MISCELLANEOUS TARIFF BILLS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

H.R. 5044, H.R. 5265, H.R. 5551, H.R. 7108, H.R. 8755, H.R. 9628, H.R. 9911, H.R. 10161, H.R. 10625, H.R. 11409, H.R. 12165, H.R. 12739, S. 2847, S. 2985, S. 3171, S. 3246, S. 3326, S. 3329

JULY 31, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
34-048 O WASHINGTON : 1978

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MISCELLANEOUS TARIFF BILLS

MONDAY, JULY 31, 1978

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

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Hansen, and Packwood.

[The committee press release announcing this hearing and the bills H.R. 5044, H.R. 5265, H.R. 5551, H.R. 7108, H.R. 8755, H.R. 9628, H.R. 9911, H.R. 10161, H.R. 10625, H.R. 11409, H.R. 12165, H.R. 12739; S. 2847, S. 2985, S. 3171, S. 3246, S. 3326, and S. 3329 follow:]

PRESS RELEASE

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON MISCELLANEOUS TARIFF BILLS

The Honorable Abraham Ribicoff (D., Conn.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that the Subcommittee will hold public hearings on miscellaneous tariff bills. Many of these bills have been reported favorably by the House Committee on Ways and Means and are now on the House calendar. The Subcommittee is holding hearings on those bills and bills on the Finance Committee calendar to expedite their consideration. The hearings will be held at 10:00 A.M., Monday, July 31, 1978, in Room 2221 Dirksen Senate Office Building.

The Subcommittee invites testimony on the following bills:

H.R. 5551.—To suspend until the close of June 30, 1980, the duty on 2-Methyl, 4-Chorophenol.

H.R. 5044.—To suspend the duty on strontium nitrate until the close of January 3, 1980.

H.R. 5265.—To provide for the temporary suspension of duty on the importation of fluorospar.

H.R. 7108.—To amend the Tariff Schedules of the United States in order to suspend the duty on Yankee Dryer Cylinders until the close of December 31, 1981.

H.R. 8755.—To make specific provisions for ball or roller bearing pillow block, flange, take-up, cartridge, and hanger units.

H.R. 9628.—To suspend until the close of June 30, 1980, the duty on certain nitrocellulose.

H.R. 9911.—To continue until the close of June 30, 1981, the existing suspension of duties on certain forms of zinc.

H.R. 10161.—For the relief of Eastern Telephone Supply and Manufacturing, Inc.

H.R. 10625.—To continue the existing suspension of duty on natural graphite until the close of June 30, 1981.

H.R. 11409.—To make permanent the existing temporary suspension of duty on certain dyeing and tanning materials.

H.R. 12165.—To extend until the close of June 30, 1981, the existing suspension of duties on certain metal waste and scrap, unwrought metal, and other articles of metal.

H.R. 12739.—To suspend the duty on live worms until the close of June 30, 1981.

S. 3329.—To suspend the duty on mixtures of mashed or macerated hot red peppers and salt until the close of June 30, 1981.

S. 2847.—To modify the Tariff Schedules with regard to certain articles used in carnivals and parades.

S. 2985.—To amend the Tariff Schedules of the United States to provide for an increase in the duties on imports of potatoes, and to reduce the quota for potatoes subject to the lower of the two rates of duty.

S. 3171.—To amend the Tariff Schedules of the United States to provide duty-free treatment for certain gloves and trousers which incorporate protective features designed specifically for use in forestry.

S. 3246.—To amend the Tariff Act of 1930 to provide that, for purposes of determining the duty payable with respect to imported merchandise, the value of imported merchandise includes any export quota premium.

S. 3326.—To suspend the duty on freight cars until the close of June 30, 1982.

Requests to testify.—Chairman Ribicoff stated that witnesses desiring to testify during these hearings must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D.C. 20510, not later than Thursday, July 27, 1978. Witnesses will be notified as soon as possible after this cutoff date as to when they are scheduled to appear. If for some reason the witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

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

Legislative Reorganization Act.—Chairman Ribicoff observed that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

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

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on a letter-size (not legal size) paper and at least *75 copies* must be delivered to Room 2227 Dirksen Senate Office Building no later than 5:30 p.m., Friday, July 28, 1978.

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

(4) No more than five minutes will be allowed for the oral summary.

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

Written statements.—Witnesses who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building not later than Friday, August 11, 1978.

95TH CONGRESS
2D SESSION

H. R. 5044

IN THE SENATE OF THE UNITED STATES

AUGUST 2 (legislative day, MAY 17), 1978
Read twice and referred to the Committee on Finance

AN ACT

To suspend the duty on strontium nitrate until the close of January 3, 1980.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately after item 907.12 the following new item:

"	907.15	Strontium nitrate (provided for in item 421.74, part 2C, schedule 4)..	Free	Free	On or before 1/3/80	".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn

from warehouse, for consumption on or after the date of the enactment of this Act.

Passed the House of Representatives July 31, 1978.

Attest: EDMUND L. HENSHAW, JR.,
Clerk.

Union Calendar No. 735

95TH CONGRESS
2D SESSION

H. R. 5265

[Report No. 95–1354]

IN THE HOUSE OF REPRESENTATIVES

MARCH 21, 1977

Mr. ROSTENKOWSKI (for himself, Mr. CONABLE, and Mr. ARCHER) introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To provide for the temporary suspension of duty on the importation of fluorspar.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately after item ~~912.10~~ *909.01* the following new item:

"	~~912.15~~ *909.05*	Fluorspar (provided for in items 522.21 and 522.24, part 1J, schedule 5).....	Free	No change	On or before ~~6/30/78~~ *6/30/80* ".

I

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, on or after the date of enactment of this Act.

95TH CONGRESS
2D SESSION

H. R. 5551

IN THE SENATE OF THE UNITED STATES

MAY 17, 1978
Received

MAY 22 (legislative day, MAY 17), 1978
Read the first time

MAY 25 (legislative day, MAY 17), 1978
Read the second time and referred to the Committee on Finance

AN ACT

To suspend until the close of June 30, 1980, the duty on 2-Methyl, 4-chlorophenol.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately before item 907.80 the following new item:

"	907.78	2-methyl, 4-chlorophenol (provided for in item 403.60, part 1B, schedule 4).....	Free	No change	On or before 6/30/80	".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn

from warehouse, for consumption on or after the date of the enactment of this Act.

Passed the House of Representatives May 15, 1978.

Attest: EDMUND L. HENSHAW, JR.,
Clerk.

95TH CONGRESS
2D SESSION

H. R. 7108

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 19 (legislative day, AUGUST 16), 1978
Read twice and referred to the Committee on Finance

AN ACT

To amend the Tariff Schedules of the United States in order to suspend the duty on Yankee Dryer Cylinders until the close of December 31, 1981.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately after item 912.05 the following new item:

"	912.06	Yankee Dryer Cylinders (provided for in item 668.06, part 4D, schedule 6).....	Free	No change	On or before 12/31/81	".

II

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

Passed the House of Representatives September 18, 1978.

Attest: EDMUND L. HENSHAW, JR.,

Clerk.

95TH CONGRESS
2D SESSION

H. R. 8755

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 21 (legislative day, AUGUST 16), 1978
Read twice and referred to the Committee on Finance

AN ACT

To make specific provisions for ball or roller bearing pillow block, flange, take-up, cartridge, and hanger units in the Tariff Schedules of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart J of part 4 of schedule 6 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by redesignating items 680.52 and 680.54 as items 680.55 and 680.56, respectively; and

(2) by striking out item 680.50 and inserting in lieu thereof the following new items:

"	680.50	Pulleys and shaft couplings, and parts thereof	9.5% ad val.	45% ad val.
		Pillow blocks and parts thereof:		
	680.51	Ball or roller bearing type	9.5% ad val.	45% ad val.
	680.52	Other types	9.5% ad val.	45% ad val.
		Flange, take-up, cartridge, and hanger units, and parts thereof:		
	680.53	Ball or roller bearing type	9.5% ad val.	45% ad val.
	680.54	Other types	9.5% ad val.	45% ad val. ".

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

Passed the House of Representatives September 18, 1978.

Attest: EDMUND L. HENSHAW, JR.,
Clerk.

95TH CONGRESS
2D SESSION

H. R. 9628

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 19 (legislative day, AUGUST 16), 1978
Read twice and referred to the Committee on Finance

AN ACT

To suspend until the close of June 30, 1980, the duty on certain nitrocellulose.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately before item 909.01 the following new item:

"	907.77	Nitrocellulose (provided for in item 445.25, part 4A, schedule 4).....	Free	No change	On or before 6/30/80	".

II

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

Passed the House of Representatives September 18, 1978.

Attest: EDMUND L. HENSHAW, JR.,
Clerk.

Union Calendar No. 738

95TH CONGRESS
2D SESSION

H. R. 9911

[Report No. 95–1357]

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 2, 1977

Mr. DUNCAN of Tennessee (for himself, Mr. JONES of Oklahoma, and Mr. RISENHOOVER) introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To continue until the close of June 30, 1981, the existing suspension of duties on certain forms of zinc.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That ~~(a)~~ items 911.00, 911.01, 911.02, and 911.03 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) are *each* amended by striking out "6/30/78" and inserting in lieu thereof "6/30/81".

~~(b) The amendment made by subsection (a)~~

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption, after June 30, 1978.

Private Calendar No. 136

95TH CONGRESS
2D SESSION

H. R. 10161

[Report No. 95-1363]

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 29, 1977

Mr. ST GERMAIN introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Committed to the Committee of the Whole House and ordered to be printed and ordered to be printed

A BILL

For the relief of Eastern Telephone Supply and Manufacturing, Incorporated.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the time limitations in section 514 of the Tariff Act of 1930 (19 U.S.C. 1514) or in any other provision of law, Eastern Telephone Supply and Manufacturing, Incorporated, of Newport, Rhode Island, may file, within sixty days after the date of enactment of this Act, a protest with the United States Customs Service concerning the overpayment of customs duties on goods purchased from Bell of Canada that entered the United States through Buffalo, New York, and Champlain, New York, during the

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period from February 1974, to December 1974, inclusive. The United States Customs Service shall accept such protest as if it were filed in a timely fashion and shall review such protest in accordance with the otherwise applicable provisions of law.

Union Calendar No. 740

95TH CONGRESS
2D SESSION

H. R. 10625

[Report No. 95–1359]

IN THE HOUSE OF REPRESENTATIVES

JANUARY 31, 1978

Mr. BURLESON of Texas (for himself and Mr. POAGE) introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To suspend the duty on natural graphite until the close of June 30, 1981.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, ~~That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by adding immediately after item 907.80 the following new item:~~

["	909.01	Graphite, crude and refined, natural (provided for in item 517.21, 517.24, or 517.27, part 1E, schedule 5).....	Free	No change	On or before 6/30/81 ".]

I

That item 909.01 of the Appendix of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by striking out "6/30/78" and inserting in lieu thereof "6/30/81".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after ~~the date of the enactment of this Act.~~ *June 30, 1978.*

Amend the title so as to read: "A bill to continue the existing suspension of duty on natural graphite until the close of June 30, 1981.".

Union Calendar No. 741

95TH CONGRESS
2D SESSION

H. R. 11409

[Report No. 95–1360]

IN THE HOUSE OF REPRESENTATIVES

MARCH 9, 1978

Mr. BURKE of Massachusetts introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To extend indefinitely the period during which certain dyeing and tanning materials may be imported free of duty.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, ~~That (a) item 907.80 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is stricken out and in lieu thereof, items 470.15, 470.23, 470.25 Part 9A schedule 4 and 470.57, and 470.65 Part 9B schedule 4 of the Tariff Schedules of the United States (19 U.S.C. 1202) are amended as follows:~~

"Schedule 4 Part 9A

Item	Stat suffix	Articles	Units of quantity	Rates of duty 1	Rates of duty 2
		Brasil wood, cutch, fustic, henna, logwood, madder, Persian berry, safflower and saffron:			
470. 10	00	Crude or processed.....	Lb.	Free	Free
		Other:			
470. 15	00	Logwood.....	Lb.	Free	Free
470. 18	00	Other.....	Lb.	4% ad val.	15% ad val.
		Canaigre, chestnut, curupay, divi-divi, eucalyptus, hemlock, larch, and tara:			
470. 20	00	Crude or processed.....	Lb.	Free	Free
		Other:			
470. 23	00	Chestnut, divi-divi, and hemlock.....	Lb.	Free	Free
470. 25	00	Other	Lb.	Free	Free

"Schedule 4 Part 9B

Item	Stat suffix	Articles	Units of quantity	Rates of duty 1	Rates of duty 2	
		Mangrove, myrobalan, oak, quebracho, sumac, urunday, and wattle:				
470. 50	00	Crude or processed.....	Lb.	Free	Free	
	30	Quebracho.....	Lb.			
	40	Wattle.....	Lb.			
	70	Other.....	Lb.			
		Other:				
470. 55	00	Myrobalan and Sumac.....	Lb.	Free	Free	
470. 57	00	Other.....	.....	Free	Free	
	40	Quebracho.....	Lb.			
	60	Wattle.....	Lb.			
	90	Other.....	Lb.			
		Valonia:				
470. 60	00	Crude or processed.....	Lb.	Free	Free	
470. 65	00	Other.....	Lb.	Free	Free	".

~~(b) The amendment made by subsection (a) shall apply with respect to articles entered, or withdrawn from warehouse for consumption after June 30, 1978.~~

That (a) subpart A of part 9 of schedule 4 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by striking out item 470.15 and inserting in lieu thereof the following:

"	470.16 470.18	Other: Logwood Other	Free 4% ad val.	Free 15% ad val.	",

(2) by striking out "15% ad val." in each of items 470.23 and 470.65 and inserting in lieu thereof "Free";

(3) by striking out "6% ad val." and "15% ad val." in item 470.25 and inserting in lieu thereof "Free";

(4) by striking out "2.5% ad val." and "15% ad val." in item 470.55 and inserting in lieu thereof "Free"; and

(5) by striking out "3.5% ad val." and "15% ad val." in item 470.57 and inserting in lieu thereof "Free".

(b) Item 907.80 of the Appendix to such Schedules is repealed.

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or with-

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drawn from warehouse, for consumption after June 30, 1978.

Amend the title so as to read: "A bill to make permanent the existing temporary suspension of duty on certain dyeing and tanning materials.".

Union Calendar No. 742

95TH CONGRESS
2D SESSION

H. R. 12165

[Report No. 95-1361]

IN THE HOUSE OF REPRESENTATIVES

APRIL 17, 1978

Mr. VANDER JAGT introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To extend until the close of June 30, 1981, the existing suspension of duties on certain metal waste and scrap, unwrought metal, and other articles of metal.

