	U.S.REPORTS IMPORTS FR.JAPAN	U.S.IMPORTS FROM JAPAN (enhanced to CIF)
(2)	$ 4 624 000 000 FOB PORT JAP.	$ 5 714 000 000

According to Strackbein,trade analysis of U.S.trade:

	U.S. EXPORTS TO JAPAN	U.S.IMPORTS FROM JAPAN	U.S.DEFICIT
(3)	$ 5 037 000 000 FOB PORT U.S.	$ 5 714 000 000 CIF	$ 677 000 000 *

According to U.S. Department of Commerce method of analysis of U.S. Trade:

	U.S.EXPORTS TO JAPAN	U.S.IMPORTS FROM JAPAN	U.S. SURPLUS
(4)	$ 5 037 000 000 FOB PORT U.S.	$ 4 624 000 000 FOB PORT JAPAN	$ 413 000 000

Using Strackbein method of trade analysis, but applying as an analysis of Japanese trade:

	JAPANESE EXPORTS TO U.S.	JAPANESE IMPORTS FROM U.S.	JAPANESE DEFICIT
(5)	$ 4 624 000 000 FOB Jap.Port	$ 6 222 000 000 CIF	$ 1,598,000 000 *

Balancing proof of U.S. Department of Commerce method, by an accounting of Japanese trade:

	JAPANESE EXPORTS TO U.S.	JAPANESE IMPORTS FROM U.S.	JAPANESE DEFICIT
(6)	$ 4 624 000 000 FOB PORT JAP.	$ 5 037 000 000 FOB PORT U.S.	$ 413 000 000 (as above)

* BOTH COUNTRIES SHOW TRADE DEFICIT BY TRADING WIHT EACH OTHER AND USING STRACKBEIN METHOD OF ACCOUNTING

FOB (Cost of merchandise)
FOB U.S. PORT (Cost of merchandise at U.S. Port)
CIF (landed value - Cost of Goods, Insurance and Freight)

ANALYSIS (of U.S. - Japanese trade for the years 1962 - 1964)
(for the purpose of this analysis, we use Mr. Strackbein's figures)

CHART LINE

(1)	The U.S. reports exports valued at point of export from the U.S. (FOB U.S. PORT) at	$ 5 037 000 000
	The Japanese report these purchases as imports from the U.S. but they include landed costs (23½%) (CIF Values)	$ 6 222 000 000
	(The difference must be shipping costs and insurance between the U.S. and Japan)	$ 1 185 000 000
(2)	The U.S. reports imports from Japan valued at point of export from Japan (FOB JAP. PORT)	$ 4 624 000 000
	Proponents say the U.S. should report U.S. imports from Japan at landed costs which they estimate at (CIF)	$ 5 714 000 000
	(The difference must be shipping and insurance costs on the imports from Japan to U.S.)	$ 1 090 000 000
(3)	The U.S. reports exports to Japan valued at point of export from the U.S. (FOB U.S. Port)	$ 5 037 000 000
	Proponents say the U.S. should report imports from Japan at landed costs (including shipping and insurance costs (CIF) which they estimate at	5 714 000 000
	This shows an actual trade DEFICIT (say the proponents) of	$ 677 000 000 CLAIMED U.S. DEFICIT
(4)	The U.S. reports exports to Japan valued at point of export from the U.S. (FOB U.S. Port)	$ 5 037 000 000
	The U.S. reports imports from Japan valued at point of export from Japan (Japanese foreign value - FOB Japan Port)	$ 4 624 000 000
	This is the merchandise surplus shown now in U.S. Trade statistics and balance of payments accounting. Shipping costs and insurance costs are allocated as costs in the balance of payments if they are paid to foreign countries, and as income if they are furnished by us to foreign countries.	$ 413 000 000 U.S. TRADE SURPLUS

(5) This chart does not appear in the Strackbein exhibit. It is constructed from the figures included therein. It uses the same figures but applies them from the other side of the accounts to see if the proponents are right. If the U.S. really has a trade deficit with Japan, then from the Japanese side the figures should yield a Japanese surplus.

Japanese exports to the U.S. valued at Japanese point of export (FOB Port Japan)	$ 4 624 000 000
Japanese imports from the U.S. valued at landed costs (CIF) according to the proponents' methods	$ 6 222 000 000
The difference	$ 1 598 000 000 JAPANESE TRADE DEFICIT

What an amazing result based on the Strackbein formula:
JAPAN HAS A DEFICIT IN ITS TRADE WITH THE U.S.
THE U.S. HAS A DEFICIT IN ITS TRADE WITH JAPAN! (see (3) above)

EVERYBODY HAS A DEFICIT!

(6) Proof that U.S. Department of Commerce method is correct.
(Value merchandise exports at FOB point of export.
Value merchandise imports at FOB foreign point of export)

Japanese trade with U.S. from Japanese point of view:

Japanese exports to the U.S. valued at Japanese point of export (FOB Jap.Port)	$ 4 624 000 000
Japanese imports from the U.S. valued at U.S. point of export (FOB U.S. Port)	$ 5 037 000 000
	$ 413 000 000 JAPANESE DEFICIT

Japanese deficit matches U.S. surplus (see chart (4))

Accepted accounting principles and accepted statistical principles follow the equal debit/credit double entry method of bookkeeping. Like Messrs. Newton and Einstein's principles of physics, each action has equal reaction - the mirror reflects the equal image, only reversed, left to right, right to left, export to import, import to export. The accounting methods explored herein use the looking glass of Lewis Carroll, beyond which lies Alice in Wonderland, and her strange world.

The CHAIRMAN. The next witness is Mr. Michael P. Daniels, United States-Japan Trade Council. We have Mr. Daniels scheduled for 10 minutes.

STATEMENT OF MICHAEL P. DANIELS, LEGISLATIVE COUNSEL, UNITED STATES-JAPAN TRADE COUNCIL

Mr. DANIELS. Mr. Chairman, in the interest of conserving the time of the committee I will summarize my statement and ask that it be included in full in the record.

My name is Michael P. Daniels. I appear before the committee on behalf of the United States-Japan Trade Council in my capacity as legislative counsel for that organization.

We are hesitant to characterize our position on the bills before the committee as one of opposition. Generally, we favor the most complete statistical data possible on United States import and export trade. It appears doubtful to us, however, that the additional data collection and reporting required by these bills would materially assist analysis of movements or problems in international trade. It also appears to us that these proposals could obscure and confuse. The present system is satisfactory, and at best, no improvement would flow from the adoption of these proposals. As pointed out by the previous witness, the administration of the bills, if enacted, would involve substantial additional costs and difficulties for Government agencies and for those engaged in international trade.

I think the main point, Mr. Chairman, is that statistics must always be properly qualified. Any basis of reporting is arbitrary under any system that either is existent or might be proposed. That is the nature of statistics. As long as we do know what is included and on what basis the statistics are reported, we find the present system acceptable.

We also feel, and I think we had a good demonstration of this in the testimony of Mr. Strackbein, that the dangers of distortion, and misrepresentation would be much greater under the proposed additional statistical reporting proposed by the bills.

The CHAIRMAN. Of course, one thought that does occur to me is that depending upon the purpose, you might want to break your ocean freight down to see who it was that carried that in terms of trade.

Mr. DANIELS. I think that is important.

The CHAIRMAN. If you are hauling something on an American bottom, that is some of our business. It helps our balance of payments if it is balance of payments you are thinking about. For example, if you are hauling it in somebody else's bottom, it goes to his account for balance of payments, and on the freight part of it it might be well to look and see just who the carrier is. It does make a difference on balance of payments.

Mr. DANIELS. I think that this is true. I think there are such statistics and I think when one realizes the insurance side of the picture, it is hard to distinguish between insurance related directly to commodity movements and to individuals, and this is perhaps where we could have more refined statistics.

I think another point that the remarks of the chairman bring out is that there are many purposes for using import and export statistics. If you want to use them for balance-of-payments purposes, then I think you want to chart the dollar flow. If you want to use them to compare commodity trade, we believe you want to approximate the value of those commodities and the value of those commodities qua commodities, not the other services added on; and have a separate account for ocean rate, insurance, and these other costs. We do believe that computing both exports and imports on an f.o.b. basis brings you much closer to that commodity value, as elusive as that might be, and we do think that is always a proper concept.

Now, we have appeared before congressional committees, before the Tariff Commission, before the Trade Information Committee, where the question was the impact of particular imports on domestic production of like or directly competitive products.

Mr. Chairman, we have never, never used gross dollar figures. You cannot do it. You would be laughed out of court because you are not comparing like with like. If we want to say there is so much imports of commodity X, we do it in pounds or in yards or in units of measure. If we want to use figures, values, we usually use it to compare price and there we have to add costs of freight, insurance, duties. We have to include the U.S. duty as part of the cost. Commissions, brokerage, financing charges, and so on must also be included to bring it up to a wholesale landed duty paid cost. So then we can compare it against the wholesale price of a similar commodity in the American market. But I do not think anybody could get away with saying to the Tariff Commission there are so many millions of dollars of that and the domestic industry shipped so many millions of dollars of that. They are just not comparable.

So I think the other important point we have to make is what are you using it for?

Now, just skipping through, this is also true when we talk about our agricultural exports. If you want to talk about dollars, if you are talking about balance of payments, then you want to compute only those agricultural exports which were paid for in dollars, and if somebody paid rupees for them they should be excluded. But suppose you want to find out what is the total disappearance of wheat from the United States because you want to gage the effects on the American farmer of his market for wheat. Well, quite obviously if we get rid of so many millions of bushels of wheat to India, this is of great significance to the American farmer, there is absolutely no significance in terms of our balance of payments. But the only point we are really making is that let us have as refined a breakdown of all of our imports and exports as possible and know what we are talking about.

Now, just for the information of the committee, and I must apologize I was not here through the testimony yesterday, we note that the Department of Agriculture does in quite some detail report the movement of agricultural commodities by program and by shipments in dollar amounts, and it is quite a refined breakdown. It appears in the publication entitled "U.S. Agricultural Exports to European Economic Communities, 1962–65," published by the Department of Agriculture. These figures are available.

Now, I might, perhaps with too great pessimism, say that no matter what basis we have statistics on, there will be people who will try to use them to their maximum advantage and that includes our side as well as other sides of the trade issue. I do not think you are going to stop anybody from taking the kind of look at these statistics that they wish to take. I think it is important, however, that in official statistics of the U.S. Government that insofar as possible, the basis and the inclusion of the figures be made very, very clear, and then a body such as the Senate Finance Committee and others can make their own judgments as to what correct balances should be.

I would also in conclusion not like the committee to be left with the impression which might have been gained from previous witnesses that there is a deficit in the U.S. trade account except by the grossest kind of distortion. We do enjoy a substantial surplus and I think that in terms of our overall balance of payments, foreign trade has had a significant positive effect on our position in the world.

I would like to thank the committee for its time.

The CHAIRMAN. Thank you.

(Mr. Daniel's prepared statement follows:)

Statement of Michael P. Daniels, Legislative Counsel, United States-Japan Trade Council

Mr. Chairman and Members of the Committee, my name is Michael P. Daniels. I appear before the Committee on behalf of the United States-Japan Trade Council in my capacity as Legislative Counsel for that organization.

We are hesitant to characterize our position on the bills before the Committee as one of opposition. Generally, we favor the most complete statistical data possible on United States import and export trade. It appears doubtful to us, however, that the additional data collection and reporting required by these bills would materially assist analysis of movements or problems in international trade. It also appears to us that these proposals could obscure and confuse. The present system is satisfactory, and at best, no improvement would flow from the adoption of these proposals. The administration of the bills, if enacted, would involve substantial additional costs and difficulties for government agencies and for these engaged in international trade.

Statistics must always be properly qualified. Any basis of reporting is essentially arbitrary. So long as we know what is included, and on what basis the statistics are reported, however, the present system is perfectly acceptable. The opportunities for distortion and misrepresentation of the actual significance of the statistics would appear to be greater under the proposed modifications.

We wish to make it quite clear that the problem of valuation on a c.i.f. basis rather than the current system (which roughly speaking is an f.o.b. system of valuation) is not taken up here. As the Committee knows, the United States Tariff Commission, pursuant to a resolution originating in this Committee, is undertaking a study of alternative bases of valuation. What is under consideration here is the question of whether statistical reporting, apart from valuation, should include a series on a c.i.f. basis for imports.

S.J. Res. 115, Section 1

Turning to Senate Joint Resolution 115, we shall first comment upon Section 1, which in essence proposes an additional set of reports and statistics of import transactions on a c.i.f. basis.

The principal utilization of import and export statistics is to provide information on the balance of the commodity trade of the United States. Under the present system of reporting, a more accurate comparison of imports and exports is possible. Present U.S. statistics compare the value of commodities on a f.o.b. basis, both for imports and for exports. Thus, like is compared with like. To report on a c.i.f. basis for imports and continue with the f.o.b. basis for exports would introduce a fundamental distortion in any comparison of import and export figures.