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

~~That items 911.10, 911.11, and 911.12 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) are each amended by striking out "6/30/78" and inserting in lieu thereof "6/30/81".~~

That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by striking out the colon at the end of the superior heading to items 911.10, 911.11, and 911.12 and inserting in lieu thereof "or to be processed by shredding, shearing, compacting or similar processing which renders them fit only for the recovery of the metal content:"; and

(2) by striking out "6/30/78" in each of items 911.10, 911.11, and 911.12 and inserting in lieu thereof "6/30/81".

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption after June 30, 1978.

Union Calendar No. 743

95TH CONGRESS
2D SESSION

H. R. 12739

[Report No. 95–1362]

IN THE HOUSE OF REPRESENTATIVES

MAY 16, 1978

Mr. KEMP introduced the following bill; which was referred to the Committee on Ways and Means

JULY 14, 1978

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To suspend the duty on live worms until the close of June 30, 1981.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately after item 903.51 the following new item:

"	903.53	Live worms (provided for in item 100.95, part 1, schedule 1).....	Free	No change	On or before 6/30/81	".

I

SEC. 2. The ~~amendments~~ *amendment* made by the first section of this Act shall apply with respect to articles entered, or withdrawn from ~~warehouses,~~ *warehouse*, for consumption on or after the date of the enactment of this Act.

95TH CONGRESS
2D SESSION

S. 2847

IN THE SENATE OF THE UNITED STATES

APRIL 6 (legislative day, FEBRUARY 6), 1978

Mr. JOHNSTON introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To modify the Tariff Schedules with regard to certain articles used in carnivals and parades.

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

At the appropriate place, insert the following:

"SEC. . **MODIFICATION OF TARIFF SCHEDULES FOR CERTAIN ARTICLES USED IN CARNIVALS AND PARADES.**

"(a) Schedule 7, part 6, of the Tariff Schedules is amended by inserting immediately below item 740.38 the following new item:

"'	740.0	Jewelry and other articles of personal adornment (except that provided for under items 740.05 and 740.10) imported to be distributed free to spectators by participants in parades, carnivals, and similar events.....	Free	Free '.

"(b) The amendments made by this section apply with respect to articles entered, or withdrawn from warehouse, for consumption after the date of enactment of this Act.".

95TH CONGRESS
2D SESSION

S. 2985

IN THE SENATE OF THE UNITED STATES

APRIL 25 (legislative day, APRIL 24), 1978

MR. HATHAWAY introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States to provide for an increase in the duties on imports of potatoes, and to reduce the quota for potatoes subject to the lower of the two rates of duty.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subpart A of part 8 of schedule 1 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by striking out the matter between item 137.11 and item 137.40 and inserting in lieu thereof the following:

"	137.20	Potatoes, white or Irish: For not over 100,000,000 pounds entered during the 12-month period beginning September 15 in any year	Cwt.	75¢ per 100 lbs.	$1.50 per 100 lbs.
	137.25	Other	Cwt.	$1.00 per 100 lbs.	$2.00 per 100 lbs. ".

(b) The headnotes for such subpart are amended by striking out headnote number 2.

SEC. 2. (a) The rate of duty prescribed in rate column numbered one of the Tariff Schedules of the United States, as amended by this Act, shall be considered to have been proclaimed by the President as necessary or appropriate to trade agreements to which the United States is a party, not as a statutory provision enacted by the Congress.

(b) The amendments made by this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption after the date of enactment of this Act.

95TH CONGRESS
2D SESSION

S. 3171

IN THE SENATE OF THE UNITED STATES

JUNE 7 (legislative day, MAY 17), 1978

Mr. GRIFFIN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States to provide duty-free treatment for certain gloves and trousers which incorporate protective features designed specifically for use in forestry.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That part 6 of schedule 8 of the Tariff Schedules of the United States (19 U.S.C. 1202) (relating to special classification provisions) is amended by inserting after item 870.25 the following new item:

"	870.26	Gloves and trousers specially designed for use in forestry, incorporating two or more layers of protective lining material made wholly of man-made fibers	Free	Free ".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

95TH CONGRESS
2D SESSION

S. 3246

IN THE SENATE OF THE UNITED STATES

JUNE 27 (legislative day, MAY 17), 1978

Mr. TALMADGE introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Act of 1930 to provide that, for purposes of determining the duty payable with respect to imported merchandise, the value of imported merchandise includes any export quota premium.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (b) of section 402 of the Tariff Act of 1930 (19 U.S.C. 1401a(b)) is amended by inserting after "such price," the following: "the cost of all export quota rights,".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of enactment of this Act.

95TH CONGRESS
2D SESSION

S. 3326

IN THE SENATE OF THE UNITED STATES

JULY 20 (legislative day, MAY 17), 1978

Mr. BENTSEN (for himself, Mr. DOLE, and Mr. CURTIS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend the duty on freight cars until the close of June 30, 1982.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by adding, immediately after item 912.12, the following new item:

"	912 13	Freight cars (provided for in item 690.15, subpart A, part 6, schedule 6).....	Free	No change	On or before 6/1/82 ".

SEC. 2. (a) The amendment made by the first section of this Act shall apply with respect to articles entered on or after date of enactment of this Act.

(b) Upon request therefor filed with the customs officer concerned on or before the ninetieth day after the day of enactment of this Act, the entry of any article—

(1) which was made on or after March 1, 1978, and before the date of enactment of this Act, and

(2) with respect to which there would have been no duty if the amendment made by the first section of this Act applied to such entry shall,

notwithstanding the provisions of section 514 of the Tariff Act of 1930 or any other provision of law, be liquidated or reliquidated as though such entry had been made on the date of enactment of this Act.

95TH CONGRESS
2D SESSION

S. 3329

IN THE SENATE OF THE UNITED STATES

JULY 21 (legislative day, MAY 17), 1978

Mr. LONG introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend the duty on mixtures of mashed or macerated hot red peppers and salt until the close of June 30, 1981.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 1 of the Appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by adding in numerical sequence the following new item:

"	903.60	Mixtures of mashed or macerated hot red peppers and salt (provided for in item 141.77, part 8, schedule 1)..	Free	No change	On or before 6/30/81	".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of enactment of this Act.

Senator RIBICOFF. The committee will be in order. We have a number of miscellaneous tariff and trade bills. We have a very heavy schedule. Each witness will be limited to 5 minutes so that we can accommodate the witnesses.

Your full statements will go into the record as if read completely and we are honored to have as our first witness Senator Allen.

STATEMENT OF HON. MARYON ALLEN, A U.S. SENATOR FROM THE STATE OF ALABAMA

Senator ALLEN. Good morning.

Mr. Chairman, I am delighted to testify today in support of H.R. 5551, a bill to suspend temporarily for 3 years the duty on the chemical 2-methyl, 4-chlorophenol (PCOC). This legislation was passed by the House of Representatives on May 15, 1978, under suspension of the rules.

The proposed suspension of the duty in this instance is of crucial importance to the Fallek-Lankro Chemical Corp. of Tuscaloosa, Ala., which requires PCOC in the production of its two primary products, the agricultural herbicides MCPA and MCPP. This company is the only U.S producer of these two herbicides. Swift enactment of this legislation is of substantial interest to Alabama because Fallek-Lankro and its sister corporation, Alabama Western Chemical Corp., occupy what had been a bankrupt manufacturing site in Tuscaloosa, thereby assuring the continuance of a much-needed industry and affording continued employment to over 80 people.

Since PCOC is not produced in the United States, Fallek-Lankro exports orthocresol, the prime ingredient in PCOC, from the United States to England to be converted into PCOC and then imports the PCOC into the United States for the production of MCPA and MCPP at Tuscaloosa, Ala.

The tariff schedule provides a rate of duty on PCOC of 1.7 cent per pound plus 12.5 percent ad valorem. The amount of duty, when added to the cost of PCOC itself, makes it uneconomical to produce the two major products of Fallek-Lankro's product line: MCPA and MCPP.

In addition, the company must compete with European producers of MCPA and MCPP who do not incur such additional costs. It is anticipated that the temporary suspension of duty on PCOC will enable Fallek-Lankro to develop its market in the United States for the two herbicides and construct its own facility for the manufacture of PCOC in the United States before the expiration of the requested period of temporary suspension of duty.

It is of no little significance, Mr. Chairman, that this bill, as marked up by the House Ways and Means Committee and approved by the House, was amended to provide for a termination date of June 30, 1980, rather than the specified 3-year period from the date of enactment as originally provided. Time, therefore, is or vital importance.

I would like to take this opportunity to express my appreciation to you, Mr. Chairman, for responding so quickly to my June 15 letter to you, urging prompt consideration of this bill which is of such importance to the economy of one of our fine Alabama cities.

My purpose in appearing here today is to urge that the subcommittee report favorably H.R. 5551 to the full Committee on Finance so

that the continue employment of over 80 people at the Fallek-Lankro Tuscaloosa plant may be assured. The bill has been passed by the House; I am assured that the administration has no objections to its passage; and I would hope that the Senate would act promptly in this instance and without further delay.

Senator RIBICOFF. Thank you very much, Senator Allen.

Mr. Jeffrey Bricker.

STATEMENT OF JEFFREY M. BRICKER, FALLEK-LANKRO CORP.

Mr. BRICKER. Mr. Chairman, I would like to thank the subcommittee for allowing us to come down and give our testimony in support of H.R. 5551. Senator Allen has more than adequately described the reasons why we want the bill passed, and rather than waste the time of the subcommittee with giving further oral testimony, I would be pleased to answer any questions that there are.

Senator RIBICOFF. That is fine. You have a good advocate in Senator Allen. We understand the problem. Your entire statement will go into the record as if read. Thank you very much.

Mr. BRICKER. Thank you.

[The prepared statement of Mr. Bricker follows:]

STATEMENT OF JEFFREY M. BRICKER, FALLEK-LANKRO CORP.

My name is Jeffrey M. Bricker. I am a member of the board of directors of the Fallek-Lankro Corp. ("Fallek-Lankro"), and the vice-president manufacturing of the Fallek Chemical Corp. ("Fallek-Chemical"). I appear in support of H.R. 5551 which, as passed by the House of Representatives on May 15, 1978, would suspend through June 30, 1980, the duty on the chemical 2 Methyl, 4-Chlorophenol also known as Parachloro-orthocresol ("PCOC"). I am accompanied today by Richard Mizrack and John I. Dugan, counsel to Fallek-Lankro.

PCOC is covered under Schedule 4, Subpart B, Item 403.6000 of the TSUS. It is dutiable at a rate of 12.5 percent ad valorem plus 1.7 cents per pound. At the current F.O.B. United Kingdom price Fallek-Lankro is currently being assessed a duty of 8–9 cents per pound of PCOC.

Fallek-Lankro is an Alabama corporation established in March 1976; it is owned equally by Fallek Chemical of New York, and the Diamond Shamrock Corporation of Cleveland, Ohio (through its ownership of Diamond Shamrock Europe, Ltd.). Fallek-Lankro has invested approximately $15 million in a modern, up-to-date plant in Tuscaloosa, Alabama. The plant became operational in September-October 1977 and has already added significantly to the domestic production capability for agricultural chemicals.

The products manufactured and sold by Fallek-Lankro are phenoxy acids, which, in combination with other chemicals, have been long used as herbicides for the growing of cereal grains throughout the world. Fallek-Lankro concentrates its marketing efforts on two acids: 2-methyl-4 chlorophenoxy acetic acid ("MCPA"), and 2-(chloro 2-methyl phenoxy) propionic acid ("MCPP"). We are the sole domestic producer of MCPA and MCPP. All other MCPA and MCPP used in this country must be imported.

In order to produce MCPA and MCPP we require PCOC as an intermediate. There is no other way which we can make these products. It was originally intended that Fallek-Lankro produce most of the required intermediates, including PCOC, as well as MCPA and MCPP. While this is our objective, it was concluded, as we moved forward with the project planning, that available capital and technical support for the project would be stretched too thin if an attempt were made to construct simultaneously the MCPA and MCPP plant and the additional facilities for manufacture of PCOC. Therefore, it was decided to build first the plant for MCPA and MCPP and procure the required PCOC and other intermediates from other sources. Then, when the company had established a viable market for these products, it would build a PCOC plant. The construction of this latter plant would obviate the need to import PCOC.

PCOC is unique in that it is not produced in the United States. To the best of our knowledge, it is not now being used in the United States by any other manufacturer. We know of no ongoing importation of PCOC, except by Fallek-Lankro.

Because of the unavailability of domestically produced PCOC, we had to go outside the United States to make arrangements to secure a supply of the required PCOC. This we did and importation began in the summer of 1977.

Several months prior to plant start-up we began to be faced with a serious situation involving the cost of production of MCPA and MCPP. Over the last several years there has been a continual erosion in the United States selling prices of most agricultural chemicals, and in particular the phenoxy acid herbicides, mostly due to import pricing pressure from Europe. Unfortunately for Fallek-Lankro there has been no corresponding decrease in our cost of production, including the costs of raw materials. As indicated in Appendix A, the selling prices for MCPA and MCPP have declined by approximately 34 percent and 30 percent respectively since 1975, while there has only been about a 6.8 percent decrease in the delivered cost for PCOC.

In April 1977, based on our then anticipated production, it was believed that the relief in duty payments which H.R. 551 would provide, if passed, would amount to approximately $350,000 per annum for Fallek-Lankro. Based upon our experience since we began production, we believe that such relief could amount to approximately $450,000 per annum during the life of the law.

As it now stands, the duty alone is approximately equal to 25 percent of the cost of the raw materials used in the production of PCOC—obviously a meaningful amount. Therefore the relief would be afforded by H.R. 5551 if passed would be a significant factor in rectifying the problem of the relationship of the cost of PCOC and the sales prices of MCPA and MCPP. Under present market conditions, without duty suspension, the production of MCPA and MCPP may have to be curtailed. Since these two products are the primary items in our product line, the economic consequences of such a curtailment is to place the viability of the entire company in doubt.

If our enterprise were to fail, then not only the investment of time, money and effort we have made already would be lost, but significant benefits to the American farmer and economic benefits to Tuscaloosa will also be lost. From the standpoint of the American farmer, Fallek-Lankro provides a domestic source for MCPA; for Tuscaloosa, Fallek-Lankro represents a source of employment and money being spent in the local economy. This is especially important for Tuscaloosa since it has just experienced a recent paper mill shutdown (Gulf States) around March of this year, and another local chemical producer has cut back its production force due to a shutdown in part of its product line (Reichold Chemical). Since 1976, we are informed that there has been a loss of about 4,000 manufacturing jobs in the Tuscaloosa area.