Under present practices, if we wish to ascertain a figure reflecting both commodity movements and the cost for ocean transportation and marine insurance, we can do so by adding figures from the invisible account of U.S. international balance-of-payments statistics.

The second important reason for compiling import and export statistics is to ascertain the significance of commodity trade in overall balance-of-payments statistics. It appears to us that adoption of these proposals would tend to obscure the actual position. Included in our import statistics would be payments which may or may not be made to foreign sources. For example, if a shipment of goods were imported from Japan in an American bottom and insured by an American company, the entire transaction would appear in the proposed statistics as part of the import value, whereas in realty the freight and insurance payments would be made to Americans and involve no foreign exchange loss. As statistics are now compiled for the balance of payments, the invisible account reflects such payments but properly ascribes them as debits or credits.

Another reason for import and export statistics is to provide material to gauge the impact of particular commodity imports. We have appeared many times before the United States Tariff Commission, Trade Information Committee, and Committees of the Congress, where the question was the impact of particular imports upon United States production of like or directly competitive commodities. Raw import data on the basis of value have never been acceptable in making such comparisons. The most significant set of figures involves quantitative measurements (yards, pounds, units, etc.). To the extent that value is used as a basis of comparison, it has always been necessary to add factors for freight, insurance, duty and other charges of importation and to calculate a duty-paid, landed, wholesale price. This exercise would still be necessary under the proposed system, which would be of little help in arriving at figures reflecting total costs and values in particular trades.

Another reason for import and export statistics is to compare our balance of trade with the balance of trade of other nations. Since many of these countries are on a different basis, it is somewhat difficult to make comparisons of the U.S. trade balance with their trade balances. This also, however, can be largely corrected by reference to reporting by other countries or by the United States of invisible transactions.

Finally, import statistics are used as a basis for tariff negotiations. Certainly if the importance of U.S. tariff reductions were judged on the basis of volume of f.o.b. values and the importance of reductions of other nations on the basis of c.i.f. values, distortions would be introduced in the relative value of duty concessions. We are informed, however, that these factors are definitely taken into account by U.S. negotiators.

S.J. Res. 115, Section 2, and S. 3522

Both Section 2 of the Dirksen Resolution (S.J. Res. 115) and the provisions of the Sparkman Bill (S. 3522) would require reporting of exports so as to reflect government subsidization and financing. Our information is that these data are readily available from official sources.

There are a number of difficulties involved. A broad range of measures supported directly or indirectly by the United States Government is used to encourage exports, including assistance in financing. What is or what is not a "subsidy" may be difficult to ascertain. Many "subsidies" have little relationship to export considerations but are designed primarily to make agricultural price support programs workable. Their primary aim is to support the income of American farmers.

What gives us most pause is the use to which such statistics would probably be put. Undoubtedly the enemies of a liberal trade policy would seek to exclude all "subsidized" exports from consideration in the U.S. commodity balance or in its balance of payments statistics. This would be unjustified in many cases, especially where government financing (rather than subsidization) is involved.

On the whole, however, we have no objection to additional reporting ot exports, including agricultural exports, so as to make clear the role of subsidization or financing by government. (Japan, as the Committee is probably aware, is the biggest cash dollar market for American agricultural commodities). We think the determining factors should be the present availability of such data and the cost and added difficulties for the government agencies involved.

We would like to thank the Committee for this opportunity of presenting our views.

The CHAIRMAN. Mr. George P. Byrne.

STATEMENT OF GEORGE P. BYRNE, JR., U.S. WOOD SCREW SERVICE BUREAU

Mr. BYRNE. With your permission, we would like to put some charts right here so you can look at them.

The CHAIRMAN. Put them over here, then those in the hearing room can see as well.

Mr. BYRNE. Mr. Chairman, my name is George P. Byrne, Jr. I am secretary and counsel for the U.S. Wood Screw Service Bureau, New York City.

I would like to request that my statement be included in the record. I will summarize briefly, if I may.

I am referring to our own industry statistics because they reflect what has happened to a domestic industry that has been hit by imports since the early 1950's.

The reason that I refer to our specific industry is that I think the same principles of statistics can apply to our overall national economy, and stressing the importance of adoption of this Senate resolution here for clarification of the figures.

In the case of wood screws, which is an industry that was affected by imports years ago, we have fairly definite figures compiled by the Census Bureau, so that we are alerted to the injuries which are occurring to our industry here. In other branches of this industry, however, machine screws, socket screws, each of which accounts for anywhere from a $20 million to $40 million to $50 million per-year industry, have no such specific figures. Therefore we don't know, although the imports so far as we can tell are increasing every year, we don't know the figures. We don't have the figures. They are not broken out, available, in these industries.

But here in wood screws we do have the figures. There on the important figures, they are the iron and steel only, and our domestic shipment figure, which is the black line there, includes nonferrous as well as iron and steel, which amounts to about 20 percent. So that when we think of comparing the import statistics of iron and steel with the domestic figures of iron and steel plus nonferrous, we have to be careful that we don't underestimate the impact of the imports by approximately 20 percent.

Now, in this industry today, as you can see from the chart, the green line, the solid green line, and the black line—the green line is imports. The black line is domestic shipments. They are approximately equal. The imports today equal the domestic shipments.

Now, we think so far as knowing what is going on in this industry, and we need to know more about what is going on in some of our other industries which are being similarly inundated by imports, that it is doubly important that we as a country know what the figures actually mean in our overall exports and imports, and I have made points similar to Mr. Strackbein's about the fact that some of our exports are, of course, generated by our own dollars, and we just happen to see this in wood screws right now where demands are being made on the domestic industry for shipments to southeast Asia.

I make a point in my statement that one of these days we are going to wake up perhaps in a national defense situation and need these materials and not be able to produce them domestically because this is the kind of an industry where the machines don't appear overnight. Wood screw making machinery is not made in this country anymore and to start from scratch and produce a wood screw industry takes years.

The CHAIRMAN. Where is it made?

Mr. BYRNE. Beg pardon?

The CHAIRMAN. Where is it made?

Mr. BYRNE. Wood-screw-making machinery? Mostly abroad. Japan, England, perhaps, now. We used to be a strong maker of wood-screw-making machinery in this country, but no more, and, of course, if we don't have the machinery to make wood screws, we can't make wood screws here. We can't make wood screws if we are unable to compete with foreign trade. And this is happening in other branches of the screw, nut, bolt, and rivet industry.

So, Mr. Chairman, I point to this only to emphasize the importance of knowing what is happening here, and I think this is true in our national picture and I make a point about the ocean freight and insurance and the fact that these figures are not directly comparable, and while we may be laboring under the apprehension that we have some kind of surpluses here, we in domestic industry don't believe it at the moment.

So I make this point, Mr. Chairman, to emphasize the importance of going ahead to clarify these figures. We don't agree that a little more cost isn't desirable in order to get them as correct as possible. And, finally, we feel that the overall figures are enough in balance or that maybe we are on a deficit situation today so that there is no justification for further cuts in duties in this present round of tariff negotiations.

Thank you very much, sir.

The CHAIRMAN. You are very welcome. And if you will have those charts prepared in a different form and just on a sheet of paper, we can have that put in the record for you.

Mr. BYRNE. Yes, sir. We will see that that is done.

(The prepared statement with attachment of Mr. Byrne, Jr., follows:)

STATEMENT BY GEORGE P. BYRNE, JR., SECRETARY AND LEGAL COUNSEL, U.S. WOOD SCREW SERVICE BUREAU, NEW YORK CITY, N.Y.

My name is George P. Byrne, Jr. I am Secretary and Legal Counsel of the U.S. Wood Screw Service Bureau, 331 Madison Avenue, in New York, N.Y., consisting of domestic manufacturers of wood screws. It has been the concern of the companies I represent that statistics on *imports* as well as *exports*, both in general totals and for specific industries, are not sufficiently clear to reflect fully the severe impact of imports on domestic industry. We attach, hereto, a summary of what has happened to the *domestic wood screw industry* as a result of low wage cost imports. Parenthetically, I might say that there is a shortage of wood screws in the United States today because of the tendency of imports to dry up in periods of national emergency. While the situation is not critical and will depend on the future of the Viet Nam War, this country could find itself in a difficult position in a war emergency confronted with shortages of many products which are imported in times of peace but become unattainable in war.

COMPARABLE STATISTICS ESSENTIAL

As you can see, the import statistics on wood screws do reflect what has happened in this particular industry. However, in other branches of the fastener industry, i.e., machine screws, tapping screws, cap screws, socket screws, etc., the statistics on imports are not segregated by product classes and do not reflect information in any form that can enable either the industry or the public to determine the impact of imports.

It is our experience, and we have had long training in collecting sales and shipment statistics for domestic manufacturers through trade associations, that it is important that clear and understandable definitions be used for the reporting company and likewise that these definitions or descriptions of particular industries or groups of imports must be sufficiently clear to be understood by readers of the statistics. This obviously applies to statistics reflecting sales among nations.

Referring to *total exports* of all classes of commodities, according to currently issued government statistics of $26 billion in 1965, it is clear that at least $3 billion of these exports were due to purchases as a result of foreign aid, military programs, or other transactions which were supported by funds from the United States Government. These $26 billion of exports did not all represent effective demand by foreign countries. We are merely receiving back dollars that were spent in another way abroad. For example, it frequently occurs that imports of wood screws from abroad compete directly with USA manufacturers in the market in this country, while our sales of wood screws abroad are stimulated not by effective buying by the country abroad, but really arise from U.S. funds being used to finance purchases of foreign users. We know this is happening now in some unusually high demands from Viet Nam and southeast Asia. This is not trade. It is "give away" economics and such sales in export should not be compared statistically with low wage cost imports now undermining our domestic industry. *This, of course, is true of many other commodities.*

FOREIGN VALUE SHOULD INCLUDE OCEAN FREIGHT AND INSURANCE

Further, when import values are based on foreign value, without insurance and ocean freight, such values do not accurately reflect the value of merchandise being shipped into the United States in competition with domestic products. It has been estimated that ocean freight and insurance amount to from 10 to 15% of the total cost of shipping products from abroad to the USA. If the total imports in 1965 were $20 billion, 15% of this amount, including ocean freight and insurance, would be $3 billion or a total of $23 billion imports instead of $20 billion.

When these adjustments are made in the overall statistics, it becomes evident that the balance of the trade in 1965 was approximately equal and that USA imports approximate exports. Since our trade is apparently in balance, is there any justification for further tariff reductions in the present "Kennedy Round"? *We think not.*

In this connection, I speak on behalf of the Screw Manufacturing Industry of which the Wood Screw Industry is a part. It is most essential that government statistics, on which key decisions are made, reflect clearly and accurately the adverse impact of low wage cost imports on both domestic industry and labor.