Further, Fallek-Lankro's facilities are adjacent to a related company, Alabama Western Chemical Corporation ("Alabama Western"), which produces cresylic acid for general industrial uses and salt cake for the paper industry. When construction began on Fallek-Lankro's facilities, an investment of some $1.3 million was simultaneously committed by Alabama Western for a process enhancement so that orthocresol could be extracted from the cresylic acid it produces for use as a raw material by Fallek-Lankro. Orthocresol is the basic constituent of PCOC. This, therefore, ties the continued success of Alabama Western to the success or failure of Fallek-Lankro. This relationship is significant in view of the fact that Alabama Western employs some 35 persons, and the plant site it occupies (as well as that occupied by Fallek-Lankro) was, until 1975, unused owing to the bankruptcy of its former operators.

Fallek-Lankro now employes over 50 persons; Alabama Western employees some 35, a total of 85 jobs. If the Fallek-Lankro project succeeds and a PCOC plant is built, then we foresee a further 30 jobs being added to this total. This is the most direct and immediate benefit to Tuscaloosa of the project. However, also felt has been the beneficial impact that the infusion of the capital costs of construction of the two projects has already meant to the area. Economic benefits continue to accrue as Fallek-Lankro spends dollars to maintain its daily operational needs and creates further jobs.

To summarize, we urge that H.R. 5551 be reported favorably to the full Committee because:

1. It will make it possible economically for the interim importation of an essential chemical intermediate for the production of two important herbicides which will benefit the American farmer.

2. It will result in the maintenance of current and substantial employment in the Tuscaloosa area.
3. It will result in other immediate, as well as future economic benefits, through the infusion of money to the local economy.
4. It will not result in any substantially adverse affect on any United States companies, since PCOC, as well as MCPA and MCPP, is not produced in the United States.
5. Any loss in custom's duties will be more than offset by the gains to be realized from the project; if the project fails there will be no significant continuing import of PCOC in any case.
6. The suspension of the duty will help to make possible the construction of PCOC production facilities in the United States, thereby creating further jobs, as well as a domestic source of this chemical.

In addition to benefiting the American farmer, this is a unique opportunity to promote the expansion of the economy of a depressed employment area without any significant reduction in the customs revenue or any adverse effect in the economy because neither the subject product (PCOC) nor the end products (MCPA and MCPP) are produced in this country.

APPENDIX A

PRICE/COST COMPARISON

	Price per pound		Cost per pound (delivered duty paid)	Percent decrease of price paid for PCOC compared with percent decrease in selling price of MCPA and MCPP		
	MCPA	MCPP	PCOC	MCPA	MCPP	PCOC
Year:						
1975	$1.65	$1.76	$0.81			
1976	1.35	1.42	.81	18.0	19.3	0
1977	1.25	1.32	.78	8.0	7.0	3.7
1978	1.09	1.25	.755	12.8	5.6	3.12
Overall				33.9	29.0	6.8

Senator RIBICOFF. H.R. 5044, Mr. Robert Waidner.

STATEMENT OF ROBERT A. WAIDNER, PRESIDENT, STANLEY RAILWAY FUSEE CORP., ON BEHALF OF PYROTECHNICAL SIGNAL MANUFACTURERS ASSOCIATION, ACCOMPANIED BY WILLIAM J. COLLEY AND BART S. FISHER, ATTORNEYS FOR PATTON, BOGGS & BLOW

Mr. WAIDNER. Mr. Chairman, I am president of the Standard Railway Fusee Corp. and am here today testifying on behalf of the Pyrotechnical Signal Manufacturers Association which advocates the suspension of 6 percent ad valorem duties on strontium nitrate in House bill 5044.

Strontium nitrate is the primary chemical used in the manufacture of highway flares and railroad fusees. It represents 69 percent of the total cost of composition, 50 percent of its volume.

It is also used in marine distress signals, military flares, backfiring torches for forest fires, and for other important uses throughout the United States.

In the case of highway flares, the use of them is recommended by the Department of Transportation. In the case of railroad fusees, they are mandated by the Department of Transportation in the "Railroad Operating Rules." Also, in the case of the Coast Guard, they are mandated for carriage on certain types of vessels.

Strontium nitrate has mainly been supplied by the Du Pont Co. up until June 30, 1975, when they made a decision to cease manufacture and leaving a single producer in the United States, the FMC Corp.

Whereas Du Pont devoted their entire facilities at one location to strontium nitrate, FMC is a single producer which produces four items in one plant, and they must allocate time in this plant to the various other chemicals, such as strontium carbonates, barium products; and it is conceivable in this situation that the Department of Defense at times could preempt, by allocation number, certain capacity from the plant, and there could conceivably be a shortage of strontium nitrate, and it would be necessary for us to import.

There has been a shortage, and in this past year my company had to import strontium nitrate from West Germany in order to maintain production. Most of the strontium nitrate, the preponderance, is used on the east coast of the United States, approximately 70 percent of the total volume used in the United States.

So therefore, it is necessary for the industry that manufactures in the East to carry large inventories, larger than normally required in the business, due to the supply situation where the plant is located in Modesto, Calif. We must have a lot of strontium nitrate on the rails, also, in our plant.

This is expensive.

Since the suspension of manufacture by Du Pont, the price of strontium nitrate at the time that they suspended manufacture was 21 cents a pound. When their supplies ran out, and it was completely sold out, the price had risen to 25 cents a pound.

The current price is now 33 cents per pound. This is since June 30, 1977; and added to that, there is a 4-cents-a-pound freight charge from Modesto, Calif., to the east coast plants.

Therefore, this 6-percent ad valorem duty becomes a heavier impost all the time, and suspension of it certainly would help the industry keep some kind of competition in the industry.

So, in the interest of national defense, safety of our highway systems, transportation systems, maintaining and keep employment going in our industry, and also, I think the committee should consider the anti-inflationary bias that would be helped by the suspension of this duty.

Senator RIBICOFF. Thank you very much, Mr. Waidner. Your entire statement will go into the record as read.

[The prepared statement of Mr. Waidner follows:]

STATEMENT OF THE PYROTECHNIC SIGNAL MANUFACTURERS ASSOCIATION

1. The Pyrotechnic Signal Manufacturers Association supports suspension of the present six percent ad valorem duty on strontium nitrate as provided in H.R. 5044.

2. There are no substitutes for flares and fusees in meeting the essential national security and transportation needs of the United States. There is no satisfactory substitute for strontium nitrate in the manufacture of flares and fusees.

3. There is a critical need to assure the continued availability of the necessary quantities of strontium nitrate to the U.S. pyrotechnic signal industry at reasonable prices. Unfortunately, there is only one domestic producer of strontium nitrate. Duty suspension legislation is essential to encourage non-domestic producers to supply the needs of the pyrotechnic signal industry and to keep the costs of these supplies at a competitive and reasonable level.

4. There are four reasons why the duty on strontium nitrate should be suspended:

(a) The maintenance of a strong pyrotechnic signal industry serves the national security of the United States;

(b) The viability of the domestic pyrotechnic signal industry would be assisted by the continued access of the U.S. industry to strontium nitrate at the lowest price possible;

(c) Domestic employment would be increased by the reduction of the duty; and

(d) U.S. consumers, and efforts to control inflation in the United States, would benefit from lower-priced pyrotechnic products.

I. INTRODUCTION

Mr. Chairman, my name is Robert Waidner, President of the Standard Railway Fusee Corporation, Baltimore, Maryland. I am submitting this statement on behalf of the Pyrotechnic Signal Manufacturers Association, an organization of businesses involved in the manufacture of pyrotechnic signal devices. I am accompanied by William J. Colley and Bart S. Fisher, of Patton, Boggs and Blow, Counsel for our Association.

The Pyrotechnic Signal Manufacturers Association believes that the present six percent ad valorem duty on strontium nitrate (T.S.U.S. Item No. 421.74) should be eliminated. Therefore, we support H.R. 5044, a bill which, as amended, would suspend the six percent Column 1 U.S. tariff on strontium nitrate until January 3, 1980.[1]

There are no substitutes for flares and fusees in meeting the important national security and transportation requirements of this country. Flares and fusees are necessities for both military and commercial transportation and more importantly provide for the daily safety of rail and highway vehicles. Moreover, there is no satisfactory substitute for strontium nitrate in the manufacture of flares and fusees.

Thus, there is an urgent need to ensure an adequate supply of strontium nitrate without the threat of damaging price escalation. Unfortunately, our industry has only one domestic producer of strontium nitrate. Duty suspension legislation is critically important to encourage non-domestic producers. This legislation is needed to guarantee the fulfillment of continuing national security requirements; to provide adequate and necessary signalling for railroad operations; to provide warning devices for safer highway operations; to ensure a continuing supply of an essential tool in fighting forest fires; and lastly, to provide "alert" and "locate" signals for pleasure boats and fulfill the mandatory requirement for such items on U.S. ships.

II. USES OF STRONTIUM NITRATE

Strontium nitrate is the principal chemical used in highway flares, railroad fusees, marine signals and military pyrotechnics. Strontium nitrate imparts a brilliant crimson color to a warning device along with light emitting rays which bank up and become highly visible in rain, fog and snow. These qualities are essential for an effective pyrotechnic signal and there is no satisfactory substitute for strontium compounds in producing these effects in pyrotechnic devices.

Military uses of strontium nitrate

The military usage of strontium nitrate is extensive, as set forth below:

Tracer ammunition.—A principal direct military use for strontium nitrate is in tracer ammunition. When tracer ammunition is used in intermittent rounds of fire, the accuracy of the aim of the weapon and person can be determined. The ability to determine accuracy is necessary to all fighting branches of the military in both day and night firing.

Military flares.—The second military use of strontium nitrate is in flares and signal devices. These flares are used for various tactical operations, for distress and rescue signalling, and for illumination. They are produced in various sizes, shapes, and types and usually are red flares to be used alone or with an ejecting or propelling device. A strontium flare used by military aviators will float on water, and may be used, for example, to expose the movements of enemy naval units. The Army possesses a special mechanism to be attached to a rifle for firing flares. Also, there is a flare that can be released from a submerged submarine. Strontium nitrate comprises about forty percent (40%) of these formulations by weight.

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[1] The column 2 tariff would remain at 25 percent ad valorem.

Marine distress signals.—Flares are used as marine distress signals by both the military and civilians. Marine distress signal equipment consists of hand-held flares, parachute flares, pistol propelled flares, and rockets for use on ships. Some of the larger distress rockets can be fired several hundred feet in the air, and some release showers of "stars." For small craft a hand-held distress signal is used.

Non-military uses of strontium nitrate

Warning devices.—Strontium nitrate is used in red highway flares and railroad fusees. Flares are used in great quantity every day as warning devices by truck drivers, turnpike authorities, police and motorists. It should be noted that federal regulations recommend carriage in all power units operated in interstate commerce, and most states have laws or regulations regarding the use of these emergency protective devices within their states. Nearly two-thirds of the states require that fusees be carried on certain types of vehicles.

Finally, and most importantly, railroads, as a safety necessity, use fusees for signalling in the yards and on the line of road.

Other uses.—Strontium nitrate is also used in other products such as:

(a) Back-firing torches for fighting forest fires;
(b) Lighting and warning flares used during repair of telephone lines;
(c) Chromate coatings (as a rust proofing element);
(d) Reagents used in chemical tests (highly purified form);
(e) Fireworks.

III. RATIONALE FOR SUSPENSION OF THE DUTY ON STRONTIUM NITRATE

There are four reasons why the duty on strontium nitrate should be suspended:

(a) The maintenance of a strong pyrotechnic signal industry serves the national security of the United States;

(b) The viability of the domestic pyrotechnic signal industry would be assisted by the continued access of the U.S. industry to strontium nitrate at the lowest price possible;

(c) Domestic employment would be increased by the reduction of the duty; and

(d) U.S. consumers, and efforts to control inflation in the United States, would benefit from lower-priced pyrotechnic products.

The U.S. pyrotechnic signal manufacturing industry today is in a dangerously exposed position that not only threatens the continued viability of the industry, but also presents a potential national security hazard for the United States. This critical situation has resulted from the abandonment of the market by important suppliers of strontium nitrate, leaving pyrotechnic signal manufacturers in the intolerable position of having only one domestic supplier of this irreplaceable component of their product.

Prior to June 30, 1975, the domestic pyrotechnic signal industry depended on the Grasselli, New Jersey plant of the E.I. du Pont de Nemours Company to supply most of its requirements for strontium nitrate, and imported only minimal amounts of the product. However, on that date, Du Pont entirely discontinued the production of strontium nitrate, leaving the pyrotechnic signal industry dependent on a single U.S. supplier and on imports from foreign markets such as Canada, which had the potential to be a major producer of strontium nitrate for the world marketplace.

After Du Pont ended production of strontium nitrate, the two principal firms continuing to supply the pyrotechnic signal industry were FMC Corporation, a U.S. company with a plant located in Modesto, California, and Kaiser Aluminum and Chemical Corporation with a plant located in Nova Scotia. However, in August 1976, Kaiser Aluminum announced the closing of its Nova Scotia plant, ending production of strontium nitrate.

It is extremely undesirable to have only one supplier of strontium nitrate to the U.S. pyrotechnic signal industry. Our Association believes that it is essential, at a minimum, to have two suppliers in the strontium nitrate business to supply the needs of the pyrotechnic signal industry. Fortunately, potential supplies in other countries such as West Germany and Switzerland have shown an interest in supplying the U.S. pyrotechnic signal industry with strontium nitrate. We believe that suspension of the duty on strontium nitrate is essential in order that supplies from these sources can be obtained at a cost which will enable the continued operation of our industry.

In addition, suspension of the duty on strontium nitrate would permit our industry to offer flares and fusees to the American consumer at a lower price than would otherwise be the case. It is well known that the prices of many domestic goods are constrained fairly closely by the landed cost, including tariffs, of comparable foreign products.[3] Strontium nitrate is no exception to this general proposition. Suspension of the duty will mean lower domestic prices of strontium nitrate for the U.S. pyrotechnic signal industry, which in turn will mean lower prices for flares and fusees produced in the United States.

The role of FMC as a supplier

The reliability of FMC as a producer and supplier of strontium nitrate is an important issue. The Pyrotechnic Signal Manufacturers Association believes that its fears regarding the high prices and the potential non-availability of supplies that could well result from forced reliance on a single supplier are well grounded in the past history of the strontium nitrate market.

FMC has been an intermittent supplier of strontium nitrate in the past, and it is possible that it might again stop production or be unable to supply the pyrotechnic industry. In 1973 FMC switched out of strontium nitrate to increase its production of strontium carbonate, citing its belief that his carbonate, due to its usage in television tubes, would be a more profitable product in the long run. This move by FMC left the pyrotechnic signal industry with only one supplier of strontium nitrate, Du Pont, which in turn left the business in June 1975. It is difficult to believe that FMC would not again transfer out of strontium nitrate into a move profitable area should the fundamentals of the market change dramatically. Secondly, FMC's Modesto product line includes barium carbonate, strontium carbonate, barium nitrate, and strontium nitrate. FMC is, therefore, a less reliable supplier than Du Pont, which produced only strontium nitrate. Now, without Kaiser Aluminum in the market, the situation is becoming a national security and safety hazard for the United States.