Comparison of wood screw orders received and shipments made by U.S. manufacturers to domestic consumers compared with importations of wood screws (reports from 14 U.S. manufacturers)

	Domestic monthly average		Imports of wood screws into U.S.A.	Percent imports of domestic—	
	Orders	Shipments		Orders	Shipments
	(Gross)	*(Gross)*	*(Monthly average Gross)*	*(Percent)*	*(Percent)*
Year:					
1928	4,658,837	4,900,829	7,879	0.17	0.16
1929	4,651,367	4,740,092	29,204	.63	.62
1930	3,126,962	3,028,209	17,596	.56	.58
1931	2,293,745	2,339,854	12,923	.56	.55
1932	1,570,658	1,627,570	5,342	.34	.33
1933	2,397,476	2,303,708	10,671	.44	.46
1934	2,254,589	2,277,835	14,491	.64	.64
1935	3,140,866	2,891,017	27,155	.86	.94
1936	3,049,753	3,031,882	43,853	1.44	1.45
1937	2,344,171	2,654,333	48,782	2.08	1.84
1938	1,925,929	1,936,490	13,918	.72	.72
1939	2,749,412	2,621,773	12,042	.44	.46
1940	2,803,477	2,668,931	2,229	.08	.08
1941	4,540,936	4,351,851	11		
1942	3,810,778	3,812,598	None		
1943	3,744,580	3,791,818	None		
1944	3,153,931	3,247,862	None		
1945	3,337,249	3,199,669	5		
1946	5,253,600	3,936,848	41		
1947	3,874,916	4,210,695	156		
1948	3,029,845	3,637,110	57		
1949	2,674,422	2,628,030	776	.03	.03
1950	4,992,249	4,239,436	146,689	2.94	3.46
1951	4,053,356	4,365,027	528,214	13.03	12.10
1952	3,238,101	3,301,706	394,448	12.18	11.95
1953	3,530,049	3,578,068	460,141	13.03	12.86
1954	3,405,458	3,362,306	336,896	9.89	10.02
1955	3,255,423	3,147,195	744,028	22.86	23.64
1956	2,829,462	2,807,322	816,558	28.86	29.09
1957	2,393,595	2,408,141	605,489	25.30	25.14
1958	2,290,339	2,201,109	603,836	26.36	27.43
1959	2,453,429	2,454,731	985,537	40.17	40.15
1960	1,914,835	1,922,188	972,422	50.78	50.59
1961	1,902,043	1,930,188	804,826	42.31	41.70
1962	1,614,901	1,637,345	1,198,476	74.21	73.20
1963	1,441,717	1,419,717	1,146,422	79.53	80.75
1964	1,436,517	1,428,761	1,410,828	98.21	98.74
1965	1,504,597	1,489,656	1,592,144	105.82	106.88
By months:					
1964—July	1,199,012	1,205,766	2,171,377	181.10	180.08
August	1,346,131	1,358,876	1,525,268	113.31	112.24
September	1,426,590	1,475,632	1,695,474	118.85	114.90
October	1,521,894	1,496,007	1,630,336	107.13	108.98
November	1,454,308	1,311,857	1,669,139	114.77	127.23
December	1,428,501	1,388,799	1,461,453	102.31	105.23
1965—January	1,346,303	1,349,496	833,126	61.88	61.74
February	1,880,650	1,481,817	1,378,824	73.32	93.05
March	1,527,138	1,599,805	2,185,690	143.12	136.62
April	1,608,004	1,523,352	1,946,964	121.08	127.81
May	1,437,876	1,495,743	1,222,203	85.00	81.71
June	1,494,094	1,539,033	1,852,702	124.00	120.38
July	1,258,640	1,184,012	2,019,569	160.46	170.57
August	1,873,204	1,668,705	1,494,185	79.77	89.54
September	1,515,505	1,646,921	1,323,660	87.34	80.37
October	1,205,680	1,554,364	1,487,325	123.36	95.69
November	1,318,484	1,377,407	1,570,812	119.14	114.04
December	1,589,588	1,455,215	1,790,671	112.65	123.05
1966—January	1,369,250	1,365,664	1,545,889	112.90	113.20
February	1,474,831	1,345,100	1,431,919	97.09	106.45
March	1,668,633	1,698,172	1,538,935	92.23	90.62
April	1,486,054	1,479,047	1,422,844	95.75	96.20
May	1,461,050	1,412,083	1,699,451	116.82	120.35

The CHAIRMAN. Mr. Lewe Martin of the Cycle Parts & Accessories Association. We have alloted you 5 minutes to explain your position.

STATEMENT OF LEWE B. MARTIN, GENERAL COUNSEL, CYCLE PARTS & ACCESSORIES ASSOCIATION

Mr. MARTIN. Mr. Chairman, I am an attorney with offices here in Washington, D.C., and for the record may I say that three of my other clients have authorized me to advise the committee that they urge the adoption of Senate Resolution 115, namely, the Anti-Friction Bearings Manufacturers Association, Stainless Steel Flatware Manufacturers Association, and the American Mushroom Canners Committee. They are particularly interested in the bill which has been introduced by Senator Sparkman.

I appear as general counsel of the Cycle Parts & Accessories Association, a trade association organized some 41 years ago. We make many items which form an integral part of the bicycle itself or are used exclusively in conjunction with bicycles.

This industry is painfully familiar with the trade programs of the United States and the increased imports of bicycles and bicycle parts and accessories that have resulted therefrom. It is the context of the use of c.i.f. data in relating increasing imports and their economic effect on domestic industries that I speak today. In our industry imports have already absorbed more than 50 percent of the market and forced the demise of such giants as the New Departure Division of General Motors, the Cycle Division of Diamond Chain Co., and the Cycle Parts Division of the Torrington Co. We submit that our negotiators should be more fully apprised of the effect on the U.S. economy of imports, which is one of the purposes of Senate Resolution 115.

I have had the opportunity since 1951 to represent various domestic producers in tariff matters including the hearings held in preparation for negotiations under the trade agreement and trade expansion legislation. These hearings were before the Tariff Commission and the Committee for Reciprocity Information and, more recently, before the Trade Information Committee.

The most important comparisons that domestic producers could present to these two groups were the relative trade data and economic effect that the market price of imports would have on the industries involved. In many cases, particularly bicycle accessories, which are classified in basket tariff items, even the f.o.b. value of imports was difficult to develop from published statistics. May I say that if the c.i.f. data had been available, domestic industry could have been vastly more helpful to the Government agencies investigating the list of items to be negotiated.

It has been a cause for concern in the past that the preparation for any negotiation of trade agreements by Government agencies has been conducted in such secrecy. To be sure, certain of the trade negotiations must of necessity be conducted in private, but all the supporting statistical information need not be accorded this immunity from public view. Senate Resolution 115, if nothing else, has encouraged the Treasury and Commerce Departments and the Tariff Commission to provide the Special Trade Representative with comparison of f.o.b. and c.i.f. import statistics for 1964 and 1965.

Apparently this data is to be made public, as Mr. Paul Kaplowitz, Chairman of the Tariff Commission, included a table on "steel sector products" in his memorandum to the committee. The domestic industries I represent sincerely hope that these studies will be expanded rapidly to all other items to be negotiated and made available to the Special Trade Representative in time for his use in the Kennedy round negotiations. Not only will this c.i.f. data provide a more meaningful price comparison for imports with U.S. products statistics more comparable with those of the EEC—our most important trading partner—but is the only logical basis for examining and negotiating the tariff disparities issue.

I have said that import statistics, based on a c.i.f. valuation, would have been extremely valuable in past tariff negotiations and the present Kennedy round, but I must emphasize that such data will be absolutely vital to future investigations and negotiations. Particularly is this so if concessions up to 50 percent are agreed to in the present round. There is very little meat left on the bone of most present duties and any further reduction must be carefully considered.

So far the testimony we have heard in this hearing leads us to believe that in past negotiations foreign countries have used the U.S. export data, which is inflated by Public Law 480, AID and other Government-financed exports, and U.S. import data deflated by an estimated 17½ percent for ocean freight and insurance, as a basis for determining a balance of concessions. This we submit has put the United States at a disadvantageous position and has lead to inequities in concessions.

Some witnesses have estimated the difference in f.o.b. and c.i.f. to be more in the neighborhood of 8 to 10 percent, but the Tariff Commission has stated that for the steel sector products the difference was for 1964 about 17 percent, and 15 percent for 1965. Perhaps the difference is lower in EEC trade where their trade partners are close together but freight for these countries and Japan to the United States is a substantial factor and we believe the 17½-percent difference to be closer to the actual difference. Anyhow, why not find out what it really *is*?

It has been stated that it would be highly inaccurate to include all payments of ocean freight and insurance charges in the balance of payments because a part of these services may be supplied by the importing country itself and to that extent such payments do not represent international financial transactions.

We certainly agree with this, although regretfully. The Statistical Abstract of the United States reports that for 1964 U.S. operating ships carried 14 percent of our exports and 7 percent of our imports. This is truly a sad situation, especially when it is noted that the exports are high only because of cargo preference laws. Preliminary 1965 Maritime Administration reports are even lower, averaging only 7.6 percent for all trade movements. But the balance-of-payments problem is not affected by Senate Resolution 115 and we do not understand why it would not be possible to collect the freight and insurance data from the importer on a regular Customs invoice. Certainly the importer will know to whom he is paying freight and insurance and could note payments to U.S. companies if this would provide a more accurate appraisal of the balance of trade.

There has been a suggestion that Resolution 115 would require a reporting of imports on the basis of the Brussels Convention. It was stated by the witness for the Treasury Department that this would be complicated indeed for the Bureau of Customs. As we understand the resolution, no complicated new data is required. Very simply, the Bureau of Customs will be asked to add to the foreign value or export value, a figure already required under present law, the insurance and shipper charges incident to landing the imported articles at the port of entry into the United States. After the Tariff Commission makes its report in response to the Finance Committee's resolution requesting suggestions and recommendations for improvement of the customs valuation laws, it may be found desirable to adopt the Brussels definition of value. That action does not appear to be required by the resolution, however.

We strongly endorse the adoption of Senate Joint Resolution 115, which would provide much-needed statistical data to the U.S. Government and business community. Surely the additional cost estimated at between $1 and $1½ million is a small price to pay when related to an export-import business of some $43 billion.

Thank you.

The CHAIRMAN. Thank you very much, sir.

Next we will hear from Mr. T. E. Veltfort of the Copper & Brass Fabricators.

STATEMENT OF T. E. VELTFORT, MANAGING DIRECTOR, COPPER & BRASS FABRICATORS COUNCIL, INC.

Mr. VELTFORT. Mr. Chairman, I am managing director of the Copper & Brass Fabricators Council. The council represents domestic copper and brass fabricators on industrywide problems which arise in the course of foreign trade in copper- and brass-mill products.

It, therefore, is directly concerned with complete, accurate, and reliable Government statistics on imports and exports. Senate Joint Resolution 115 would direct the Secretary of the Treasury and the Secretary of Commerce to provide more complete and meaningful statistical information so that a domestic industry can better evaluate the significance of imports and exports.

As imports are now reported by the Government, their value is stated in terms of their foreign value. This value does not include charges for ocean freight and insurance, which must be added to determine their true landed value here. The result is that the Government's statistics understate the value of our imports as compared with our exports, and thus present a misleading picture of our foreign trade. This unfortunate distortion is to the disadvantage of our domestic industries and should be corrected.

We therefore, strongly support Senate Joint Resolution 115.

The gap between the foreign value of our imports and their landed value is substantial. This gap is not directly ascertainable by industry in view of the Government's method of reporting and in this is to be found one of the principal faults which Senate Joint Resolution 115 would correct. It has been estimated on various occasions by reliable sources that the gap may run from 10 percent to as high as

25 percent, depending on the product involved. In statistical reports of the International Monetary Fund, it is estimated at 10 percent.[1]

Mr. O. R. Strackbein, a close student of international trade, has computed a differential of 17½ percent, based on applicable statistics available for certain countries.[2]

It appears resonable to assume that this gap may well average 15 percent in arriving at the quantitative monetary effect. If we take the nonmilitary imports for 1965 at $21,492 million as reported by the Government—that is foreign value basis—and subtract this from the Government's figure on nonmilitary exports of $26,285 million, we obtain an ostensible balance in our favor of $4,793 million. If, however, we add 15 percent—or $3,224 million—to cover the cost of freight and insurance to the reported value of our imports, the apparent favorable balance in 1965 is reduced to $1,569 million.

While the cost of transporting our imports is included in the item of transportation in the Government's balance-of-payments statements, our present interest lies not in the balance between our payments and our receipts for international transportation—which incidentally resulted in a deficit in 1965—but in that part of the transportation payments which should have been reported as an addition to the reported value of imports, in order truly to indicate the cost of the imports as landed here.

But that is not all. The nonmilitary exports in 1965 were reported by the Government as $26,185 million. This inlcudes a substantial amount of exports financed by Government grants and capital. Such exports should not be included in any measure of our commercial competitive position. The Department of Commerce indicates that this amounted to $2,714 million in 1965. Moreover, the Government has subsidized exports of certain agricultural products in amounts not incidated in the Department of Commerce figures. Such information as is available indicates that these exports are substantial, and require a further reduction in the true commercial value of our exports. If these adjustments are made, as we submit they should be, they would change the apparent surplus in our foreign trade in 1965 into an actual sizable deficit. A similar deflation of our apparent favorable balance occurs also in previous years. Instead of the surface indication that our private economy is holding its own in foreign trade on a competitive basis, appropriate adjustment of the data presented by the Government shows a considerably less favorable situation.

To an industry like ours, whose imports substantially exceed its exports, primarily because of lower labor and related costs abroad, the overall competitive position of our country in foreign trade is important. Obviously we are not in a unique position, if the overall result of our national foreign trade policies has been an actual deficit. There must be a significantly large number of other industries, in a position similar to our own, to result in such a situation. This is an important fact for us to be able to establish, when remedial measures are proposed in connection with problems arising from the inability of our industry to compete with imports.

Senate Joint Resolution 115 is simple and direct. It would require us to value our imports in the same way that other countries value imports coming to them. It would have our Government's statistics on

[1] Congressional Record, June 23, 1966; pp. 13,492 and 13,493.
[2] Congressional Record, Oct. 7, 1965; exhibit 2, pp. 25,265–25,267.

imports and exports include the values which must be known to draw reliable conclusions on the competitive position of our private economy in foreign trade. Thus the resolution would require that the Government's reports on imports include the value of such imports that the cost of insurance and freight added—that is, c.i.f.—as is the common practice abroad. It would require, further, that the export statistics state not only the total exports which have been subsidized by the Government and the amount of the exports under Government-financed programs. Only if this additional information is given in our Government's statistics on foreign trade, can we arrive at a true measure of our Nation's competitive position and relate to it our own industry situation.