Our estimate of the average strontium nitrate consumption in the United States and Canada for the past five years is sixteen million pounds annually. Our estimate of industry-wide sales of fusees and flares in the United States for the past five years averaged 230,000 gross, or 33,000,000 pieces annually.

It is not unrealistic that the usage of flares and fusees will increase in the years ahead and require a higher production of strontium nitrate. The Federal Railway Administration has promulgated a strengthened Rule 99 to be effective August 1, 1977. Rule 99, or as is commonly known, "The Flagging Rule", outlines procedures for protecting the rear of all railroad trains. If the railroads follow this strengthened rule, there will be an increased use of fusees throughout our railroad system. Secondly, if marine distress signals are required on pleasure boats, another market will be considerably broadened. A usage of twelve thousand tons of strontium nitrate is not improbable within the very near future.

Who will supply these needs? A report put out by FMC indicates that that company's strontium nitrate capacity irrespective of other chemicals is 10,000 tons: however, we consider this to be an unrealistic figure. A more representative figure for industry usage is the "preferred mix" number of 4,000–7,000 tons. The reason the "preferred mix" figure is more realistic is that FMC also produces three other chemicals at its Modesto plant, and it is highly unlikely that economic conditions would permit FMC to use its "maximum capacity" at any one time for strontium nitrate. Clearly, the pyrotechnic signal industry will have to turn to other sources of supply to meet its requirements. FMC's unreliability as a supplier has been recently demonstrated. Since the fourth quarter of 1977, FMC has not provided sufficient quantities of strontium nitrate to satisfy domestic demands. Earlier this year, for example, a major producer of pyrotechnics, the Olin Corporation, was forced to shut down one of its plants for a period of time as a result of the failure of a scheduled shipment of strontium nitrate from FMC to arrive. Because of these problems, U.S. pyrotechnic signal manufacturers are being forced to purchase strontium nitrate from foreign sources in order to meet their production requirements.

Apart from the question of FMC's unreliability as a supplier is its monopoly pricing of strontium nitrate since 1976. FMC in its position as the sole U.S.

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[3] See Bell, "Some Domestic Price Implications of U.S. Protective Measures", in *Commission on International Trade and Investment Policy Report to the President: United States International Economic Policy in an Interdependent World*. Papers, vol. 1, at 455 (1971).

supplier of strontium nitrate has consistently raised the price of the product to the U.S. pyrotechnic signal industry. It should be emphasized that strontium nitrate represents two-thirds of the cost of the composition used in all pyrotechnic items produced. FMC's prices have progressed as follows:

Date:	*Price for strontium nitrate (in cents per pound) F.O.B., Modesto, Calif.*
January 1, 1976	.25
July 1, 1976	.28
January 1, 1977	.31
July 1, 1978	.33

The $.33 price is 57 percent above the $.21 price which Du Pont charged for strontium nitrate through 1975. In addition, the freight factor from the Modesto plant to the Eastern Seaboard where large quantities of strontium nitrate are used is 3.5 cents per pound. This factor did not exist when Du Pont was the supplier. It should also be noted that FMC has proposed substantial price increases in the future for strontium nitrate.

Despite FMC's monopoly pricing of strontium nitrate, the domestic industry that manufactures flares and fusees has not raised its prices correspondingly. For example, since 1974, the Signal Products Division of Olin Corporation has increased its prices only twenty-five percent, or less than half of the FMC price increase. Moreover, since 1974, Olin has had a thirty-five percent decrease in its pyrotechnic signal products business, due largely to FMC's price increases. We estimate that about 500 workers are involved in the manufacturing of end products using strontium nitrate in the United States. Many of these jobs would be endangered if it became impracticable to import strontium nitrate into the United States.

National security.—Apart from the impact on the economy and employment, the national security interests of the United States should be considered. As noted above, the military forces of the United States need aerial flares, marine distress signals, and railroad fusees for their basic transportation operations. Moreover, in the event of a national security emergency there would be a greater need to move troops and supplies than normally exists. It is known to the industry that the greater density of traffic on highways and rail lines does require use of a disproportionately large number of flares. An indication of the massive use of flares in emergency situations can be obtained when it is realized that 3,000 flares have been used in one evening to guide traffic through the fog on the Pennsylvania Turnpike. To ensure access to foreign strontium nitrate supplies at the lowest prices possible for U.S. military forces, and for any national emergency that might arise, the U.S. Government should suspend the present duty on strontium nitrate as provided in H.R. 5044.

IV. CONCLUSION

The U.S. pyrotechnic signal industry is of critical importance to the military, transportation, and overall national security needs of the United States. The continued productive capacity of this industry is totally dependent on access to supplies of strontium nitrate at reasonable prices. The principal way in which the U.S. Government can contribute to the economic well-being of this important industry, is by assuring that strontium nitrate is available to the industry on a competitive basis. This goal can be achieved by suspending the current six percent duty on strontium nitrate, thereby allowing foreign producers to more effectively compete with the single domestic supplier in this market.

Finally, it should also be noted that duty suspension, because it is temporary in nature, would not affect the ability of United States' trade negotiators to offer to eliminate the tariff on a permanent basis in exchange for reciprocal concessions by our trading partners in the Multilateral Trade Negotiations (MTN).

On behalf of the Pyrotechnic Signal Manufacturers Association, I would like to thank you for the opportunity to testify before this Subcommittee. My colleagues and I would be happy to answer any questions which you might have.

Senator BYRD. H.R. 5265, Mr. Thomas Evans and Mr. Bart Fisher.

STATEMENT OF THOMAS W. EVANS, VICE PRESIDENT FOR PURCHASING, YOUNGSTOWN SHEET & TUBE CO.

Mr. EVANS. Good morning. I am Thomas Evans, vice president of purchasing for Youngstown Sheet & Tube Co., but today I am appearing on behalf of the Critical Materials Supply Committee of the American Iron & Steel Institute.

The steel industry strongly supports suspension of the existing duties on fluorspar and urges enactment of H.R. 5265. The industry, which accounts for 45 percent to 50 percent of total fluorspar consumption and virtually 100 percent of the consumption of metallurgical grades, uses fluorspar as a fluxing, or fusing, agent in the production of raw steel. We feel the current duties constitute an unnecessary cost and should therefore be eliminated.

In support of the position of our industry, we have been advised that Kaiser Aluminum & Chemical Corp., Oakland, Calif., the Aluminum Co. of America, Pittsburgh, Pa., and Noranda Aluminum, Inc., New Madrid, Mo., all fluorspar users, concur in the suspension of existing duties on fluorspar.

The United States has maintained a tariff on fluorspar imports for many years despite considerable shifts in supply and demand patterns for the mineral. Although once self-sufficient the United States since 1955 has imported more fluorspar than was produced domestically. In 1977 domestic shipments accounted for only 12 percent of apparent U.S. demand. Production in the United States over the past two decades has fluctuated between 200,000 to 300,000 tons. Over the past 5 years, however, it has declined, and in 1977 only about 180,000 tons were produced.

Demand, on the other hand, has risen steadily from 570,000 tons in 1955, to a recent peak of 1.4 million tons in 1974. The Bureau of Mines projects that this movement toward greater import dependency and decreasing domestic production is likely to continue over the next 22 years, whether or not the present tariff structure is maintained.

The reasons for declining U.S. production are two-fold. All the major mines in the United States are high-cost underground sites; on the other hand many of the new sites being exploited elsewhere in the world are lower cost open pit operations.

Second, while reserves are substantial, the ores mined domestically are of a lower quality and therefore less desirable than many foreign source ores.

We have prepared a table indicating the production of fluorspar in various countries of the world, noting that Mexico, Spain, South Africa, and Italy constitute 96.5 percent of the imports into the United States with the greatest preponderance of imports being from the country of Mexico—almost 60 percent, as you will notice on the table in the back of the presentation.

For these reasons, we feel a convincing case can be made for the elimination of the duty. Over the past several decades, the tariff has apparently had little or no effect since domestic production has not expanded. But it has had an adverse impact on U.S. industrial users. The tariff is currently assessed on two different grades of fluorspar.

Acid grade, which is fluorspar containing over 97 percent calcium fluoride, bears a duty rate of $2.10 per long ton. Metallurgical grade, which contains less than 97 percent calcium fluoride—usually 60 to 85 percent content—bears an inordinately high protective duty rate of $8.40 per long ton. The steel industry bears the burden of the tariff since it accounts for almost all the consumption of metallurgical grades.

Our table on page 4 indicates that 98.9 percent of the total metallurgical grades consumed are consumed by steel and steel-related industry. The fact that the steel industry is now facing aggressive competition from imports—in 1977, imports of steel were the highest on record—suggests to us that a temporary suspension of this substantial duty rate would be one way to assist the industry at a time when it could most benefit from such action.

Turning to other considerations, which are relevant to the passage of this bill, we note that the structure of world production and trade are such that the United States can be reasonably well-assured of a stable domestic supply, even at high levels of import dependency. Moreover, in the event of a serious crisis, the U.S. strategic stockpile could be used to supplement major needs that might arise.

For the reasons set forth, the domestic steel industry and other companies listed in this statement strongly recommend the suspension of the import duties on fluorspar, as authorized in H.R. 5265. Accordingly, we urge the enactment of this proposed legislation.

Thank you very much.

Senator RIBICOFF. Thank you. Senator Packwood, any questions?

Senator PACKWOOD. I notice the witness following you, Mr. Fisher, representing Frontier Spar, is going to oppose change in the tariff for the reason it will adversely affect their company and the production of domestic fluorspar, which is understandable from their viewpoint.

I am curious at the American Iron and Steel Institute's position on quotas or tariffs on imported, finished steel.

Mr. EVANS. As we have made clear in recent congressional testimony, our position on imported steel is that there has been dumping in the United States market. We are in favor of free trade, as long as it is fair trade.

Senator PACKWOOD. Is the American Iron and Steel Institute not asking for anything more than enforcement of antidumping laws?

Mr. EVANS. I do not know that that particular question is one I should answer. As a representative of the institute, I am here to talk to the fluorspar bill.

Senator PACKWOOD. What I sense is that the Steel Institute wants to lower all of their costs in the effort to reduce the cost of steel, but it does not care that it affects Frontier Spar or the production of fluorspar in this country. It is very adverse to the importation of steel from other countries because it adversely affects the American Iron and Steel Institute.

Mr. EVANS. If this duty on fluorspar had been effective over the years, production of fluorspar in the United States would have increased or would have at least held its own. But, in fact, it has significantly decreased, even though the duty has been in place.

Additionally, it is obvious we must depend on foreign imports to satisfy the needs of the entire industry for this material and the duty

is simply an additional cost that is unnecessary, adding to the inflationary pressures that we are all interested in controlling.

Senator PACKWOOD. When the steel industry wants limitations on imported steel in one form or another, we will get testimony in opposition to that from the automobile industry, or other users of steel who make the same argument that you make regarding fluorspar.

Mr. EVANS. I am sure that various interests take different points of view on the subject. We feel that this duty is not contributing to the health and welfare of the domestic fluorspar industry, and therefore simply represents an additional cost of steel making that is unnecessary. It contributes nothing to the supply and protection of the domestic industry. In fact, the price of domestic fluorspar is significantly higher than that of imported fluorspar.

Senator PACKWOOD. Mr. Evans, perhaps the fluorspar industry can speak for itself, as well as the steel industry can speak for itself, but this sounds like a whose-ox-is-gored industry argument that I have heard from the steel industry too frequently. I have no further questions.

Senator RIBICOFF. Mr. Fisher?

STATEMENT OF BART S. FISHER, ESQ., PATTON, BOGGS & BLOW

Mr. FISHER. Good morning, Mr. Chairman. My name is Bart Fisher. I am a partner in the law firm of Patton, Boggs and Blow in the law firm of Washington, D.C. I am presenting this statement on behalf of Frontier Spar Corp. of Salem, Kentucky, which is a wholly-owned subsidiary of the Marathon Oil Co.

Frontier Spar is an independent U.S. producer of fluorspar for the open market, and is vitally interested in H.R. 5265, which would suspend the U.S. duties on fluorspar.

Our basic position is that the U.S. duties on fluorspar should be maintained. Therefore, we oppose H.R. 5265.

The bottom line question in this whole dialog is really whether or not the United States needs a domestic fluorspar industry. As the tables indicate, at this point, 81 percent of current U.S. consumption is supplied by imports and only 19 percent of current U.S. consumption is supplied by the domestic industry, so what we have here——

Senator RIBICOFF. Does the domestic industry supply all of the needs in this country?

Mr. FISHER. In our opinion, it would be quite easy for the domestic industry to supply over 50 percent, in the range of 50 to 60 percent, within a short time period should the market improve. At this point, it is only 19 percent.

Senator RIBICOFF. Why does not the domestic industry do it, then?

Mr. FISHER. One reason is the price war which is currently going on between South Africa and Mexico which is depressing the market, and the prices are quite low at this point.

Senator RIBICOFF. How long has that price war been going on?

Mr. FISHER. As the table on the last page of the Institute's testimony indicates, South Africa began, in 1975 with 0 percent of the U.S. market is fluorspar; they now have 20 percent. The trend is fairly obvious.

It is a two-country market on the export side: Mexico and South Africa, and the new dynamic entrant into the market is South Africa.

The sweetheart deal of this becomes more apparent when it is recognized that U.S. Steel owns a major open pit operation in South Africa, Zeeloost, and wants this operation to be more profitable. Obviously, it would be more profitable if they got the duty suspension bill passed.

The answer to your question is, this has been going on since 1973 with respect to the price war. At this point, it is in the gulf coast region, primarily, where South African fluorspar is undercutting Mexican fluorspar in the gulf coast region.

The basic position we have is that we need a domestic fluorspar industry for three reasons: first, that this bill should be defeated for three reasons. If the bill is passed, it would severely limit the development of new reserves of fluorspar; second, it would seriously injure the current producers of fluorspar; third, it would be definitely deleterious to the national security of this country.

First of all, with respect to the development of new resources—this goes to the question you raised—could we supply all the market, at this point, the smallest U.S. fluorspar mine deposits represent 80 percent of the domestic production of fluorspar. These deposits are in Illinois and Kentucky.

By comparison, though, there are many unmined short tons of reserves in Tennessee, Alaska, Idaho, New Mexico, Colorado, Texas, Arizona, Utah, and Montana.

There is a lot of fluorspar around which, should the market improve, be brought into production. Clearly, a decrease in prices brought about by suspension of duties would further contribute to the cutback in discovery and development resulting from the recent economic slowdown.

In the case of Frontier Spar, for example, we currently produce 25,000 tons of acid grade fluorspar per year, and we could produce 40,000 to 50,000 tons in terms of capacity. If this bill is passed, it is going to severely hamper frontier spar's ability to go to its parent company, which is Marathon Oil, and say give us money to develop this 50,000 ton capacity. Quite rationally, they would look at the current low prices and then, on top of it, the duty suspension bill, and probably deny the funds for it.

The second issue, the reason that we oppose this bill goes to domestic employment issue. In 1946, there were 5,000 people employed in the fluorspar industry. Right now, there are 700 people. This trend has been mirrored in the case of Frontier Spar, which now has only 40 employees. In 1976, it had 110 employees.

Third, I realize the alarm just went off, that this bill would really harm the national security. You are looking at a market which is very politically unstable, both with respect to South Africa, which has obvious political instability and Mexico which has a tremendous population problem and a lot of its own political problems.

The United States should not be put in a posture of relying on those two fairly unstable situations for fluorspar at a time when we have a shortage in the national stockpile for fluorspar, which is deemed a strategic product.

I will quit at that point.

Senator RIBICOFF. Senator Packwood?

Senator PACKWOOD. No questions.

Senator RIBICOFF. The only problem I have, if this market is so big and if there is more fluorspar in this country, then why do we not produce more with the protection that you have. I cannot understand. I am sympathetic to what you are trying to achieve, but you have not done it.

Mr. FISHER. As I said, Senator, the problem is the current depressed price level which has been instigated by what is, in effect, a price war and the fluorspar importation situation. We think if this bill is passed, it is just going to worsen it.

Furthermore, it is at least arguable that there would not be commensurate benefits passed on to the consumers. There is a thing called the Fluorspar Institute of Mexico which controls the export price for fluorspar and there have already been indications if the duty suspension bill is passed they might well raise their prices to cover what they consider to be their costs.

So it is not entirely clear that the benefits would pass from this bill through the consumer, even if the duty suspension bill is passed.

Senator RIBICOFF. The staff points out that your production cost is $97.73 per ton and the imported cost is $67.69 per ton including the $8 a ton tariff, so even if the tariff stayed on, it does not help you in a competitive position.

Mr. FISHER. The basic problem is that there is, in the United States, what they call vein mining of fluorspar. In South Africa, they have open pit mining of fluorspar. It is true that there is a fundamental competitive advantage lying overseas.

The only point we would make, if this bill is passed, you are going to irrevocably reverse the situation and obliterate the U.S. fluorspar industry.

Senator RIBICOFF. Thank you, sir.

[The prepared statement of the preceding panel follows:]

STATEMENT ON BEHALF OF THE AMERICAN IRON AND STEEL INSTITUTE BY THOMAS W. EVANS, VICE PRESIDENT, PURCHASING, YOUNGSTOWN SHEET AND TUBE CO.

Mr. Chairman and members of the Subcommittee on Trade, my name is Thomas Evans. I am Vice President of Purchasing for Youngstown Sheet and Tube Company, but today I am appearing on behalf of the Committee on Critical Materials Supply of the American Iron and Steel Institute. The AISI represents 63 member companies which account for approximately 92 percent of domestic steel production and which provide jobs for 452,000 workers in the United States.

The steel industry strongly supports suspension of existing duties on fluorspar and urges enactment of H.R. 5265. The industry, which accounts for 45 to 50 percent of total fluorspar consumption and virtually 100 percent of the consumption of metallurgical grades, uses fluorspar as a fluxing (or fusing) agent in the production of raw steel. We feel the current duties constitute an unnecessary cost and should therefore be eliminated. In support of the position of our industry, we have been advised that Kaiser Aluminum and Chemical Corporation, Oakland, California; the Aluminum Company of America, Pittsburgh, Pennsylvania; and Noranda Aluminum, Inc., New Madrid, Missouri, all fluorspar users, concur in the suspension of existing duties on fluorspar.

The United States has maintained a tariff on fluorspar imports for many years despite considerable shifts in supply and demand patterns for the mineral. Although once self-sufficient, the U.S. since 1955 has imported more fluorspar than was produced domestically. In 1977, domestic shipments accounted for only 12.0 percent of apparent U.S. demand. Production in the U.S. over the past two decades has fluctuated between 200,000–300,000 tons. Over the past five years, however, it has declined and in 1977 only about 180,000 tons were produced.

Fluorspar production in the United States

[Thousands of net tons]

1973	249
1974	201
1975	140
1976	188
1977 [1]	180

[1] Estimate.

Source: U.S. Bureau of Mines.

Demand, on the other hand, has risen steadily from 570,000 tons in 1955 to a recent peak of 1.4 million tons in 1974. The Bureau of Mines projects that this movement toward greater import dependency and decreasing domestic production is likely to continue over the next 22 years, whether or not the present tariff structure is maintained.

The reasons for declining U.S. production are two-fold. All the major mines in the U.S. are high cost underground sites; on the other hand many of the new sites being exploited elsewhere in the world are lower cost open pit operations.

WORLD MINE PRODUCTION AND RESERVES, 1976

[In thousands of short tons]

	Production (average 90 percent CaF_2)	Reserves (33 percent CaF_2 or equivalent)
Mexico	988	39,000
U.S.S.R.	540	15,000
Spain	444	11,000
China, People's Republic of	400	6,000
France	386	9,000
Mongolia	350	5,000
South Africa, Republic of	320	40,000
United Kingdom	265	22,000
Italy	232	7,000
Thailand	220	11,000
United States	188	16,000
Canada	80	6,000
Other	675	48,000
Total, world	5,088	235,000

Source: U.S. Bureau of Mines.

Second, while reserves are substantial, the ores mined domestically are of a lower quality and therefore less desirable than many foreign source ores.

For these reasons, we feel a convincing case can be made for the elimination of the duty. Over the past several decades the tariff has apparently had little or no effect since domestic production has not expanded. But it has had an adverse impact on U.S. industrial users. The tariff is currently assessed on two different grades of fluorspar. Acid grade, which is fluorspar containing over 97 percent calcium fluoride, bears a duty rate of $2.10 per long ton. Metallurgical grade, which contains less than 97 percent calcium fluoride (usually 60 to 85 percent content) bears an inordinately high protective duty rate of $8.40 per long ton. The steel industry bears the burden of the tariff since it accounts for almost all the consumption of metallurgical grades.

U.S. consumption of metallurgical grade fluorspar—1977

End use or product:	
Iron and steel castings	13,688
Open hearth furnaces	94,037
Basic oxygen furnaces	364,717
Electric furnaces	73,382
All other uses	6,091
Total [1]	551,915

[1] Figures represent quantities reported by Companies that account for about 90 percent of all consumption.

Source: Bureau of Mines.

The effect of these duties on fluorspar imports was substantial in 1977. The U.S. Bureau of the Census reports that met-spar imports from Mexico, which accounted for 78 percent of this grade of imported fluorspar carried an effective ad valorem duty of 16.7 percent. In contrast, the effective ad valorem duty paid on acid-spar from Mexico was 2.8 percent. The fact that the steel industry is now facing aggressive competition from imports (1977 steel imports were the highest on record), suggests to us that a temporary suspension of this substantial duty rate would be one way to assist the industry at a time when it could most benefit from such an action.

Turning to other considerations which are relevant to the passage of this bill, we note that the structure of world production and trade are such that the U.S. can be reasonably well assured of a stable domestic supply, even at high levels of import dependency. Moreover, in the event of a serious crisis, the U.S. strategic stockpile could be used to supplement major needs that might arise.

Although Mexico has traditionally supplied three quarters of U.S. fluorspar imports, in view of our foreign relations with the proximity of this country to Mexico, we do not feel such dependency is inordinately high. If it did become necessary to diversify supply sources, this could be accomplished with relative ease since substantial reserves are located in a number of countries which are already significant fluorspar producers. We have included a table in our statement indicating the relative importance of foreign suppliers to the U.S.

In the event a serious supply problem arose, as mentioned earlier, the U.S. could rely on reserves from the U.S. strategic stockpile.

U.S. STRATEGIC STOCKPILE

[In thousands of tons]

	Current objective	Inventory (since 1972)
Acid-spar	1,594	890
Met-spar	1,914	412
Total	3,508	1,302

Source: U.S. Bureau of Mines.

New stockpile objectives adopted in October 1976 include an enlargement of this reserve from 1.3 million tons to 3.5 millions tons—a potential supply of over two years.

For the reasons set forth above, the domestic steel industry and other companies listed in this statement strongly recommend the suspension of the import duties on fluorspar as authorized in H.R. 5265. Accordingly, we urge the enactment of this proposed legislation.

Thank you, Mr. Chairman, for this opportunity to present our industry position on current fluorspar duties.

U.S. IMPORTS OF FLUORSPAR

	1973		1974		1975		1976		1977	
	Short tons	Percent of total	Short tons	Percent of total	Short tons	Percent of total	Short tons	Percent of total	Short tons	Percent of total
Country:										
Mexico	891,961	73.6	1,064,159	79.6	793,832	75.6	544,759	60.8	577,800	59.2
South Africa			3,035	.2	18,701	1.8	122,298	13.7	195,305	20.0
Spain	177,082	14.6	188,280	14.1	136,447	12.0	106,677	11.9	114,455	11.7
Italy	58,387	4.8	39,838	3.0	34,814	3.3	57,364	6.4	54,323	5.6
Others [1]	84,917	7.0	41,077	3.1	76,621	7.3	64,156	7.2	34,385	3.5
Total	1,212,347	100.0	1,336,389	100.0	1,050,445	100.0	895,254	100.0	976,268	100.0

[1] Include : Brazil, Canada, France, Japan, Kenya, Morocco, Mozambique, Thailand, Tunisia, West Germany, Guatemala, Switzerland, United Kingdom, China and also unspecified revisions in aggregate totals.

Source: Bureau of Mines.

Statement of Frontier Spar Corporation

(By Bart S. Fisher, Patton, Boggs & Blow)

SUMMARY

1. Frontier Spar Corporation opposes suspension of U.S. duties on fluorspar as provided in H.R. 5265.

2. 81 percent of U.S. consumption of fluorspar is supplied by imports. The remaining 19 percent supplied by U.S. production should be protected by U.S. duties for the following reasons:

(*a*) Elimination of the duty would limit the development of new domestic supplies of fluorspar, and severely injure independent domestic producers of fluorspar such as the Frontier Spar Corporation.

(*b*) In 1946 approximately 5,000 people were employed in the U.S. fluorspar industry. Approximately 700 people are currently employed in the domestic fluorspar industry. Elimination of the current duties could result in the elimination of many of the remaining jobs in the independent fluorspar industry.

(*c*) A chief beneficiary of the duty suspension on fluorspar imports would be the Republic of South Africa. Such affirmative economic aid to South Africa would run contrary to the current U.S. Government posture towards this nation which in spite of international disapproval maintains its apartheid policies.

I. INTRODUCTION

Mr. Chairman, my name is Bart S. Fisher and I am a partner in the law firm of Patton, Boggs & Blow in Washington, D.C. I am submitting this statement on behalf of the Frontier Spar Corporation, of Salem, Kentucky, which is a wholly-owned subsidiary of the Marathon Oil Company. Frontier Spar is an independent U.S. producer of fluorspar for the open market, and is vitally interested in H.R. 5265, which would suspend the U.S. duties on fluorspar.

Frontier Spar strongly believes that the U.S. duties on fluorspar[1] should be maintained. Therefore, we oppose H.R. 5265, which would suspend the U.S. duty on fluorspar until June 30, 1980. H.R. 5265 should be rejected by the Finance Committee for the following reasons.

1. National security.—Fluorspar is considered one of our most strategic minerals, necessary in the production of steel, aluminum, fissionable uranium, and all fluorine chemicals, including most refrigerants.

The raw material independence of the U.S. requires that all sectors of the U.S. mining industry be strengthened, not weakened, or we will be moving to the status of a second class power.

There is no satisfactory substitute for fluorspar in its major metallurgical or chemical applications. A continuous supply of fluorspar is therefore necessary for the steel, aluminum, and chemical industries.

The United States Government began stockpiling fluorspar in 1950 and continued to purchase domestic quantities until 1959, and then again in the 1960's, until stockpiling objectives were met. Current national stockpile objectives for fluorspar are 1.9 million short-tons of metallurgical and 1.6 million short-tons of acid-grade material. However, only 300,000 short-tons of metallurgical and 900,000 short-tons of acid-grade fluorspar are in the national stockpile.

Thus, the actual supply of fluorspar for the national stockpile falls far short of stockpile objectives.

The Federal Preparedness Agency and the Department of the Interior have recommended that fluorspar be considered for measures under Title III of the Defense Production Act. One possible measure under this title is inducement to maintain or expand domestic capacity of materials in the national stockpile.

At 1973 production rates, U.S. fluorspar reserves would last about 23 years; at 1974 production rates, about 29 years. Increased incentive to develop domestic deposits would increase these figures dramatically.

The Bureau of Mines has observed that "the dependence of U.S. steel, chemical, and aluminum industries on imports of fluorspar from Mexico is significant

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[1] There are currently two duties on fluorspar in effect. $2.10 per ton of fluorspar containing over 97 percent by weight of calcium fluoride (T.S.U.S. item No. 522.21), and $8.40 per ton of fluorspar containing not over 97 percent by weight of calcium fluoride (T.S.U.S. item No. 522.24).

enough to warrant government attention." Already Mexico, the world's largest producer of fluorspar, is in a position to control the world price, to the detriment of U.S. development of a domestic fluorspar industry. With the advent of South Africa as another major producer, the possibility of cartel-pricing is increased.

2. Domestic employment impact.—Approximately 5,000 people were employed in the domestic fluorspar industry in 1946. Today approximately 700 people are currently employed in the domestic fluorspar industry. To the extent that a suspended duty diverts domestic purchasing of fluorspar from the United States to foreign sources, domestic employees in the fluorspar industry will be affected. Perhaps more importantly, the removal of the small margin of protection which the current duty supplies could easily dampen the considerable potential for expansion of the domestic fluorspar industry, with consequent foreclosure of job possibilities.[3]

3. Impact on U.S. Reserves of Fluorspar.—Currently, two of the smallest U.S. fluorspar ore deposits account for over 80 percent of total domestic production of fluorspar. These deposits consisted of 7 million short-tons of reserves in Illinois and 2.14 million short-tons of reserves in Kentucky.

By comparison, there are estimated to be 50 million unmined short-tons of ore reserves in Tennessee and 35 million in Alaska. Idaho contains an additional 4 million short-tons and New Mexico another million. Fluorspar is also mined in Colorado, Texas, Arizona, Nevada, Utah, and Montana.