It is for these reasons that we urge that Senate Joint Resolution 115 be adopted.

The CHAIRMAN. Thank you very much, sir.

I am going to have to call a recess here for a few minutes to keep another commitment. Senator Dirksen is on his way here. I will be back here in 10 minutes.

(Brief recess.)

Senator DIRKSEN (presiding). Is Mr. Golden here?

Mr. Golden?

Is Mr. Garstang here?

Mr. GARSTANG. Yes.

Senator DIRKSEN. Will you come up to the table, please.

Mr. Garstang, will you identify yourself?

STATEMENT OF M. R. GARSTANG, NATIONAL MILK PRODUCERS FEDERATION

Mr. GARSTANG. My name is M. R. Garstang. I am general counsel for the National Milk Producers Federation.

Senator DIRKSEN. For the what?

Mr. GARSTANG. National Milk Producers Federation.

Senator DIRKSEN. Oh, yes.

Mr. GARSTANG. Mr. Chairman, I will summarize my statement in just a couple of minutes.

The federation represents dairy farmers and dairy cooperative associations through which they manufacture and process the produce that they raise on their farms. We were organized in 1916. We are celebrating our 50th anniversary this year.

Foreign trade policies have been of very much concern to the milk producers in this country because they have a tremendous impact on the domestic production of milk and also on marketing of domestically produced dairy products. They have a potential to destroy the American industry as we now know it unless there are some controls applied.

The reason we have this problem is because of the very great difference in price between our domestic products and the world prices. Our domestic butter is supported at the present time at 67¼ cents a pound. At New York the market is about 74 to 75 cents a pound. That is the wholesale price. In comparison butter has recently been priced in Holland as low as 18 to 19 cents a pound for export and a reasonably rounded figure for world prices of butter for export would be around 25 to 30 cents.

So we are in a position where world prices of butter are about one-third of the price at which our own product is sold and at which it is supported.

It might be very easy to say, well, we ought to bring our own prices down. They have been lower for about 5 years. They have been at 75 percent of parity for about 5 years and prices are higher now as a result of a very serious decline in production, so serious that the Secretary very recently had to increase the price support to about 89 percent of parity. So we can't produce milk in this country for much less than the present price, and you can't compete with foreign imports at 20 to 25 and 30 cents a pound.

Tariffs on these products amount to only a few cents. The ocean freight and insurance is about 3 to 4 cents a pound. So you can see what a tremendous problem there is in bringing the imported products into this country.

We have some controls which we have had to fight every year to maintain and as I have indicated before, without them the dairy industry in this country as we know it cannot continue to exist. What we need to do is to approach this thing realistically. Is this an essential industry or not? If it is essential, and dairy products and milk are essential, what are you going to do for supplies if you let your domestic industry go down and you have to depend on overseas supplies in the event of a war or emergency when you can't get them here?

With respect to the bills that are before the committee, the only thing that we want to say there is that anything that this committee can do which would bring about a more realistic appraisal of the actual situation that exists would be most welcome to the dairy farmers of this country.

One of the things that we would like to see would be comparison of wage rates, not because we are directly interested in wages but because they give you a sort of a measuring stick as between different countries, and also prices as between different countries. We are not on an equality basis with these other countries and we have to be honest with ourselves and recognize it.

Those are the only comments I care to make.

Senator DIRKSEN. That Dutch price of 18 cents must be a dumping price, isn't it?

Mr. GARSTANG. Practically all exports from foreign countries are subsidized. Practically all of them.

Senator DIRKSEN. Surely they can't produce butter for 18 cents a pound over there.

Mr. GARSTANG. They have got a tremendous surplus of it over there this last year or so.

Senator DIRKSEN. So it is a case of dumping.

Mr. GARSTANG. Yes.

Senator DIRKSEN. Well, Mr. Garstang, thank you.

(The prepared statement of M. R. Garstang follows:)

STATEMENT OF M. R. GARSTANG ON BEHALF OF THE NATIONAL MILK PRODUCERS FEDERATION

SUMMARY

1. The National Milk Producers Federation represents dairy farmers and their dairy cooperative associations. It is concerned with the effect of foreign trade policies on domestic milk production and the marketing of domestic dairy products.

2. The dairy industry has a most serious problem with respect to foreign trade policies because of the great differences between domestic and world price levels for dairy products.

3. We are in favor of legislation that would provide better statistics and lead to a more realistic understanding of the foreign trade picture, particularly as applied to American agriculture.

THE FEDERATION

The National Milk Producers Federation is a national farm organization. It represents dairy farmers and the dairy cooperative associations which they own and operate and through which they act together to process and market, on a cost basis, the milk and butterfat produced on their farms.

The Federation was organized in 1916 and is celebrating its 50th Anniversary this year.

Practically every form of dairy product produced in the United States in any substantial volume is produced and marketed by dairy farmers in dairy cooperative plants represented through the Federation.

Foreign trade policies, particularly with respect to imports and exports of dairy products, have a tremendous impact on the domestic production of milk and on the marketing of domestically produced dairy products, and they hold a potential power to destroy the American dairy industry as we now know it.

We are, therefore, interested in legislation, or administrative action, which will give to the public, and to the makers of our foreign trade policies, a more realistic and practical understanding of the problems of American agriculture.

DOMESTIC PRICE LEVELS

Prices for milk and butterfat are supported under a program authorized by Congress in the Agricultural Act of 1949 (7 U.S.C. Sec. 1446).

For the past several years the support price has been maintained at 75 percent of parity. Prices below parity mean that farmers are not receiving a fair return for their produce.

As a result of these low prices, production began to decline, slowly at first, but now at a dangerously rapid pace.

To avert a serious emergency, the support level was raised recently by the Secretary of Agriculture to $4.00 per hundredweight for manufacturing milk and 68 cents per pound for butterfat. These prices reflect 89 percent of the parity equivalent price for manufacturing milk and 82 percent of parity for butterfat.

The ~~current support~~ price for Grade A butter in New York is 67.25 cents per pound.

WORLD PRICE LEVELS

The problem that confronts us with respect to foreign trade is, of course, the very great differences that exist between world prices and our domestic prices.

We are informed that butter for export in Holland has been priced recently as low as 18–19 cents per pound and that a reasonably-rounded figure for the world price of butter for export would be 25–30 cents per pound. Thus world prices in general terms are little more than one-third of the domestic prices.

During the time when support prices were at 75 percent of parity and world prices were somewhat higher, the government's buying price for butter under the support program was roughly double the price at which the Commodity Credit Corporation sold butter for export into world markets.

Ocean freight and insurance on dairy products run in the general area of 3 to 4 cents per pound.

The above prices are given in terms of butter for easy comparison. Butter imports are under quota, but the quotas are readily evaded by importing a butterfat-sugar mixture consisting of 44 percent butterfat and 55 percent sugar with a trace of moisture. There is a substantial profit in importing sugar in addition to the profit on the butterfat.

The duty on this product is 20 percent ad valorem, which amounts to only a few cents per pound.

Other imports threatening serious injury to the domestic industry are Colby cheese and fresh cream.

A recent order of the Secretary of Agriculture limiting imports of butterfat-sugar mixtures containing 25 percent or more of sugar is not expected to have any material effect on these imports as it is subject to easy evasion by substituting dextrose for a part of the sugar content.

SUBSIDIZED TRADE

A substantial portion of world trade in dairy products is subsidized in one way or another.

We have received only recently information in the trade that the French are subsidizing exports of Colby cheese to the United States. This indicates the extent to which foreign countries will go to get dairy products into the United States.

Colby cheese is not a normal historical import. It began coming into this country several years ago as an evasion of the import controls on cheddar cheese, which it closely resembles. New Zealand was the principal country sending Colby to the United States. Australia and Ireland also got into the picture, and now France is trying to take over a part of the market that should belong to New Zealand if we are to have imports of Colby.

REALISTIC APPRAISAL NEEDED

One of the things urgently needed is a realistic and practical understanding and appraisal of the problems which foreign trade policies present to American agriculture.

We do not purport to be experts on foreign trade statistics nor on the effect of the specific bills before the Committee at this hearing.

So we simply say, in conclusion, that we do have a very serious problem, and we would be most grateful for any legislation the Committee may report which would give the public, and the makers of our foreign trade policies, a more realistic picture of our foreign trade, particularly in the agricultural field.

Senator DIRKSEN. Is Mr. James E. Mack here? I believe he is. Jimmy, how are you?

STATEMENT OF JAMES E. MACK, GENERAL COUNSEL, ROLLED ZINC MANUFACTURERS ASSOCIATION

Mr. MACK. Mr. Chairman——

Senator DIRKSEN. You are still in the zinc business, I see.

Mr. MACK. I was this morning and hopefully I will be when I finish the statement, sir.

Senator DIRKSEN. Good.

Mr. MACK. Mr. Chairman, my name is James E. Mack and I appear as general counsel and in behalf of the Rolled Zinc Manufacturers Association to urge favorable action by this committee on Senate Joint Resolution 115.

Rolled zinc, which includes zinc sheet, strip, rod, wire, and engraver plates, is manufactured for sale in the United States by only six companies. It is a small industry and not all of the companies manufacture all of the products. The six member companies of the Rolled Zinc Manufacturers Association are responsible for 100 percent of the United States rolled zinc produced for sale.

The United States rolled zinc industry has suffered tremendously because of unfair import competition. Imports first commenced in significant quantity in the early 1950's and then only in the case of zinc sheet. Zinc sheet imports have increased tremendously, primarily from Communist Yugoslavia which, even though it is a Communist country, receives most favored-nation treatment. Today, only two U.S. companies still manufacture zinc sheet; and these companies produce it only in very small quantities. The market has been almost completely taken over by Communist Yugoslavia.

Imports of zinc wire commenced several years ago and now are at a very substantial level. Within the past year, zinc strip imports have commenced at a very significant rate.

The cost of zinc metal in most of the foreign countries shipping rolled zinc to the United States is lower than the U.S. price. For example, the average foreign declared value of zinc sheet shipped to the United States from Communist Yugoslavia is very little more than the price which our manufacturers must pay for the base metal with which to commence the manufacturing operation. Also, rolled zinc products are high labor content products; and, therefore, the much lower wages prevailing in other countries contribute heavily to the unfair competitive situation of foreign produced rolled zinc in the U.S. market.

I have presented this brief summary to indicate the situation of the domestic rolled zinc industry, and now I would like to explain our interest in Senate Joint Resolution 115 in relation to our industry.

In addition, Mr. Chairman, I am counsel for the National Confectioners Association and the National Association of Mirror Manufacturers, and both of these associations subscribe fully to the remainder of my statement, and it is made in behalf of the three associations.

The National Confectioners Association is the organization of candy manufacturers. The National Association of Mirror Manufacturers is the trade association of the U.S. mirror manufacturers.

We understand that national trade policy must be developed in the interest of the general welfare, even though we as an industry might suffer. If our current policy produces a genuine export surplus on net private commercial exports free of subsidy and grants in contrast to the landed value of imports, then perhaps we do have a good national trade policy, even though it is harmful to any individual industry. We suspect, however, that what is bad for us is actually bad for the country; and all we are seeking in advocating approval of Senate Joint Resolution 115 is the attainment of a representative and fair statistical picture to determine whether we actually do have the substantial export surplus of at least several billion dollars which we are told that we possess or whether in fact we have a deficit.

What we need are statistics which show our net private commercial import-export situation free of subsidy and grants. Only in this way may we obtain a clear view of our competitive standing. If we have to give away or subsidize in order to export, we are not competitive. Particularly this is so if our program includes importing products which ruin domestic industries.

Approval of Senate Joint Resolution 115 is important because, in our opinion, if we do not enjoy the healthy surplus which we are told we possess, then our Government should not proceed to further reduce import duties. Foreign aid and subsidized agricultural exports should not be included along with regular commercial exports in statistical compilations. Likewise, import values should include cost, insurance, and freight rate rather than just declared foreign value.

Therefore, overvaluation of our exports and undervaluation of our imports produces what we consider to be a distortion to the extent of several billion dollars annually and more than enough to eliminate our so-called export surplus. Certainly, there should be no objection to presenting to the public and to Congress our trade statistics in such a form that they will truly reflect our position in world trade and our true competitive standing both at home and abroad. That is the objective of Senate Joint Resolution 115 and we urge your approval of it.

Mr. Chairman, I would like to make one other comment. I was present during the testimony of Mr. Michael P. Daniels in behalf of the United States-Japan Trade Council. He seemed to ridicule this proposal and if I understood correctly, he suggested that it just would not be good business.

If my understanding is correct, it is a system which Japan itself uses, and I would like to suggest to this committee that they ask of him and the United States-Japan Trade Council if they have spent as much time trying to get Japan to terminate this system that he thinks is unsound as they have been spending trying to get the United States not to adopt it.

Senator DIRKSEN. Well, I think you make an excellent point, but I thought you capsulized this whole matter very nicely.

Mr. MACK. Thank you.

Senator DIRKSEN. And you put your finger on the problem.

Thank you, Mr. Mack.

Now, do we have anyone else?

I am advised that the chairman will keep the record open until Friday of next week, so if there is anybody present who would like to submit a statement, or if you know of anybody who wants to submit a statement, the record will be open. And in the absence of any other witnesses for the moment, I could either recess or adjourn. I believe I will just recess the hearing. Who knows? Somebody else may show up sometime and also on the theory that there is optimism around the corner. The hearing is recessed subject to the call of the Chair. Gentlemen, thank you all.

(Whereupon, at 12 noon, the committee was recessed to reconvene at the call of the Chair.)

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

STATEMENT OF C. W. GUSTKEY, PRESIDENT, IMPERIAL GLASS CORPORATION, BELLAIRE, OHIO

S.J. RESOLUTION 115—IMPORT-EXPORT STATISTICS

Gentlemen, this statement is in support of S.J. Resolution 115 which would modify official import and export statistics prepared and released by the U.S. Department of Commerce.

It is my considered judgment that the changes proposed by S.J. 115 are vitally necessary and long overdue.

The competitive position of American industry and agriculture in world markets has not, and is not, being properly presented to our Congress nor to the public. Statistics which our Congress and the public have every right to depend upon as an accurate reflection of this country's relative position are misleading to say the least. This is so for two primary reasons:

No. 1—Official import statistics reflect f.o.b. values, foreign point of shipment. They do not include ocean freight and marine insurance. Hence, a perusal of the official figures does not reveal the true cost of imports.

No. 2—Official export statistics include shipments of products sent abroad under Public Law 480 (A.I.D.) as well as shipments of agricultural products that are sent abroad under government subsidy.

This latter point is worthy of close scrutiny for the obvious reason that if, as export statistics have tended to indicate, we are truly competitive in the marketing of wheat, flour, raw cotton, etc., there would be no need for such products to be subsidized.

With respect to point No. 1 government statistics, as currently reported, are misleading because they tend to undervalue our imports to a very considerable degree and to create the false impression that the United States now enjoys a substantial export surplus.

It is our firm belief that our Congress and the American public are entitled to statistics upon which they can rely. Statistics issued by any department of our government should be above suspicion lest public confidence in all official reports be undermined.

The present method of reporting has, according to our best information, resulted in a discrepancy of more than 7 billions of dollars (undervaluation of our imports plus overvaluation of our exports).

I urge this committee to seek early enactment of S.J. Res. 115.

PHELPS DODGE CORP.,
New York, N.Y., June 22, 1966.

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

MY DEAR SENATOR: This letter concerns S.J. Res. 115, on which your Committee has scheduled public hearings for June 28 and 29.

I believe that S.J. Res. 115 will help to provide Congress with the kind of factual information it must have to develop sound national policies in the area of foreign trade.

The ability of American industry to compete with foreign industry in foreign markets, as well as in the U.S. market, lies at the heart of such matters as the balance of payments problem, the expansion of our exports, and other areas of concern in our international trade.

The measure of our competitive position in these markets is found in trade statistics, especially import and export trade statistics, which must be accurate, free from distortion and readily available to Congress.

The purpose of S.J. Res. 115 is to provide Congress with certain statistical facts, not hitherto available, that are vital to our public and private interests in the area of foreign trade. These are (i) the landed value of imports into this country and (ii) a breakdown of our exports to show those produced with the benefit of Government subsidies or exported under Government-financed programs.

This Corporation, which is the second largest domestic producer of copper and a major factor in copper manufacturing, has a vital interest in Congressional legislation in this area, and we fully support the objectives of S.J. Res. 115.

It will be appreciated if you will include this letter in the record of your hearings.

Very truly yours,

ROBERT G. PAGE, *President.*

THE NATIONAL INDEPENDENT MEAT PACKERS ASSOCIATION,
Washington, D.C., July 20, 1966.

Senator RUSSELL B. LONG,
Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: Last June 16, a bill (S.3522) was introduced in the Senate by your colleague Senator John Sparkman of Alabama and subsequently was referred to your Committee on Finance.

The bill, which is entitled the "agricultural Trade Statistics Reporting Act of 1966," would require the Secretary of Agriculture to compile and submit to the Congress each year an annual report showing "in simple businesslike terms, the effects of our agricultural trade on the Nation's balance of payments."

Such a report would be of direct benefit to the meat packing industry since it would provide us—as well as all segments of the agricultural economy—with an annual statistical report, under one cover, of the status of our Nation's import-export trade. As Senator Sparkman stated on the floor of the Senate at the time he introduced S. 3522, "It must be viewed as one of the phenomena of our Government that, although our Agriculture Department has existed for over 100 years, it has not yet undertaken to prepare a systematic annual report of the Nation's export and import business which would be available to Congress and the people."

The National Independent Meat Packers Association fully supports and endorses the objectives which Senator Sparkman seeks to accomplish through S. 3522 and urges you, as Chairman of the Senate Committee on Finance, to give speedy action and approval of this bill.

Sincerely yours,

JOHN A. KILLICK,
Executive Secretary.

STATEMENT OF SEYMOUR GRAUBARD, SUBMITTED IN BEHALF OF THE AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.

Mr. Chairman, Members of the Committee, I am Seymour Graubard, a member of the firm of Graubard & Moskovitz. We have offices at 40 Wall Street, New York, New York, and in the Shoreham Building in Washington, D.C.

This statement is submitted in behalf of the American Institute for Imported Steel, Inc., (A.I.I.S.), 40 Wall Street, New York City, New York. The A.I.I.S. is a non-profit trade association of United States firms engaged in importing and exporting steel, steel products, and other articles. Our association stands firmly behind the liberal trade policies of the present Administration because our members are convinced of the wisdom of our country's continued pursuit of a course in matters of international trade which comports with our role as the leader of the nations of the Free World and the focus of hope for most of their people.

Our convictions prompt this statement. We realize that, notwithstanding the prevalent belief among most experts that a liberal trade policy is generally the better course for all nations to follow, such a non-restrictive trade policy is more palatable politically in nations which enjoy a favorable balance of trade. We candidly admit that passage of our present trade charter legislation—the Trade Expansion Act of 1962—would have been difficult indeed if the United States had not been selling considerably more goods abroad than it was buying prior to and, at the time, such legislation was being considered by Congress.

S.J. Res. 115 implies that the balance-of-trade data which have served to give direction and guidance to U.S. trade policy over the past three decades are inaccurate and have resulted in grossly overstating our favorable balance of trade. It proposes certain additional entries to our present trade account which it is maintained will make our trade data more reliable. The resolution would:

1. Require the Secretaries of Treasury and of Commerce to include in all their reports of imports into the United States the value of such imports on a cost, insurance, and freight (c.i.f.) basis.
2. Require the Secretary of Commerce to classify U.S. exports in his reports in terms of
   a) Total exports,
   b) Exports of articles the production of which has been subsidized by the U.S., and
   c) Exports made under U.S.-financed programs.

Before discussing these proposed additional statistical requirements, I wish to state what is really obvious: Foreign trade statistics must be compiled as accurately as is possible. Because of the underlying importance of these data to decisions concerning U.S. foreign trade, and indeed international economic policy, it is imperative that they be reliable. Thus our concern regarding the need for accurate trade data is no different from that of the proponents of S.J. Res. 115. Our point of departure is the resolution's assumption that present trade data are deficient and that the proposed statistical changes will remedy such deficiency. We respectfully submit that such assumption is not valid.

The United States has been recording its trade on an f.o.b. basis for over a century—since 1832 to be precise. Our exports, valued at the U.S. port of export, are compared with our imports, valued at their foreign ports of export. Transportation and international insurance charges historically have not been considered proper entries in our trade account. These charges, of course, are reflected in our balance of payments account.

It seems to us that, if this system of recording our trade data were as deficient as is claimed by the proponents of S.J. Res. 115, such fact would have come to light long before this time. Certainly a system in effect for almost 135 years, accepted by generations of American government officials and businessmen, cannot have produced results such as those apparently claimed by the proponents of S.J. Res. 115. We find no evidence that our century-long practice has produced erroneous or misleading conclusions. But even if this were the case, I think it is easily demonstrated that the system of reporting trade data proposed by S.J. Res. 115 will not remedy this situation.

As I have indicated, S.J. Res. 115 would require that U.S. imports be reported on a c.i.f. basis. Transportation and insurance charges would be added to the f.o.b. values of our imports. The effect, of course, would be to inflate artificially our present import values—perhaps by as much as 8 to 10 percent.

It must be noted that under the resolution only U.S. imports are to be valued on the new c.i.f. basis, while U.S. exports are to continue to be valued on the present f.o.b. U.S. port basis. We fail to see how such a one-sided exclusion of transportation and insurance charges on exports contributes to accuracy. On the contrary, if freight and insurance charges are added to import values, in logic they must also be added to our export values.

Moreover, the resolution seems to be based on the theory that all transportation and insurance charges on imports are paid to foreign carriers and insurance companies. This is not so. We understand, for instance, that a major part of such insurance is placed with U.S. firms. In these circumstances, it would be manifestly wrong, and unquestionably would produce invalid data, to include these payments as debits in our trade account. Such a practice would result, of course, in a distortion in our balance of payments accounts and would lead to erroneous conclusions concerning that account.

As I have noted previously, S.J. Res. 115 would also require the "refinement" of U.S. export statistics in terms of exports of U.S.-made goods which were produced with benefit of a subsidy or whose export was government financed. The refinement of U.S. export figures in terms of separation of government subsidized and financed sales from other sales assumes that such exports are not "true" exports. When a farmer sells wheat abroad for dollars, what difference does it make, in a trade balance context, if his wheat-growing operation was government subsidized? Of course, P.L. 480 shipments of food, sold abroad for soft currencies, are already reported separately from total U.S. exports. But where dollars are received, we see no reason to exclude such transactions from the trade account or to give such transactions a separate status. The same considerations apply to Agency for International Development (A.I.D.) financed sales. A.I.D. grants of course show up as minus figures in the U.S. balance-of-payments account. To the extent that these dollars return to the U.S. in the form of payments to a U.S. supplier of A.I.D.-financed goods, they constitute a plus entry. The logical place to show this plus entry is in our balance of trade figures.

We believe it is clear that the statistical innovations proposed by S.J. Res. 115 will not result in U.S. trade data being reported more accurately than they are today. On the contrary, we see some glaring deficiencies in the reliability of data which would result from the adoption of the resolution's statistical format.

We believe one final, quite important factor must be considered by the Committee in making its judgment on S.J. Res. 115. Last February, this Committee directed the Tariff Commission to make a thorough and definitive study of the laws of the United States having to do with the valuation of imports. An interim report on this study was filed with the Committee a few weeks ago.

There are great expectations in the importing community of the United States, and perhaps within this Committee, that the Commission will, early next year, suggest meaningful and significant changes in our value statutes. We expect that at that time there will be many who will seek legislative implementation of the Commission's suggestions.

Thus, in a few short months, the question of U.S. value laws will be under active discussion and consideration in the Congress. The significance of this imminent development is apparent. U.S. valuation statistics reflect, indeed are a derivative of, our valuation statutes. Our value laws are the "horse", the statistics the "cart"—and the laws and statistics are now in their proper places vis-a-vis each other. So with a review of our value laws just around the corner, and with a good chance that such laws may be changed, I suggest that this Committee defer construction of a new statistical "cart" until after the shape of the new valuation "horse" is determined.

May I take opportunity to thank the Committee for permitting us to record our views on this matter.

WASHINGTON, D.C., *September 9, 1966.*

To: U.S. Senate Committee on Finance.
Attention: Statisticians.
References: (1) *S.J. Res. 115* (Senator Dirksen) (2) *S. 3522* (Senator Sparkman).
Subject: Currency valuation of imports. *World concensus is C.I.F.*

GENTLEMEN: A. As I did on July 22, 1962, and on February 24, 1965, I confirm again now, on September 9, 1966, my 155-word letter to you of July 3, 1958, published on page 1517 of your 1958 hearings on H.R. 12591 (Trade-Agreements-Act extension), the Honorable Harry Flood Byrd being then your chairman. Indeed, additional world-wide data assembled by continuous ad hoc research during the intervening eight (8) years actually fortify the statements in that letter, including the deplorable one second-rating our U.S. "authorities" on *international trade* (not to be co fused with international payments) from our

U.S. population (now 1/16 of earth's peoples) to the *non-U.S.* "authorities" from the 15/16 of earth's peoples outside our U.S.A.