Despite their very large deposits, neither Tennessee nor Alaska has reported any fluorspar production to date. The Bureau of Mines reports that most of the new U.S. fluorspar reserves discoveries were inspired by the 40 percent price increase that occurred from 1969 to 1974. Clearly, a decrease in prices brought about by suspension of duties would further contribute to the cutback in discovery and development that resulted from the recent economic slowdown.

In addition to termination of discovery and development of fluorspar, increased import competition can be expected to cause the closing down of marginal producers in the current market.

4. The current fluorspar duty involves only a minor cost burden to domestic purchasers of the material.—Although the current fluorspar duty provides some measure of protection to the domestic industry, it involves a miniscule addition to consumer's cost. While the duty amounts to 10 percent of the selling price of metallurgical grade fluorspar, it accounts for less than 2/100 of a percent of steel costs per ton and less than 2/100 percent of the price of aluminum.

5. Passage of H.R. 5265 would result in substantial lost revenues.—The following duties were paid on fluorspar in recent years:

1974	$5,280,932
1975	3,944,131
1976	3,388,829

As the world economy pulls out of the recession, demand and production of fluorspar can be expected to increase—with imports, and duty revenues, increasing in step. The 1976 figure seems uncharacteristically low.

6. H.R. 5265 and the Multilateral Trade Negotiations.—H.R. 5265 would result in the United States making a unilateral concession on fluorspar, without receiving any reciprocal concessions from our trading partners. In general, tariff matters affecting U.S. products should be resolved in the Multilateral Trade Negotiations (MTN) in the General Agreement on Tariffs and Trade (GATT), when the United States can receive reciprocal concessions from our trading partners.

7. A chief beneficiary of the duty suspension on fluorspar imports will be the Republic of South Africa.—South Africa is a major producer of fluorspar and one of the major exporters of fluorspar to the U.S. market. South Africa is the source of a flood of cheap fluorspar flotation concentrate from its new open pit mines which have some of the lowest costs in the world. In 1971–72 larger deposits were discovered and developed near Johannesburg. Large reserves are owned by a British firm, General Mining and Finance. Other reserves are owned by Phelps Dodge and U.S. Steel.

South Africa's enormous reserves produce more fluorspar than is needed in its domestic market; therefore most of its production must be exported. One company alone, General Mining and Finance, has in storage as surplus without any

[3] This trend has been mirrored by the Frontier Spar Corp., which has been consistently run at a loss. In 1976 Frontier Spar had 110 employees; in 1978 it had 40 employees.

market, 200,000 to 300,000 tons of fluorspar ready to be dumped on the U.S. market. A suspension of the fluorspar duty would admirably assist this company in its objective of increasing South Africa's share of the U.S. market. If the current duty were suspended, South African fluorspar, already in storage for shipment to the United States, will be given an even greater competitive advantage as compared with domestic production. Even without a duty suspension, South African imports have increased; from the first to fourth quarter 1976 alone, U.S. imports of South African fluorspar (in both 97 percent calcium fluoride and less than 97 percent calcium fluoride content categories) increased from 13,682 tons to 52,114 tons, or 400 percent. In the first quarter of 1978, imports from South Africa amounted to 55,775 tons, or 27 percent of total U.S. imports.[2]

The effect of H.R. 5265 would be to give South African fluorspar exports an economic stimulus. Such affirmative economic aid to South Africa would run contrary to the current United States government posture towards this nation which in spite of international disapproval maintains its apartheid policies. There have been attempts on the part of the U.S. Government to discourage investment in South Africa, for example, Representative Diggs has introduced a bill to disallow deductions for foreign taxes paid to South Africa. H.R. 5265 should be very carefully considered with regard to the benefits bestowed upon South Africa, a country which United States foreign policy has been encouraging to change its racial policies.

U.S. IMPORTS FOR CONSUMPTION OF FLUORSPAR BY COUNTRIES[1] AND VALUE[2]

(Short tons and thousands of dollars)

	Containing more than 97 percent calcium fluoride								
	3d quarter 1977			4th quarter 1977			1st quarter 1978		
	Tons	Value	Value per ton	Tons	Value	Value per ton	Tons	Value	Value per ton
Italy	7,991	674	84.34	9,259	780	84.24			
Kenya				18,707	1,393	74.46			
Mexico	52,670	4,102	77.88	76,381	6,029	78.93	77,161	6,101	79.07
Morocco							5,770	466	80.76
Republic of South Africa	36,693	2,932	79.91	30,382	2,359	77.64	43,612	3,603	82.61
Spain	21,069	1,884	89.42	8,432	694	82.31	4,939	415	84.03
Total	118,423	9,592	81.00	143,161	11,255	78.62	131,482	10,585	80.51
	Containing not more than 97 percent calcium fluoride								
Mexico	84,307	3,974	47.14	65,976	3,105	47.06	43,325	2,225	51.36
Republic of South Africa				20,889	1,568	75.06	12,163	921	75.72
Spain	9,585	805	83.99	[3] 13,981	1,163	83.18	15,286	1,266	82.82
Total	93,892	4,779	50.90	[3] 100,846	5,836	57.87	70,774	4,412	62.34

[1] Imports for consumption include imports of immediate entry plus warehouse withdrawals.
[2] C.i.f. at U.S. ports.
[3] Revised.

Source: Bureau of Mines.

[2] In the first quarter of 1978 Mexico supplied 60 percent of total imports, South Africa 27 percent, Spain 10 percent, and Morocco 3 percent. See app. I.

SALIENT FLUORSPAR STATISTICS

[Short tons]

	1st quarter		2d quarter		3d quarter		4th quarter		Yearly total	
	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978
Production	36,481	25,996	41,144	----------	40,347	----------	34,769	----------	[1] 166,755	----------
Shipments [2]	36,655	38 054	43,658	----------	38,603	----------	33,726	----------	[1] 168,489	----------
Value per ton, f.o.b. mine	$99.26	$103.80	$95.41	----------	$97 73	----------	$100.73	----------	$98.20	----------
Fluorspar equivalent from phosphate rock [3]	18,000	18,000	18,000	----------	18,000	----------	18,000	----------	72,000	----------
Imports for consumption [2]	230,528	202,256	289,418	----------	212,315	----------	244,007	----------	976,268	----------
Value per ton, c.i.f U.S. port	$74.17	$74.15	$72.20	----------	$67.69	----------	$70.04	----------	$79.34	----------
Fluorspar equivalent of imported hydrofluoric acid	28,724	24,717	30,180	----------	36,743	----------	29,449	----------	125,096	----------
Fluorspar equivalent of imported cryolite	3,439	4,862	2,765	----------	4,096	----------	4,303	----------	14,603	----------
Exports	1,358	2,219	1,458	----------	1,793	----------	2,031	----------	6,640	----------
Value per ton, f.a.g. U.S. port	$141.43	$106.32	$151.81	----------	$147.49	----------	$146.52	----------	$146.88	----------
End of quarter stocks:										
Mine	13,770	9,182	10,575	----------	12,416	----------	11,183	----------	[1] 12,243	----------
Consumer	252,346	195,005	247,850	----------	243,507	----------	204,918	----------	[1] 226,120	----------
Apparent consumption [4]	337,245	287,642	309,254	----------	310,366	----------	366,276	----------	[1] 1,403,906	----------
Reported consumption	303,143	256,764	319,864	----------	237,875	----------	261,141	----------	[1] 1,161,136	----------

[1] Includes tonnage reported annually.
[2] Includes all grades of Flourspar and briquets produced from domestic fluorspar.
[3] Estimated.
[4] Shipments (including fluosilicic acid) plus imports (including hydrofluoric acid and cryolice) minus exports minus increase in stocks.

Source: Bureau of Mines.

U.S. SHIPMENTS AND PRODUCER'S STOCKS OF FLUORSPAR, BY GRADE

[Short tons]

	1st quarter	2d quarter	3rd quarter	4th quarter
1977				
Shipments:				
Acid grade [1]	27,435	31,792	26,154	25,686
Value per ton, f.o.b. mine	$106.00	$103.33	$102.85	$104.08
Metallurgical grade [2]	19,220	11,866	12,349	8,041
Value per ton, f.o.b. mine	$84.25	$74.20	$86.89	$88.53
Producers' stocks, end of quarter:				
Acid grade [1]	8,688	6,356	5,811	4,283
Metallurgical grade [2]	5,102	4,219	6,605	6,900
1978				
Shipments:				
Acid grade [1]	22,638			
Value per ton, f.o.b. mine	$112.28			
Metallurgical grade [2]	5,416			
Value per ton, f.o.b. mine	$68.39			
Producers' stocks, end of quarter:				
Acid grade [1]	3,250			
Metallurgical grade [2]	5,874			

[1] Includes ceramic grade.
[2] Includes briquets.

Source: Bureau of Mines.

CONSUMPTION OF FLUORSPAR BY END USE AND ASSAY RANGE—DOMESTIC AND FOREIGN IN THE UNITED STATES

[Short tons]

	4th quarter 1977			1st quarter 1978		
End use or product	Containing more than 97 pct calcium fluoride	Containing not more than 97 pct calcium fluoride	Total	Containing more than 97 pct calcium fluoride	Containing not more than 97 pct calcium fluoride	Total
Hydrofluoric acid	138,440	----------	138,440	120,603	----------	120,603
Glass and fiber glass	1,410	565	1,975	1,351	606	1,957
Enamel	(1)	(1)	(1)	(1)	356	356
Welding rod coatings	(1)	(1)	(1)	(1)	(1)	(1)
Primary aluminum, Primary magnesium	(1)	----------	(1)	154	----------	154
Iron and steel castings	----------	2,402	2,402	----------	3,742	3,742
Open hearth furnaces	----------	13,085	13,085	----------	25,737	25,737
Basic oxygen furnaces	----------	89,339	89,339	----------	82,619	82,619
Electric furnaces	2,867	13,841	16,708	3,110	17,442	20,552
Other uses or products [2]	286	906	1,192	252	792	1,044
Total [3]	143,003	120,138	263,141	125,470	131,294	256,764
Stocks end of quarter	50,539	154,379	204,918	38,398	156,607	195,005

[1] Withheld to avoid disclosing individual confidential data; included with "other uses."
[2] Includes flurorspar used in other furnaces and in the manufacture of ferroalloys.
[3] Figures represent quantities reported by companies that account for about 90 pct of all consumption.

Source: Bureau of Mines.

Senator RIBICOFF. H.R. 8755, Mr. Anderson.

STATEMENT OF ERNEST W. ANDERSON, VICE PRESIDENT OF CORPORATE AFFAIRS AND SECRETARY, FEDERAL-MOGUL CORPORATION, TESTIFYING ON BEHALF OF ANTI-FRICTION MANUFACTURING ASSOCIATION, INC., ACCOMPANIED BY: LYN M. SCHLITT, ESQ., COVINGTON AND BURLING

Mr. ANDERSON. Mr. Chairman, I am Ernest W. Anderson, vice president and secretary of Federal-Mogul Corp. of Southfield, Mich.

I appreciate the opportunity to testify in favor of H.R. 8755.

Actually, this statement is submitted on behalf of the Anti-Friction Bearing Manufacturers Association. AFBMA is composed of 45 companies which manufacture ball or roller bearings, or balls for use in bearings in the United States. These companies produce approximately 75 percent of the domestic ball and roller bearings.

Ball or roller bearing pillow blocks, flange, take-up, cartridge, and hanger units are designed to facilitate the use of ball or roller bearings in the manufacture of many types of machinery and equipment. These units make it possible to mount the bearings in required locations by simply bolting the units in place. Without these units, which are collectively called mounted bearings, a precise, carefully machined seat would have to be provided. With the mounted unit, it is only necessary to provide holes for bolts or similar type of fasteners, a much simpler operation.

I have here a ball bearing. Most bearings of this nature, when they are imported, are properly classified, and we can monitor the quantities and dollar values coming in. However, when the same bearing is slipped into this pillow block, it becomes a mounted bearing and is imported as a single unit, and this unit is not properly classified. It is classified in other general classifications.

It is impossible for the industry to monitor the quantities or dollar value of the imports. That is the whole thrust of this bill—merely to have all bearings classified as such so that they can be properly monitored.

Senator RIBICOFF. How do you explain—what was the reason that it was never classified?

Mr. ANDERSON. Historically I understand—and this may seem ridiculous—but it was a typographical error. When the duty law was passed several years ago, the term "pillow block" was inadvertently used in the classification. It should not have been, and we have been trying for I do not know how many years to get this corrected.

Senator RIBICOFF. Is there substantial harm being done to the domestic bearing industry?

Mr. ANDERSON. I tried to cover this in my statement here. There is significant trade in these mounted bearings. The 1976 annual survey of manufacturers by the U.S. Bureau of Census shows shipments of mounted bearings of 200 million. We export about 5.5 million and we estimate the imports to be 10 million, but this is a very tenuous estimate, because we really have no accurate or convincing way of determining the amount of imports, but we estimate it to be roughly something like $10 million.

Senator RIBICOFF. Thank you very much, Mr. Anderson.

Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator RIBICOFF. Thank you very much.

[The prepared statement of Mr. Anderson follows:]

STATEMENT OF THE ANTI-FRICTION BEARING MANUFACTURERS ASSOCIATION

(By Ernest W. Anderson)

STATEMENT

I am Ernest W. Anderson, Vice President and Secretary of Federal-Mogul Corporation of Southfield, Michigan.

This statement is submitted on behalf of the Anti-Friction Bearing Manufacturers Association (AFBMA). AFBMA is composed of forty-five companies which manufacture ball or roller bearings or balls for use in bearings in the U.S. which produce approximately 75 percent of the domestic ball and roller bearings. (See attachment A for a list of AFBMA Members).

Ball or roller bearing pillow blocks, flange, take-up, cartridge, and hanger units are designed to facilitate the use of ball or roller bearings in the manufacture of many types of machinery and equipment. These units make it possible to mount the bearings in required locations by simply bolting the units in place. Without these units, which are collectively called mounted bearings, a precise, carefully machined seat would have to be provided. With the mounted unit it is only necessary to provide holes for bolts or similar type of fasteners, a much simpler operation.

There is a significant volume of trade in mounted bearings. The 1976 Annual Survey of Manufacturers by the U.S. Bureau of Census shows shipments of mounted bearings of $200 million dollars. U.S. exports of mounted ball and roller bearings for this same year were $5.5 million dollars. The volume of imports is believed to approximate $10 million dollars but this belief is based upon rather tenuous estimates since there is no specific provision in the Tariff Schedules for this type of product. H.R. 8755 is intended to remedy this situation.