B. One reason for the non-superiority of our U.S. "authorities": Those U.S. texts on economics studied in our U.S. universities do *not* have even an entry for *C.I.F.* in their indexes! Thus, U.S. students are not taught the meaning of the international triad, *C.I.F.* and, lacking intimate commercial experience in international-trade auditing, they reach the rating of "U.S. authorities" without suspecting the de facto world-wide significance of *C.I.F.* (President Eisenhower's specialist is included in the above, his name being available! And, I can add other names.)

C. The "professors" err. One example: On page 136 of his 197-page, 1945, $2.50 book, "America's Role in The World Economy", the then "Littauer Professor of Political Economy" at Harvard University, U.S.A., and, also, "Special Economic Adviser, Board of Governors of the U.S. Federal Reserve System", Dr. Alvin H. Hansen, lists five products in which, he says, "*American producers . . . can undersell any competitor.*" For each one of his astutely selected five items, both U.S. and non-U.S. statistics now prove the professor wrong! Nor is *C.I.F.* in the index of his book!! Nor balance-of-*trade*!!, although there are 16 references to balance-of-payments. Nor does he make appraisals of even one of the *many* foreign devaluations on the U.S. socio-economy! (And, to tell the "whole truth," a pedagogue's first duty, on his page 188, after his sentence, "American imports did not rise", he should have stated that the U.S.A. was forced to devalue—on January 31, 1934—our dollar. That devaluation made (1) U.S. products cost foreigners 41.06% *less*, but made (2) foreign products, i.e., imports, cost Americans 69% *more*. Naturally our imports "did not rise"!!) The disaster which the professor generates is that those whom he taught grew up to be influential U.S. "thinkers"! Even helped formulate U.S. policies! And some of the opinions voiced to your Committee are proliferations of the professor's errors.

D. For an honest dedication to pro-U.S.A. and pro-world analyses of international TRADE, Mr. O. R. Strackbein has achieved both U.S. and non-U.S. applause. Our Country, for its and the world's guidance, needs more philosophers of international trade/jobs realism like him. His 193-page, mid-1965, $3.75 book, "*American Enterprise and Foreign Trade*", mostly well reviewed and commended, is a compact sample of his decades of his productive thinking pro-U.S.A. and pro-world.

E. At the Committee's hearings on August 31st and September 1st, opponents of Senator Dirksen's and Senator Sparkman's bills called the requirements in them too "burdensome" and/or too "costly". Those witnesses' provincialism could not have gone farther, since *133* out of *154* nations—this is my later count; in my letter of July 3, 1958, I said "89 out of 104"; but compile your own list, there being three easy sources—officially tabulate their imports *C.I.F.*, which uniformity makes *C.I.F.* the world consensus.

If the *C.I.F.* procedure is so burdensome and so costly why don't at least some of those *133* countries switch to the U.S.A. base, viz., *F.O.B.* countries-of-origins of the imports? I insist that these home-grown, bleeding-hearts alarmists confer posthaste with little—smaller than Vermont, U.S.A.—Israel (which made an ad hoc study before electing to tabulate its imports *C.I.F.*), with U.K. (which tabulates F.O.B. for BOP and C.I.F. for BOT), with Japan, and with *ALL* the *old* trading countries on our Earth plus the newly emerging African countries, even via their embassies here in Our Nation's capital. The opponents of these bills must cure their provincialism,—as *non-U.S.* experts well know.

F. During the hearings, the outstanding bleeding hearts were: (1) The Assistant Secretary for International Affairs from the U.S. Treasury Department. (2) Counsel for the U.S.-Japan Trade Council, who failed to tell Senate Finance Committee the "whole truth," viz., that his employer, Japan, tabulates its imports C.I.F.! (3) The representative for the "National Council of American Importers, Inc." who really goofed (details available).

G. The guiding perspective on international *trade* (not payments) is the "warehouse" concept of nations, including Our Country. An emigrant and an export from that warehouse are analogous; an immigrant and an import are analogous. The formulas to compute the *excess* of immigrants over emigrants (and vice versa) and the excess of exports over imports (and vice versa) are . . . . *identical*. They derive from the "inventory" concept of people (as in a census) and of merchandise. That is, when a U.S. resident emigrates he decreases by one human the total U.S. "population mix"; when an immigrant enters the U.S.A. he adds one human to the total U.S. "population mix"—and our Bureau of the Census so counts. In identical manner, when a product is exported from the U.S.A. it decreases the total "U.S. product mix" in the warehouse known as U.S.A.; when an import enters the U.S.A. it adds to the total "U.S. product mix" in terms of its inventory value, which is C.I.F., as the experts of *133* nations can confirm.

H. Lacking an official U.S. *C.I.F.* import figure, U.S. policy-makers and U.S. students of international *trade* (not payments) cannot compute essential data, two of which are:

(1) Per capita imports (check with 133 countries).
(2) Export/import surplus (check with 133 countries).

Not even the Department of State can operate vis-à-vis other nations, either taken as groups (e.g., Common Market, GATT, etc., etc.) or as individual trading partners of the U.S.A. without these essential guides to trends. Also, it is inconceivable that the (staff of the) President's own "Special Representative for Trade Negotiations" can honestly overcome this hurdle of *no*(!) *C.I.F.* statistics for U.S. imports in confrontations with the delegates whose countries have, for decades, tabulated their own imports C.I.F. I believe these countries total 133, and have 9/10 of Earth's peoples as their populations.

Respectfully,

C. A. CASTLE.

COLLIER, SHANNON AND RILL,
Washington, D.C., September 8, 1966.

Re: Support of Senate Joint Resolution 115.

Hon. RUSSELL B. LONG,
Chairman, United States Senate Committee on Finance,
Washington, D.C.

DEAR MR. CHAIRMAN: I am writing in support of Senate Joint Resolution 115 on behalf of the National Footwear Manufacturers Association. Its members include over 400 United States manufacturers of footwear, who account for 85 percent of the $2.5 billion footwear manufacturing industry.

The Association fully supports Senate Joint Resolution 115. The resolution would express the sense of Congress that statistics of imports into the United States should include the cost of freight and insurance as well as the value of the article at the foreign point of shipment. It would also require that reports of AID, Public Law 480, and subsidized agricultural exports be separated from those of non-military, competitive shipments.

As currently reported, trade statistics fail to furnish meaningful information for use in developing legislation and assessing our trade position. The official 1965 trade statistics present a pertinent example. As reported, imports totaled approximately $21.3 billion, exports totaled $26.5 billion, and the United States enjoyed a trade surplus of about $5.2 billion. If imports and exports had been reported as proposed in the resolution, however, the picture would have been quite different. Assuming that freight and insurance costs are a conservative 15 percent, the revised import total would have been approximately $24.5 billion. Likewise, if the approximately $4 billion worth of government-financed and government-subsidized exports had been separately reported, non-military competitive export shipments would have totaled $22.5 billion. The net result of these two changes would have been a 1965 United States trade deficit in the neighborhood of $2 billion.

The inaccuracy of the current method of reporting is of particular concern to the members of the National Footwear Manufacturers Association. The shoe manufacturing industry, consisting primarily of small manufacturers, is a highly competitive industry. The individual corporations are progressive in their improvement of plant and process, with the result that the efficiency in American shoe plants is greater than anywhere else in the world. Nevertheless, shoe imports have increased at an alarming rate, particularly from such low wage countries as Italy and Japan. Total footwear imports as a percent of domestic production have increased from 1.2 percent in 1955 to 17 percent in the first half of 1966. The latter figure in turn represents a 30 percent increase over the comparable figure for 1965. Women's casuals have been particularly effected, with cheap-labor imports now occupying 83 percent of that market. Foreign imports likewise account for 18 percent of women's dress shoes and 17 percent of men's oxfords, and these percentages are rapidly increasing.

While these statistics indicate that the American shoe manufacturing industry is being injured by an increasing flow of foreign imports, the full extent of this injury cannot be ascertained until the *full* price of the imported merchandise can be calculated. Senate Joint Resolution 115 will enable this calculation. It will allow an accurate analysis of our country's trade position and will ensure knowledgeable participation in such areas as the current Kennedy Round of negotiations in Geneva.

For these reasons the National Footwear Manufacturers Association strongly urges the adoption of Senate Joint Resolution 115. I respectfully request that this statement be made a part of the Record of hearings conducted by the Committee on Finance with respect to Senate Joint Resolution 115.

Respectfully submitted.

THOMAS F. SHANNON,
Counsel for National Footwear Manufacturers Association, Inc.

COLLIER, SHANNON & RILL,
Washington, D.C., September 8, 1966.

Re: Support of Senate Joint Resolution 115.

Hon. RUSSELL B. LONG,
Chairman, U.S. Senate
Committee on Finance,
Washington, D.C.

DEAR MR. CHAIRMAN: I am writing in support of Senate Joint Resolution 115 on behalf of the Tool and Stainless Steel Industry Committee. The committee is an association of seventeen United States producers of specialty steel.

The specialty steel industry has good reason to be vitally interested in the area of international trade. Under even the current method of reporting imports and exports, the balance of trade position of the specialty steel industry has suffered considerably in the past six years. Between 1959 and 1965 the quantity of specialty steel imports has increased on an average of 65 percent a year, as opposed to only a 7 percent yearly increase in domestic shipments. This trend has been reflected in recent balance of trade figures. Thus, in 1964, statistics showed an export surplus in identifiable tool and stainless steel of $28 million; in 1965, the surplus fell to $13 million; and in the first half of 1966, figures show an export *deficit* of well over $11 million. Considering tool steel alone, imports have exceeded exports in both tonnage and dollar value for over four years.

The United States specialty steel industry is thus feeling the impact of increasing steel imports. Unfortuately, however, the full extent of this impact is not accurately recorded under the current method of valuing imports and exports for balance of trade purposes.

The figures recited above were based upon statistics made available by the Department of Commerce. As reported by the Department, import statistics were based upon the value of the foreign product at the foreing point of shipment, i.e., f.o.b. The export statistics include the value of shipments made under AID and Public Law 480.

Neither method of reporting truly reflects our balance of trade position. On the one hand, imports are undervalued because the f.o.b. figure includes neither the cost of shipping the article from the foreign port to the United States nor the cost of insurance for that portion of the journey. On the other hand, exports are overvalued because the statistics fail to distinguish AID and Public Law 480 exports from exports which are truly competitive in nature. The false impression created by this method is evident upon examination of the official trade statistics for 1965. As reported, the United States enjoyed a trade surplus of $5.2 billion, with imports at approximately $21.3 billion and exports at $26.5 billion. If, however, it is assumed that freight insurance and other shipping costs total 15 percent of the f.o.b. value of foreign imports, and this amount is added to the f.o.b. figure, the total value of imports becomes $24.5 billion. Likewise, if the approximately $4 billion worth of government-financed and government-subsidized shipments are substracted from the export figure, the revised non-military competitive export total becomes only $22.5 billion. The net result is that the United States actually suffered a competitive trade deficit of approximately $2 billion in 1965.

The specialty steel industry is particularly concerned about the inaccuracy of the current method of reporting. The present system already shows that the specialty steel industry is being adversely affected by foreign imports at a rate which is increasing yearly. This, coupled with the fact that an estimated 75 percent of all specialty steel exports are under AID programs, make a true reflection of our industry's worldwide competitive standing greatly desirable.

The present system precludes immediate and accurate appraisal of the competitive position of this industry. Without immediate and accurate information, foreign imports will continue to receive favored treatment and they will continue to make inroads on our domestic specialty steel industry. The growth and stability of this vital industry will consequently be impaired, and our dependency upon foreign suppliers will become a dangerous fact of life.

Senate Joint Resolution 115 would express the sense of Congress that statistics of imports into the United States should include the value of freight and insurance as well as the cost of the imported item. It would also require that United States exports which are government-subsidized or government-financed be reported separately for statistical purposes.

The Tool and Stainless Steel Industry Committee fully supports Senate Joint Resolution 115 and its objectives. I respectfully request that this statement be made a part of the record of hearings conducted by the Committee on Finance with respect to Senate Joint Resolution 115.

Respectfully submitted.

THOMAS F. SHANNON,
Counsel, Tool and Stainless Steel Industry Committee.

STATEMENT OF THE TRADE RELATIONS COUNCIL OF THE UNITED STATES, INC., SUBMITTED BY EUGENE L. STEWART

The Trade Relations Council is a national multiindustry trade association with a specific interest in the foreign trade of the United States. Because of the very important relationship between the substance of S.J. Res. 115 and the Trade Relation Council's own objectives, the Council is pleased to voice its support of the proposed legislation.

The principal program of the Trade Relations Council now consists of the establishment, maintenance, and use of a computerized data processing facility for the compilation and analysis of public data relative to the economic growth and foreign trade of U.S. manufacturing industries.

The data collection, programming, and statistical examination functions connected with the establishment and use of this data bank are accomplished by members of the Department of Economics, Georgetown University, Washington, D.C., under contract between the University and the Trade Relations Council.

The data matrix built into this computerized facility is essentially based upon the Standard Industrial Classification. Import and export data as reported by the United States under differing classification systems are correlated to the Standard Industrial Classification in accordance with correlation tables prepared by the U.S. Department of Commerce, Bureau of the Census.

In total, the Council's data bank now includes employment, output, and foreign trade data for 274 of the 425 U.S. manufacturing industries identified at the four-digit level of the Standard Industrial Classification.

The Council is concerned in the area of foreign trade data with the presentation of data in a manner which will indicate, at least partially, the relationship of the Nation's imports and exports of manufactured products competitive with each of the industries included in the data bank in comparison with domestic shipments and domestic consumption of such products.

If one is to undertake an examination of the relative impact or contribution of foreign trade to the economic activity of American manufacturing industries, it is desirable to present both the import and export data in terms as close as possible to the value of the merchandise within the United States market.

The present import and export statistical concepts used by the United States Government in its compilation and publication of official foreign trade statistics impose severe limitations upon an analysis of the type we have described. The reporting of imports on an f.o.b. origin basis rather than on a c.i.f. or "landed cost" basis results in a considerable understatement of the value of the imported merchandise in the United States market.

On the other hand, the reporting by the United States of exports on an "f.a.s." basis (that is, including transportation charges to the port) overstates the value of U.S. exports in relation to the above-described type of analysis.

Thus, in attempting to serve industry and the Government through the type of data program described above, the Trade Relations Council finds itself handicapped and obliged to use estimating factors in converting the import data to a c.i.f. basis and the export data to an f.o.b. origin basis.

The Council is not alone in its realization that such conversion needs to be made in many of the important uses to which the Nation's foreign trade data are put. Thus, the witness for the Department of Agriculture acknowledged in these hearings that,

"Valuation of imports on a c.i.f. basis would more accurately reflect value of merchandise imported in comparison with domestic prices." [1]

Similarly, the memorandum submitted by the United States Tariff Commission to the Committee in connection with these hearings also acknowledged that,

"Statistical information showing the landed value of U.S. imports would be useful for a number of purposes. Such information would aid in the computation of the share of U.S. imports in domestic consumption; * * *." [2]

The Commission further noted that,

"Statistical information which would also aid in comparing U.S. trade with that of its trading partners would often be helpful. * * * This information is particularly important in discussions on the 'rate disparity' issue raised by the Common Market negotiations." [3]

Finally, the spokesman for the Office of the Special Representative for Trade Negotiations acknowledged to this Committee that the import data system proposed by S.J. Res. 115 is "generally used by most foreign countries." The Special Representative also acknowledged that for purposes of trade negotiations it is essential to have extensive data not now supplied by official U.S. foreign trade statistics.[4]

The Special Representative readily admitted that "c.i.f. data do bring us one step closer to a meaningful price comparison" [5] between foreign and domestic products though even with this improvement in the data, limitations would still remain because the actual value of foreign merchandise in the U.S. market would include other costs and markups which are not encompassed within the c.i.f. value.

Nevertheless, the significance of the Special Representative's testimony is that in preparing for trade negotiations the United States indeed does find it necessary to convert U.S. import statistics for the involved product categories to a c.i.f. basis.

The Trade Relations Council submits that it is not a sufficient answer to this acknowledged need to state, as did the Special Representative, that the necessary adjustment "has been done in past negotiations and will be done in the present negotiations. * * * [And that] this is a recognized operation." [6]

The adjustment of official U.S. import data accomplished by our trade negotiators is not made public by the Executive Branch of the Government, nor, indeed, are the factors used in making such adjustments made public. It is not possible for the business community to judge whether the adjustment is made accurately; nor does the business community have the benefit in its own data needs of the information produced by our trade negotiators in such an exercise.

Evidently even the Executive Branch feels handicapped in deriving usable c.i.f. import statistics for the Kennedy Round. The witness for the Office of the Special Representative informed your Committee that,

"In order to obtain the c.i.f. data that we need for the above three purposes—preparing for the negotiations, achieving a balanced result, and coping with the disparities issue—at our request, the Tariff Commission, with the assistance of the Bureau of the Census, has been preparing on a c.i.f. basis information on tariff rates and on trade." [7]

This information suggests that the type of conversion of import data to a c.i.f. basis accomplished heretofore in connection with the Kennedy Round is understood not to be sufficiently reliable to be of real help to the United States, and this necessarily casts some cloud over the similar conversions evidently accomplished in connection with earlier negotiations.

Nor does it appear that the Tariff Commission itself has been able to complete the task of converting the data, though the Kennedy Round negotiations have dragged on for two years. Thus, the Special Representative refers to "the work which the Commission has already completed" as indicating that his needs for c.i.f. data "will be successfully met." [8]

[1] Statement of M. L. Upchurch, U.S. Dept. of Agriculture, to the Senate Finance Committee on S.J. Res. 115 and S. 3522, August 31, 1966.
[2] Memorandum of U.S. Tariff Commission, August 19, 1966, to the Senate Finance Committee on S.J. Res. 115.
[3] *Ibid.*
[4] Statement of Bernard Norwood of the Office of the Special Representative for Trade Negotiations before the Senate Committee on Finance on S.J. Res. 115, August 31, 1966.
[5] *Ibid.*
[6] *Ibid.*
[7] *Ibid.*
[8] *Ibid.*

We are particularly disturbed by the statement contained in the conclusion of the testimony of the Special Representative that in the Kennedy Round, notwithstanding the fact that the Tariff Commission has not yet completed its job of converting import statistics to a c.i.f. basis, the Executive Branch is "already obtaining on a c.i.f. basis much more extensive and detailed data than in any previous trade negotiation." Such a statement reinforces our concern about the handicaps which may have been imposed upon the United States negotiators and the effects upon the results achieved in the negotiations in the preceding trade agreement negotiations in which such data were not readily available.

It seems to the Council that this description by the Special Representative of the necessity for a major study by the Tariff Commission to convert import data to a c.i.f. basis for a limited period of time for use in the Kennedy Round is the best evidence supplied so far of the wisdom of the proposed legislation in calling for U.S. import statistics uniformly and systematically to be reported on a c.i.f. basis.

The Tariff Commission memorandum refers to difficulties inherent in compiling import statistics on a c.i.f. basis. The inference which might be drawn from these statements is that S.J. Res. 115 ought not to be adopted because it will be difficult for the United States to report its imports on a c.i.f. basis. Such an inference and the suggestions which give rise to it seem unrealistic in the face of the acknowledged fact that most foreign countries are able now, and have been able for some years, to report their import statistics on a c.i.f. basis.

If the majority of our trading partners are able to compile and report their data on such a basis, what rational basis is there for believing that the United States, usually more sophisticated and resourceful in governmental statistical programs than other nations, would be seriously handicapped in matching their performance?

In constructing the TRC data bank, members of the Economics Department of Georgetown University converted U.S. import statistics from an f.o.b. to a c.i.f. basis utilizing ocean freight and insurance factors compiled by the Department of Commerce, Office of Business Economics, from the *1958 Input-Output Study of the United States* (October 1964 and September 1965). Export statistics were adjusted from an f.a.s. to an f.o.b. mill basis by uniformly deducting 10 percent of the reported f.a.s. value for the cost of export packing and inland transportation to the port.

The following tabulation illustrates the difference in foreign trade statistics as reported now by the Bureau of the Census on an import f.o.b.-export f.a.s. basis in comparison with such data reported import c.i.f. and export f.o.b. mill. The following tabulation represents the aggregate foreign trade of the 274 U.S. manufacturing industries at the four-digit level of the Standard Industrial Classification for which data were available from Government sources. These industries accounted for 67 percent of total employment in all U.S. manufacturing industries in 1964.

U.S. foreign trade in products competitive with the output of 274 U.S. manufacturing industries (4-digit S.I.C.), 1958–1965

[Dollar amounts in millions]

	As reported by the Bureau of the Census			As adjusted by the Trade Relations Council			Difference in balance of trade adjusted versus unadjusted
	Imports, f.o.b.	Exports, f.a.s.	Balance of trade	Imports, c.i.f.	Exports, f.o.b.	Balance of trade	
							Percent
1958	$6,184.1	$9,107.4	$2,923.3	$6,300.9	$8,196.7	$1,895.8	−35.1
1959	8,033.1	9,111.3	1,078.2	8,231.0	8,200.2	(30.8)	−102.9
1960	7,891.4	10,346.9	2,455.5	8,082.4	9,312.2	1,229.8	−49.9
1961	7,555.8	10,380.9	2,825.1	7,735.1	9,342.8	1,607.7	−43.1
1962	8,775.1	10,991.6	2,216.5	8,998.9	9,892.4	893.5	−59.7
1963	9,541.0	11,783.8	2,242.8	9,799.5	10,605.4	805.9	−64.1
1964	9,955.7	13,545.4	3,589.7	10,223.8	12,190.9	1,967.1	−45.2
1965	12,707.0	(1)		12,065.8	(1)		

[1] Not available.

As is evident from the table, there is a very considerable difference in the balance of trade in the products of these manufacturing industries when reported on an import c.i.f.-export f.o.b. basis in comparison with the present method used by the Bureau of the Census. The magnitude of this difference represents a considerable handicap to both the Government and the business community in evaluating and understanding the actual impact of foreign trade on our manufacturing industries.

In the interest of making more accurate information available on a systematic basis not only to the Government agencies concerned, but also, and of equal importance, to the public and the business community, favorable action on S.J. Res. 115 appears essential.

Statement of Miriam Williams, Secretary, Man-Made Fiber Producers Association, Inc.

The Man-Made Fiber Producers Association, Inc., represents U.S. producers who in the aggregate account for more than 90% of domestic production of man-made fibers, filaments and yarns.

The Members of the Association have a strong interest in foreign trade, and in the public statistics concerning such trade. Imports of man-made fiber textiles during the 12 months ending June 1966 reached 282.4 million pounds, equivalent to 8.2% of domestic consumption of man-made fibers. Exports of man-made fibers and products during the first 6 months of 1966 fell *below* the import volume of 163 million pounds, giving the United States a deficit in the quantity of man-made fibers moving in foreign trade for the first time in seven years.

With this substantial involvement of the industry in foreign trade as background to establish the basis for its interest, the Association wishes to express its concern over the misleading nature of the nation's foreign trade statistics, and the harmful consequences of these deficiencies.

DISTORTION IN PRESENT IMPORT STATISTICS

Perhaps the principal distortion which results from the statement of U.S. import statistics on a f.o.b. origin basis in contrast to the practice of most other nations of using c.i.f. valuation arises in conjunction with trade agreement negotiations. Most import duties are ad valorem. A percentage rate is set forth in the national tariff. When nations enter into negotiations for an exchange of tariff concessions, much stress is laid upon differences in the apparent level of duties reflected by the ad valorem rates. Where the U.S. ad valorem rate is based on the f.o.b. origin value, and the other nations to the negotiations base their duty on the c.i.f. value, the *effective* rate of duties involved will differ considerably even though the *actual* rate may be the same. A 20% duty applied to an import valuation to which 10% for freight and insurance charges had been added would represent an effective duty of 22% based on the f.i.b. origin value. When the difference in the indicated numerical rates is discussed, the widely differing significance of one valuation base versus the other in determining the amount of duties to be collected may well be overlooked. In any event if that difference is not quantified—and it isn't—the negotiations for reciprocal concessions are handicapped, with the United States being at the disadvantage.

To illustrate this problem, attention is invited to the following excerpt from a background paper prepared by the Office of the Special Representative for Trade Negotiations for the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs, August 10, 1966:

"A problem that evoked considerable debate early in the Kennedy Round was the issue of disparities. The European Community insisted that *where tariff rates on the same item were at wide variance, the country having the high rate should cut more than the country with the low rate.* No formula for dealing with such disparities could be agreed upon. The issue remains unresolved." (Emphasis added.)

It seems obvious from the above that the United States and other countries in the Kennedy Round may have indeed fastened their attention on the published *rates* of duty, without adjustment for the differing impact of those rates when applied to the different valuation bases for their respective ad valorem duties. If adjustment were made, one is prompted to inquire concerning the data used for the adjustment. On the United States side, the absence of import statistics regularly collected on a c.i.f. basis would seem to preclude careful adjustment of the rates used in the disparities discussion.

To illustrate the very significant impact of the c.i.f. valuation base in the determination of duties in comparison with the f.o.b. base used by the United States, attention is invited to the following discussion of the impact of the European system on U.S. exports of man-made fiber to E.E.C. countries. This discussion is taken from the brief submitted by this Association to the Office of the Special Representative in January 1964.