We believe the great bulk of the products that would be effected by the enactment of H.R. 8755 are currently entering as "universal" types of mechanical components and, as such, classified under two TSUS items, as follows:

Item 680.50, which provides for pillow blocks, both ball and roller bearing type and also plain bearing type, and also for pulleys and shaft couplings and parts thereof, and

Item 680.90, which provides for machinery parts not containing electrical features and not specially provided for. The present rate of duty applicable to articles classifiable under either of these two TSUS items is 9.5 percent ad valorum in column 1.

But as noted in the Report to this Committee by the International Trade Commission some of these items may be entering under other TSUS items with different dutiable rates, and unidentifiable for statistical purposes.

The interest of AFBMA is in having a definite place in the Tariff Schedules for all types of mounted ball and roller bearings (ball or roller bearing pillow block, flange, take-up, cartridge, and hanger units so they will be identified as such on import and will appear in the statistics on quantity and value of imports. The Bill, as printed, accomplishes this object and we support its adoption.

LIST OF AFBMA MEMBERS

The Abbott Ball Co., Railroad Pl., West Hartford, Conn.
Accurate Bushing Co., Smith Bearings, A Subsidiary of Ex-Cell-O Corp., 443 North Ave., Garwood, N.J.
Aetna Bearing Co., A Katy Industries Subsidiary, 4600 W. Schubert Ave., Chicago, Ill.
American Roller Bearing Co., 150 Gamma Dr., Pittsburgh, Pa.
The Barden Corp., 200 Park Ave., Danbury, Conn.
Bremen Bearing Co., Inc., Bremen, Ind.
Brenco, Inc., P.O. Box 389, Petersburg, Va.
C&S Ball Bearing Machinery & Equipment Corp. of America, 956 Old Colony Rd., Meriden, Conn.
Fafnir Bearing, Division of Textron, Inc., P.O. Box 1325, New Britain, Conn.
Fag Bearings Corp., Hamilton Ave., Stamford, Conn.
Federal-Mogul Corp., P.O. Box 1966, Detroit, Mich.
FMC Corp., Bearing Division, P.O. Box 85, Indianapolis, Ind.
Formmet Corp., 1500 Nagle Ave., Avon, Ohio.
Frantz Manufacturing Co., Ball and Bearing Divisions, 301 W. Third St., Sterling, Ill.
The Freeway Corp., 9301 Allen Dr., Cleveland, Ohio.
General Bearing Co., High St., West Nyack, N.Y.
Hartford Ball Co., Div. of Virginia Indus., Inc., 951 West St., Rocky Hill, Conn.
Hoover Ball & Roller Group, Hoover-Universal, Erwin, Tenn.
Hoover-NSK Bearing Co., P.O. Box 1507, Ann Arbor, Mich.
INA Bearing Co., Inc., 1 INA Dr., Cheraw, S.C.
Industrial Tectonics, Inc., P.O Box 1128, Ann Arbor, Mich

Keene Corp., Kaydon Bearing Division, 2860 McCracken St., Muskegon, Mich.
Kendale Industries, Inc., P.O. Box 7757, Cleveland, Ohio.
Keystone Engineering Co., 144 South San Pedro St., Los Angeles, Calif.
Kubar Bearings, Inc., 21 Erie St., Cambridge, Mass.
L&S Bearing Manufacturing Co., P.O. Box 1537, Oklahoma City, Okla.
Marlin-Rockwell, Division of TRW Inc., 402 Chandler St., Jamestown, N.Y.
McGill Manufacturing Co., Inc., 909 N. Lafayette St., Valparaiso, Ind.
Messinger Bearings, Inc., P.O. Box 9570, Philadelphia, Pa
Morse Chain, Division of Borg-Warner Corp., Ithaca, N.Y.
MPB Corp., Precision Park, Keene, N.H.
National Bearing Co., P.O. Box 1726, Lancaster, Pa.
New Hampshire Ball Bearings, Inc., Route 202, Peterborough, N.H.
NMB Corp., 9730 Independence Ave., Chatsworth, Calif.
NTN Elgin Corp., 1500 Holmes Rd., Elgin, Ill.
Rexnord Inc., Bearing Division, 2400 Curtiss St., Downers Grove, Ill.
Roller Bearing Co., of America, Sullivan Way, West Trenton, N.J.
Rollway Bearing Division, Lipe-Rollway Corp., Box 4827, Syracuse, N.Y.
Rotek Inc., Aurora, Ohio.
Schatz Federal Bearings Co., P.O. Box 1191, Poughkeepsie, N.Y.
SKF Industries, Inc., P.O. Box 239, King of Prussia, Pa.
Superior Ball Co., Division of Lydall, Inc., P.O. Box 6007, Hartford, Conn.
Thomson Industries, Inc., Manhasset, N.Y.
The Timken Co., 1835 Dueber Ave., SW., Canton, Ohio.
The Torrington Co., Subs. of Ingersoll-Rand Co., P.O Box 1008, Torrington, Conn.

Senator RIBICOFF. Mr. Bodner.

STATEMENT OF SETH M. BODNER, PRESIDENT, LEAD-ZINC PRODUCERS COMMITTEE

Mr. BODNER. Thank you very much, Mr. Chairman. I am Seth Bodner, president of Lead-Zinc Producers committee in support of H.R. 9911. I will not read my statement, but I am here simply to answer questions and point out perhaps the salient feature of this bill, which is to provide domestic zinc smelters and refiners with access to essential raw materials at world prices.

The domestic zinc industry is in very great difficulty and requires access to the lowest price concentrates available. The industry that does the smelting and refining is also largely responsible for the mining of zinc, but needs to keep an open access to world prices.

For many years, the United States did not have free access to these raw materials and other producers did, which placed domestic refinement at a disadvantage.

Senator RIBICOFF. Is it essential for the domestic industry to have these imports in order to produce this product?

Mr. BODNER. Yes.

Senator RIBICOFF. There is no harm being done to the domestic industry?

Mr. BODNER. The domestic metal industry is in serious difficulty, but that is another story. There is no harm being done by imports of this material.

Senator RIBICOFF. Thank you very much.

Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator RIBICOFF. Thank you, Mr. Bodner.

[The prepared statement of Mr. Bodner follows:]

STATEMENT OF SETH M. BODNER, PRESIDENT, LEAD-ZINC PRODUCERS COMMITTEE

SUMMARY

The Lead-Zinc Producers Committee supports enactment of H.R. 9911 to continue until June 30, 1981, the suspension of duties on zinc ores, concentrates and certain other zinc-bearing materials.

The bill is needed to assure domestic zinc smelters and refiners continuing access to raw materials on a basis competitive with that available to foreign producers. Domestic zinc smelting and refining operations, already seriously injured, would be further harmed by the reimposition of duties on their essential raw materials, especially since competitors in foreign countries are not charged similar duties on their imports of such materials. Domestic zinc mines sell virtually all production to domestic smelting and refining operations and, therefore, benefit from any action taken to enhance the viability of the U.S. zinc smelting and refining industry.

Mr. Chairman and members of the committee, the Lead-Zinc Producers Committee appreciates the opportunity to appear and your evident understanding of the need for expeditious consideration of these duty suspension bills. We urge continuation of the present suspension of duties on zinc ores, concentrates and other materials covered in H.R. 9911. This measure would continue in effect until the close of June 30, 1981 the duty supension originally enacted in Public Law 94-89, of August 9, 1975. The present suspension of duties expired on June 30, 1978.

The following companies are members of the Lead-Zinc Producers Committee:

AMAX Inc., AMAX Center, Greenwich, Conn.

ASARCO Inc., 120 Broadway, New York, N.Y.

The Anaconda Co., Subsidiary of: Atlantic Richfield Corp., 1849 W. North Temple, Salt Lake City, Utah.

The Bunker Hill Co., Subsidiary of: Gulf Resources & Chemical Corp., 477 Madison Ave., New York, N.Y.

Homestake Mining Co., 650 California St., Suite 1550, San Francisco, Calif.

The National Zinc Co., Subsidiary of: Engelhard Minerals & Chemicals Corp., Bartlesville, Okla.

New Jersey Zinc Co., Subsidiary of: Gulf & Western Natural Resources Group, 65 E. Elizabeth Ave., Bethlehem, Pa.

St. Joe Minerals Corp., 250 Park Ave., New York, N.Y.

U.S. zinc smelters and refiners need continued access to zinc ores and concentrates at world market prices. Prior to the enactment of Public Law 94-89 containing the current suspension, the U.S. was the only major producing country which imposed a tariff on these raw material imports. This placed U.S. zinc smelters and refiners at a competitive disadvantage in the acquisition of these materials. While other problems facing domestic zinc smelters and refineries are of much greater significance, continuation of this suspension of duties is important to the industry. Failure to continue the suspension would reimpose duties (equal to approximately $13.40 per ton of contained metal) and further compound the difficult financial problems of zinc producers. This would come at a time when these producers are already experiencing serious injury on their slab zinc operations.

Primary producers of refined zinc in the United States, representing more than 90 percent of U.S. capacity, sought temporary relief from excess imports of slab zinc through the escape clause provisions of the Trade Act of 1974. While the United States ITC denied the producers' petition principally on grounds of causation, there was no doubt that serious injury exists in the domestic industry. On that point, the Commissioners were unanimous.

Extremely difficult conditions continue to affect the domestic slab zinc industry, and imports of refined zinc in the first half of this year are 26 percent above the first half of 1977. Reimposition of the duties on ores, concentrates and related materials covered by H.R. 9911 would once again disadvantage U.S. producers vis-à-vis their already intense foreign competition. Further damage to domestic zinc smelters would also impact domestic mines selling to those smelters. Hence, continued suspension of duties on ores and concentrates also benefits the mines by helping to maintain a viable domestic zinc smelting and refining industry.

U.S. imports of zinc ores and concentrates amounted to 144,986 short tons (zinc content) in 1975, 97,115 tons in 1976 and 122,805 tons in 1977, the last 2 years being under the suspension now in effect. Zinc ore and concentrate imports in 1977 were supplied mainly by Canada, Honduras, Thailand, and Chile. Canada (48 percent) and Honduras (14 percent) accounted for 62 percent of the total. (Table 1 attached, Ore and Concentrate Imports by Country 1973-77.)

U.S. mines produced 449,620 short tons of zinc in ores last year down from 484,513 tons in 1976, and 469,355 tons in 1975. This decline doubtless reflects the decline in U.S. production of refined zinc, which is continuing at this time as domestic producers curtail production in the face of excess imports of refined slab zinc. Principal zinc mining States are Missouri, Tennessee, New York, Idaho, Colorado, Pennsylvania, and New Jersey. (Table 2 attached, U.S. Mine Production by State 1973–77.)

Mr. Chairman, continuation of the suspension of duties provided for by H.R. 9911 is important to domestic producers of refined zinc. In turn, the health of U.S. zinc smelting and refining industry is crucial to the health of U.S. zinc mines.

I thank you and the members of the Committee for giving me this opportunity to appear, and urge that you recommend early enactment of H.R. 9911.

ZINC ORE AND CONCENTRATES: U.S. IMPORTS BY COUNTRY

[Percentages of totals in parentheses; short tons/zinc content]

	1973	1974	1975	1976	1977
Total imports	199,031	240,043	144,986	97,114	122,805
Canada	124,240 (62.4)	162,480 (67.7)	98,699 (68.0)	69,899 (72.0)	58,576 (47.6)
Mexico	33,876 (17.0)	24,184 (10.0)	9,332 (6.4)	2,626 (2.7)	4,288 (3.4)
Peru	12,982 (6.5)	13,861 (5.7)	4,904 (3.3)	794 (0.8)	1,034 (0.8)
Honduras	6,029 (3.0)	6,229 (2.5)	13,361 (9.2)	16,308 (16.8)	17,370 (14.1)
Australia	7,281 (3.6)	5,607 (2.3)	4,044 (2.7)	2,291 (2.3)	4,343 (3.5)
Other	14,623 (7.3)	27,682 (11.5)	14,646 (10.1)	5,196 (5.3)	[1] 37,194 (30.2)
Value (millions)	$31.7	$74.0	$108.8	$50.4	$37.8

[1] 1977 Other figure includes Thailand, 15,688; Chile, 11,783 tons.

Source: ABMS and U.S. Bureau of Mines.

U.S. ZINC MINE PRODUCTION BY STATE

[Thousand short tons]

	1973	1974	1975	1976	1977
Colorado	58,339	49,489	48,460	50,621	40,267
Idaho	46,107	39,469	40,926	46,586	30,998
Missouri	82,350	91,987	74,867	83,530	81,689
New Jersey	33,027	32,848	31,105	33,767	33,464
New York	81,455	93,077	76,612	73,671	70,839
Pennsylvania	18,857	20,288	21,090	22,280	22,825
Tennessee	64,172	85,671	83,293	82,512	90,438
Other	94,543	87,044	93,002	91,546	79,100
Total	478,850	499,873	469,355	484,513	449,620

Source: U.S. Bureau of Mines—mineral industry surveys.

Senator RIBICOFF. Now, H.R. 10161. Senator Pell could not be here. He has a statement which will go into the record as if read.

[The material to be furnished follows:]

STATEMENT BY SENATOR CLAIBORNE PELL

Mr. Chairman, and members of the committee, I appreciate very much this opportunity to express to the committee my strong support for H.R. 10161, legislation for the relief of Eastern Telephone Supply and Manufacturing, Inc. I would note that I have sponsored in the Senate companion legislation.

The legislation, as approved by the House Committee on Ways and Means, would permit Eastern Telephone Supply to file within 60 days of enactment, a

protest with the U.S. Customs Service for an overpayment of customs duties notwithstanding time limitations for such protests in section 514 of the Tariff Act of 1930.

I believe the record shows that the facts in the case are clear and agreed upon by both Eastern Telephone Supply and the Department of the Treasury. It is agreed that Eastern Telephone was over-charged customs duties of about $13,500 during 1974 and 1975, because of a mistaken appraisal of used telephone equipment imported from Canada.

The Treasury Department, while agreeing that Eastern Telephone was overcharged, states it is barred from correcting the error because Eastern Telephone did not file a protest "in the form and manner prescribed by law," and that Eastern Telephone's only recourse, to recover its funds, is legislation by the Congress. In this regard, I am submitting to the Committee a copy of a letter to me from the U.S. Customs Service, in which the Service states that it agrees with Eastern Telephone on the substantive issues involved.

I would add, Mr. Chairman, that Eastern Telephone did in fact complain about the erroneous customs duties within the 90-day statutory time limit, but that this complaint was not viewed as the formal protest required by the regulations of the Customs Service.

In these circumstances, I believe it is simple justice to permit Eastern Telephone to recover money which the federal governments admits was taken from the company through error.