DIFFERENCES IN AD VALOREM DUTIES FAIL TO SHOW DISPARITIES IN THE TRUE LEVEL OF CUSTOMS CHARGES—UNITED STATES VS. FOREIGN COUNTRIES

As a result of the use of c.i.f. value based for ad valorem duties and the imposition of a variety of taxes on the c.i.f.-plus-duty costs of United States goods in foreign countries, the "disparity" or difference between United States and foreign rates of duty cannot be measured by a comparison of the tariff rates alone.

In the United States, ad valorem duties are applied against the f.o.b. (origin) price of the imported merchandise. Unlike the United States, 72% of the principal trading nations of the world assess ad valorem duties against the total landed cost of the imported commodity, including ocean freight and insurance. In addition, a variety of charges in the form of taxes is imposed against the value of the goods upon or before entry into the commerce of the importing country. Thus, in many foreign countries, including members of the EEC, the imposition of these taxes not only adds to the monetary charge burden, whether known as duties or by any other name, but also has a pyramiding effect in that each is successively applied to the aggregate of the costs preceding it.

To illustrate these two basic differences in foreign duty-tax systems compared with the simple United States customs procedure of imposing a single monetary charge against the f.o.b. value, the following information concerning West Germany is offered:

West Germany is a principal exporter to the United States of man-made staple fiber. Therefore, the illustration is in terms of the treatment accorded by the United States to imports of staple fiber from West Germany, in contrast with the system of charges exacted by West Germany on United States exports of staple fiber to that country.

The United States tariff on man-made staple fiber is 15%, that of Germany, 11%, indicating an apparent "disparity" in the level of United States and German duties. This appearance is, however, contrary to the fact for the following reasons:

(1) The German duty is applied to the total of the United States f.o.b. price plus the cost of ocean freight and insurance. The United States duty is applied to the German home market price without any addition for ocean freight and insurance.

(2) Germany imposes a turnover tax of 4% which is applicable to the total cost, including ocean freight, insurance and customs duties. Therefore, Germany's monetary charge rate (whether known as "duty" or "tax" or both) is 15.9% rather than 11%, as shown by the following computation:

UNITED STATES ACRYLIC STAPLE FIBER EXPORTS TO GERMANY

Increase over United States market price as a result of German tariff and turnover tax

	Percent
Stable Market Price in United States	100.
Ocean Freight, Insurance, etc. to Germany	[1] 3.
Total A	103.
German Duty of 11% Applicable to Total A	11. 3
Total B	114. 3
German Turnover Tax of 4% Applicable to Total B	4. 6
Total C	118. 9
Less United States Selling Price Plus Ocean Freight, etc	103. 0
Increase Over United States Price as a Result of German Tariff and Turnover Tax	15. 9

[1] 3% only when figured as percentage of price of acrylic staple fiber. In the case of rayon staple fiber the percentage attributable to ocean freight rates, insurance, etc. would be 10 percent and all calculations should be adjusted accordingly.

In contrast to its system of internal charges which builds up the true effective level of the "duties" on imported goods, Germany has a complementary system of tax remissions designed to lower the rate of duty imposed by other countries on German exports. In the case of man-made stable fiber, Germany remits the 4% turnover tax. Therefore, German man-made staple fiber is offered for export at 96.2% of the German home market price. When such goods are exported to the United States, the United States duty of 15% is applied to the pre-tax price. Thus, the United States rate of duty of 15% is, in effect, reduced to 10.6% by the German practice of remitting 4% of the value of the goods after exportation. The effect of this practice on man-made staple fiber is illustrated in the following table:

GERMAN ACRYLIC STAPLE FIBER EXPORTS TO UNITED STATES

Increase over German market price as a result of United States tariff offset by remission of turnover tax

	Percent
Staple Market Price in Germany	100.
Remission of 4% Turnover Tax for Export	−3. 8
Total A	96. 2
United States Duty of 15% Applicable to Total A	14. 4
Total B	110. 6
Less Germany Market Price	100. 0
Increase Over Germany Market Price as a Result of United States Duty of 15% Applicable After Remission of German Turnover Tax	10. 6

It is the position of the Man-Made Fiber Producers Association, Inc. that United States duties on man-made fibers should not be included in the forthcoming tariff negotiations for the reasons elsewhere developed in this brief. Should such rates of duty, however, be considered at any time in comparison with West Germany's duties on man-made fiber, it is essential that the effect of the foregoing charges and remission be considered as the true "disparity" in effective rates of duty. Unless the additional monetary charges resulting from Germany's use of c.i.f. value, turnover taxes and other internal charges are taken into account as applied to United States exports on the one hand and Germany's practice of remitting turnover taxes on its exports as a means of reducing the United States duty, on the other hand, the comparison will be misleading to the detriment of the United States. Any acceptance by the United States of a "disparity" between United States and West German duties on man-made fibers, which ignores these considerations, would be based upon a fiction. As long as these German practices remain in effect, the present German tariff on man-made staple fiber should be reduced from 11% to 6% to equate with the present United States tariff of 15%.

To equate with the United States duty of 15%, the German duty should be 6%

	Percent
Staple Market Price in United States	100.
Ocean Freight, Insurance, etc	3.
Total A	103.
German Duty of 6% Applicable to Total A	6. 2
Total B	109. 2
German Turnover Tax of 4% Applicable to Total B	4. 4
Total C	113. 6
Less United States Selling Price Plus Ocean Freight, etc	103. 0
Increase Over United States Price as a Result of 6% German Tariff, Plus Turnover Tax	10. 6

The following table shows, for the principal categories of man-made fiber articles, the extent to which the German practice of remitting the turnover tax in respect to goods exported to the United States has already reduced the effective rate of United States duty when compared with German market prices:

	Stated U.S. duty	Effective U.S. duty—percent of German market prices	Percent reduction in effective U.S. duty
Yarn	22½	17.8	21
Group filaments	21	16.4	22
Stable fiber	15	10.6	29
Waste	5	1.1	78

In contrast to the effect on United States duties shown in the above table, the following tabulation indicates the extent to which the variety of taxes of West Germany, followed in regard to United States exports, increases the effective level of German monetary charges applicable to the principal categories of man-made fiber products over and above the stated percentage of German customs duties.

[In percent]

	Stated German duty	Aggregate of duty and turnover tax	Increase over stated German duty
Yarn (synthetic) [1]	13.2	18.3	39
Grouped filaments (tow)	12.6	17.6	40
Staple fiber	11.0	15.9	45
Waste	11.0	15.9	45

[1] In the case of cellulosic yarn the German duty is 11.2 percent, 2 percentage points lower than the duty on synthetic (noncellulosic) yarn. However, the turnover tax on this item is 6 percent instead of 4 percent or 2 percentage points above that of yarn. This situation shows clearly how a seemingly lower duty is directly offset by a higher turnover tax to give an equivalent aggregate penalty on U.S. imports.

The Final effect of German practices on United States and West German duties on man-made fiber products is shown by the following table:

Effect of German turnover tax on stated United States and German duties

[In percent]

	Reduction in effective U.S. duty	Increase over stated German duty
Yarn	21	39
Grouped filaments	22	40
Staple fiber	29	45
Waste	78	45

From the data presented in the tables, it is evident that a uniform reduction in United States and West German charges on man-made fiber articles will serve only to increase the great "disparity" presently existing as a result of Germany's tax practices.

This "disparity" is not localized on man-made fiber products but also penalizes the end products made from man-made fibers, as well as the products of other United States industries.

Apart from the disparities question, it would seem to be necessary to have a common basis of valuing the trade in relation to which concessions are exchanged. Is the United States being systematically short changed in the concessions by virtue of the fact that its import statistics understate the value of imports in comparison with the c.i.f. reporting base of European countries? It is understood for example, that the United States made an attempt to adjust to this problem in the Dillon Round of trade agreement negotiations by arbitrarily adjusting all import statistics by a factor of 10%. It would seem vastly preferable to have the authentic record of the ocean freight and insurance cost portion of the incoming merchandise than attempting to use such a rough rule of thumb in trade negotiations where the Congress expects the U.S. negotiators to get a balance of advantages measure for measure in exchange for those given.

The misleading nature of our import statistics results from the use which is made of them in trade negotiations, either without adjustment in comparison with trade data of other countries which are on a c.i.f. basis, or where the data are adjusted through the use of arbitrary factors which may produce statistics in some product categories just as misleading as those they were designed to correct.

The provisions of paragraphs (a) and (b) of S.J. Res. 115, if adopted, would provide basic data on imports in a manner which would correct the distortion described above.

DISTORTION IN PRESENT BALANCE OF TRADE STATISTICS

The next major deficiency in our nation's foreign trade statistics occurs in the statement of U.S. exports. Presently these data include without distinction U.S. Government financed exports under a variety of grant, loan, and subsidy programs. These export statistics are used in a seemingly definitive manner in a variety of contexts, including balance of payments, trade policy determinations, and trade agreement negotiations. This Association submits that it is a positive disservice to our nation's fiscal programs to indulge the fiction that all of the exports included in our statistics are commercial, dollar-producing trade transactions. Government financed exports should be separately stated, apart from the bona fide commercial transactions.

Even man-made fiber exports are not immune from such distortions. In 1965, the United States Government expended $20,176,000 in the United States for man-made fibers and yarns to be exported under the nation's A.I.D. program. This Association does not protest the expenditure of public funds for its members products, if such are genuinely needed in valid foreign aid programs. It would also seem preferable that such expenditures be made in the United States than abroad. But the increments of our exports financed under such programs do not earn dollar exchange from other countries, do not indicate the relative competitive strength of the U.S. industry in world export trade, and do not fairly provide a gauge for determinations that export balances inflated by such transactions reflect an ability on the part of the domestic industry to compete with foreign products in the United States market without tariff protection. Yet our export balances are seemingly used uncritically for such purposes without the benefit which a separate statement of government financed exports in each product category would provide.

S.J. Res. 115 is clearly a step in the right direction in the amelioration of the types of problems described above, and this Association supports its enactment. It should be made more specific by the amendment of Section 2, second sentence, to describe more precisely the various types of Government financed exports which are to be separately stated by product category in the nation's official export statistics. The present language of Section 2 by its generality may invite less than thoroughgoing compliance.

NORTHERN TEXTILE ASSOCIATION,
Boston, Mass., September 9, 1966.

Re Senate Joint Resolution 115.

Hon. RUSSELL B. LONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: This is in reference to Senate Joint Resolution 115 on which the Finance Committee is holding hearings concerning the requirements of C.I.F. reporting of U.S. import statistics and separate reporting of Government subsidized or financed exports.

The American Textile Manufacturers Institute which represents U.S. cotton and man-made fiber textile mills and is the largest textile association in the country, and the Northern Textile Association, representing New England cotton, man-made fiber textiles, woolen and worsted mills, respectfully urge the speedy adoption of Senate Joint Resolution 115 in order that the seriously deteriorating balance of trade in textiles can be put in proper perspective.

Of all U.S. imports and exports, textile mill products, apparel and other finished textile products have shown perhaps the most startling reversal since the end of World War II. From a favorable balance of trade of *1.1 billion* dollars in 1947, the balance has plunged to a deficit of *772 million* dollars in 1965 or a net loss of *1.87 billion* dollars.

If these imports were reported on a C.I.F. basis, the net loss would be in the area of *2 billion* dollars.

In 1966 this trend continues. Based on January-May data, textile imports are running at a rate of *1.5 billion* dollars with exports at a *560 million* dollar rate or a projected deficit of over *930 million* dollars. If imports were reported on a C.I.F. basis, the deficit would be well over *one billion* dollars.

Another critical reason for changing to a C.I.F. reporting basis is that all other major trading nations report their imports on a C.I.F. basis. It is apparent that country to country comparisons on trade are seriously qualified when the country with the greatest amount of trade reports its imports on an F.O.B. basis.

On the other requirement of Senate Joint Resolution 115—to require separate reports on Government subsidized or financed exports—we would urge that these be broken down by product so that such textiles and textile products could be made known. It is probable that considerable quantities of textiles are shipped on this basis and would have to be subtracted from the above export figures in order to present the fairest picture of the worsening textile balance of trade.

As you know, the textile industry is the nation's second largest industry employing over 2 million workers with another 2 million employed in producing fibers used principally by the industry. It is second only to steel in defense essentiality and is of vital importance in peacetime having a direct effect upon our total economy.

It is, therefore, urgent that the flood of imports which threatens the health of this industry be shown for what it really is and not seriously understated.

Thank you for your interest in this matter.

Sincerely,

R. BUFORD BRANDIS,
Foreign Trade Director, American Textile Manufacturers Institute.

DANIEL D. GORDON,
Secretary, Northern Textile Association.

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