It is my understanding that the Treasury Department, in its report to this committee, expresses its opposition to enactment of this legislation. I must say that I find that position untenable and indeed almost unbelieveable. The U.S. Customs Service has acknowledged formally in writing that excess duties were erroneously charged. The Service has advised Eastern Telephone to seek relief through legislation, and now the Service opposes passage of the legislation to grant the relief to which it agrees Eastern Telephone is entitled. It is precisely this kind of action which has prompted the current and growing public disillusionment with government.

I hope very much that this committee, in acting on this legislation, will consider the nature of Eastern Telephone Supply and Manufacturing. This firm is not a big industry, nor a part of a conglomerate that could easily absorb a loss of $13,500. This company is a small, independent business, operating in my home city of Newport, R.I. The company provides the equivalent of about 18 full-time jobs for Rhode Islanders, and has annual gross sales of between $500,000 and $600,000. A loss of $13,500 for this company is the equivalent of its net proceeds on about one-quarter to one-third of its annual sales. Recovery of these erroneously-taken customs duties is a matter of considerable importance to this small business firm.

I would add that I have known personally the President of Eastern Telephone, Mr. Henry T. Sullivan, for many years. He is a respected and very hard-working businessman, whose integrity is beyond question. He is a good citizen, a productive citizen, who deserves a full measure of justice from his government.

I respectfully urge the committee to give its approval to legislation to provide appropriate relief.

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE.
Washington, D.C., October 4, 1977.

HON. CLAIBORNE PELL,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PELL: This is in reference to your letter of September 7, 1977, on behalf of Mr. Henry T. Sullivan, President of Eastern Telephone Supply and Manufacturing, Inc., Newport, Rhode Island. His inquiry concerns the appraisement of used telephone equipment imported from Canada by his company.

Mr. Sullivan has met with Customs officials in Washington on a number of occasions regarding this matter, and every possible avenue of administrative relief has been carefully considered. We are enclosing copies of two letters addressed to Mr. Sullivan which set forth in detail the particulars of this matter.

Customs laws provide that the liquidation of entries becomes final and binding on all parties, including the United States, unless a protest is filed with the appropriate Customs officer within 90 days from the date of liquidation. In this instance, although the Customs Service agrees with Mr. Sullivan on the sub-

stantive issues involved, it is precluded by law from granting him the relief he seeks inasmuch as no protest in the form and manner prescribed by law was filed.

The only remedy which appears available to Mr. Sullivan at this time is to seek private legislation.

If we can furnish more information please advise us.

Sincerely yours,

G. R. DICKERSON,
Acting Commissioner of Customs.

Enclosure.

Senator RIBICOFF. Is Mr. Sullivan here?

Senator Pell has talked to me, Mr. Sullivan, about your matter and has a statement here which has been put into the record, and he will have another opportunity to appear before the committee personally.

STATEMENT OF H. T. SULLIVAN, PRESIDENT, EASTERN TELEPHONE SUPPLY & MANUFACTURING, INC.

Mr. SULLIVAN. Mr. Chairman, my name is Henry T. Sullivan, president of Eastern Telephone Supply & Manufacturing, Inc., Newport, R.I. I am here this morning with Mr. William Young of Senator Pell's staff in support of House bill 10161.

The passage of this bill will allow my company to recover overpayment of duties in excess of $17,444.75 which U.S. Customs confirms that we were overcharged. However, because of its disallowing documents furnished by this company in support of overpayment claim, the Customs' position is that while they have overpayment, we the company did not file protest in a timely manner as required by the statute.

After proceeding in a pursuit from May of 1975 to the meeting this morning, I have had numerous correspondences and visits back and forth with U.S. Customs Service and my company.

In June of 1977, in conference with Mr. Dickerson, Assistant Commissioner of U.S. Customs, and Mr. Salvado Caramagno, Director of Classification and Value Division, U.S. Customs, it was concluded that the U.S. Customs had our funds improperly, but they had no administrative procedures available by which these funds could be returned to us. Based on my belief that the U.S. Government did not wish to have our money improperly, I requested direction in how I could recover these funds. It was then suggested by Dr. Dickerson and Mr. Caramagno that the only remedy was through special legislative course which finally brings me before you this morning.

This claim centered around 29 individual imports made from Canada in the period of February of 1974 through December of 1974 in accordance with an agreement my company had with Bell of Canada, involving used and as disconnected from service telephone equipment. This equipment was paying 8.5 percent duties on these values. Upon our inspection of the equipment, it was found to be incomplete, without parts that were irreplaceable, and not in our agreement with Bell of Canada. In May of 1975, Bell of Canada and my company agreed that the material had a value of approximately $400,000. This agreement was confirmed by sworn affidavit and signed by both Bell of Canada and my company. At this time, our process for recovery began.

Since we were dealing essentially with three ports of entry, Buffalo and Champlain, N.Y., and St. Albans, Vt., we began our recovery with each. At the same time, we were being confronted by agents at these gates with attempts to add value to the shipments as they had originally been invoiced. We found the agent at the St. Albans, Vt., port perfectly willing to review the affidavit, the supporting documents, et cetera, in response to our position.

In the face of that evidence and supporting documentation, the St. Albans office refunded approximately $3,500 in duties in March of 1976. The Buffalo office, in the face of the same evidence, not only would not refund but added and received $1,900,000 additional duties. The Champlain office rescinded the attempt to add value, but refused any consideration of refund. Both these offices claimed the failure to protest in a timely manner.

When the transactions first began in February of 1974, and the first attempt was made to add value to the shipments, I contacted our broker and explained to him the basis on which the buyer, Eastern Telephone Supply & Manufacturing, Inc., and the seller, Bell of Canada, agreed on prices. I followed that explanation up with a letter dated April 4, 1974, fully explaining and confirming the explanation I had transmitted over the telephone. This document was to be used for explanation at all ports of entry. Since we were dealing with the same seller, the same commodity, the only variation became the customs specialist that happened to be on duty at a particular gate at a particular time. The basis on which value was added to the shipments at Buffalo was reported to me to be: "I saw telephone material going through this port at other times considerably more valuable than this equipment." My response to that was: "I did not know what material they were looking at or who the buyer was but that it seemed like a capricious manner of evaluating material."

I mentioned these examples in order to try to demonstrate my feelings of dealing almost with three independently chartered organizations at these various ports "in the authority of the U.S. Customs Service." We were dealing with the same material at all three ports, and we were dealing with the same affidavit and documentation; the variation was introduced by dealing with various customs agents, resulting in an inconsistency of action.

Clearly, we paid 8.5 percent duties on an alleged value of goods amounting to $235,879.23, the value of these goods is actually $40,000. The overpayment amounted to $17,444.75. We are a small company, and these funds are extremely important to us.

I appreciate the time you have allowed me this morning and that my explanation will allow you to support miscellaneous tariff bills.

Senator RIBICOFF. Thank you.

Let me ask you, why did your broker not make the appropriate filing?

Mr. SULLIVAN. We entered a letter dated April 4, which preceded this time violation, and it was disallowed; the document that we submitted was disallowed because it was not in the form required.

Senator RIBICOFF. In other words, it was not a question of substance, but a question of form?

Mr. SULLIVAN. A question of form.

Senator RIBICOFF. Thank you very much, Mr. Sullivan.

H.R. 12165, Dr. Cutler.

STATEMENT OF HERSCHEL CUTLER, EXECUTIVE DIRECTOR, INSTITUTE OF SCRAP IRON & STEEL, INC.

Mr. CUTLER. My name is Herschel Cutler. I am executive director of the Institute of Scrap Iron & Steel, Inc., 1627 K Street NW., Washington, D.C., a national trade association representing 1,540 processors, brokers, and dealers of metallic scrap, and industry suppliers.

The institute appears today in support of H.R. 12165 which suspends for 3 years from July 1, 1978, the duty on scrap imports. We believe that H.R. 12165 is sound economic policy.

First, if the duty suspension which now has lapsed is not reinstituted, the added costs of the duty will make it more difficult for U.S. manufacturers to keep their overall costs in line.

Second, the continued suspension of the duty will have no adverse impact on a domestic industry. On the contrary, it will assist the U.S. steel and foundry industries.

Finally, the duty suspension will preserve the natural market flow between scrap sources and scrap users, ignoring national boundaries—such access to supplies is particularly important in the trade in the northern part of the United States, since Canada has long been by far the principal source of total imports of iron and steel scrap into this country. It should be emphasized that trade in iron and steel scrap between the United States and Canada flows in both directions. In 1977, this trade was essentially in balance; however, during the 4-year period between 1973 and 1976, U.S. shipments of scrap to Canada greatly exceeded the level of Canadian shipments into this country.

Despite this trade imbalance with the United States, Canada has recognized the importance of permitting trade in iron and steel scrap to travel relatively unimpeded between the two countries. Canada permits the entry of U.S. imports of such scrap duty free and without the imposition of significant trade-restricting nontariff barriers. It is very much in our own interest that the United States provide similar treatment to Canadian import.

Senator RIBICOFF. What metallic scrap does the domestic industry import? I though you were great exporters.

Mr. CUTLER. The major import of this occurs at the Canadian border, where there are mills on one side and sources on the other, on both sides of the border. It is really a border movement back and forth.

Senator RIBICOFF. Between Canada and the United States?

Mr. CUTLER. Canada and the United States, yes, sir. On numerous occasions, congressional committees have recognized why this duty suspension is appropriate and these reasons continue to be valid and the suspension legislation should be adopted.

However, if this observation were the only reason for the Institute's concern with the tariff laws as they related to the importation of ferrous scrap, we would not waste the committee's time with a formal appearance. Unfortunately, the requirement in current law and regulations of a certificate of remanufacture by melting—required before American industry can benefit from the duty suspension—has become an increasingly onerous burden on the U.S. mills and foundries that use some imported iron and steel scrap. The House Ways and Means Committee accepted the Institute's suggestion that provision of the remelting certificate is, in most cases, totally unnecessary to achieve the purposes of the duty suspension.

H.R. 12165 thus permits an importer to prove that imported products have been recycled either with a remelt certificate or with a certificate by the processor that the material has been processed for remelting.

The current justification for affording duty-free treatment to articles for which proof of remanufacture by melting is provided is that such proof insures that the articles are used in the same manner as waste. The present requirement often is unnecessary because, in many instances, unprepared scrap articles that are theoretically usable for the purposes for which they were originally intended—for example, junked automobiles—are imported into the United States in forms that are completely unsuitable for immediate remelting.

These articles must first undergo processing such as shredding, shearing or compaction in order to make them usable for remanufacture by melting. More importantly, this processing renders the articles totally unsuitable for any use other than remanufacture by melting and means that they only have value as scrap.

In addition, the present requirement places an undesirable burden on mills and foundries that use iron or steel scrap. Under the present law, such a user must certify that a particular article has, in fact, been remelted. In order conscientiously to make this certification, which generally includes the date and time of remelting, a mill or foundry must undertake a substantial amount of additional paperwork in order to document the processing of the imported material without adding the material to inventory as normally would be done. In order to satisfy this procedure, the mill or foundry must often disrupt the normal flow of production, in order to accommodate the reporting requirements of the Tariff Act.

These problems are of sufficient magnitude to discourage mills and foundries from using imported scrap and to consider instead other sources such as iron ore. This development is particularly undesirable in view of the policy of this country favoring the conservation of energy and natural resources.

Since it is the processing described above that accomplishes the purposes of the duty suspension legislation—assurance that the imported product will be used only in a remanufacturing by melting process—the technical change made by H.R. 12165 reflects the ordinary business and industrial practicalities of the situation. Thus, either proof of processing—making an article fit solely for use by remelting—or of actual remanufacture by melting, should be established as the criteria for proof required under this duty suspension legislation.

Thank you for the opportunity to appear before the committee.

Senator RIBICOFF. Thank you.

Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator RIBICOFF. Senator Hansen?

Senator HANSEN. I have no questions.

Senator RIBICOFF. Thank you very much.

S. 3171, Mr. Stanley Nehmer.

STATEMENT OF STANLEY NEHMER, CONSULTANT, WORK GLOVE MANUFACTURERS ASSOCIATION

Mr. NEHMER. Mr. Chairman, I am here on behalf of the Work Glove Manufacturers Association of Libertyville, Ill., in opposition to S.

3171. I would like to summarize the three points on which the association's position rests.

First, it has been alleged that there is no U.S. production of the type of gloves covered by the proposed legislation, presumably gloves made from ballistic nylon or Kevlar. In actual fact, gloves made of these fabrics are manufactured by the Racine Glove Co., of Rio, Wis. This company, a member of the Work Glove Manufacturers Association, has never been approached by those interested in the type of gloves specified in the legislation. If the orders for this type of glove exist, this company and others companies in the industry are prepared to manufacture them. Thus, capacity and know-how exist in the United States to manufacturer the type of gloves designed for use in forestry, as proposed in the legislation.

Senator RIBICOFF. Where do these gloves come from?

Mr. NEHMER. Apparently Canada and Sweden, I am told, are the two countries that are presumably the foreign suppliers of these gloves. I do not know; I have been told this.

Senator RIBICOFF. How big of the market is this?

Mr. NEHMER. I have no idea.

Senator RIBICOFF. You do not know what impact this has one way or another? How many gloves are involved?

Mr. NEHMER. This particular item comes under tariff schedule 704.90 that covers manmade fiber gloves, woven fabric of different kinds. This tariff schedule item is not limited to the gloves included in this bill.

What this legislation presumably would do, Senator, would pull it out of that and put it in schedule 8 as a duty-free item.

The second point in opposition to this legislation rests upon the fact that this act would require Customs to administer on the basis of enduse. The legislation refers to use in forestry and the experience of Customs has been that it is very difficult to administer tariff laws on the basis of enduse when a particular product can be used, such as gloves, for more than the use intended in the legislation.

By moving this out of the present tariff classification into schedule 8, it could conceivably open up a loophole in the administration of the multifiber arrangement and the 18 bilateral agreements which exist under the MFA.

Senator RIBICOFF. Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator RIBICOFF. Thank you, sir.

S. 3246, Mr. Wayne Weant and Mr. Carl Priestland.

Mr. PRIESTLAND. Mr. Weant is not able to make it this morning. His plane did not stop at the airport because the airport was fogged in this morning.

STATEMENT OF CARL PRIESTLAND, ECONOMIC CONSULTANT, AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. PRIESTLAND. I am Carl Pristland, economic consultant for the American Apparel Manufacturers Association. I am here today to represent the AAMA. Members of AAMA produce about $20 billion worth of apparel for the American consumer, about two-thirds of all apparel produced domestically.

The apparel industry is the sixth largest employer in the manufacturing sector, and the health of this industry is critical to both the health of the textile and fiber industries.

AAMA supports the passage of S. 3246 which would change the method of determining the dutiable value on the import of apparel.

We think the total value of the garment should include the costs of quota premiums purchasd by the exporters, which allow the exporters to export apparel to the United States. The premium costs should be a part of the dutiable cost of a garment being exported.

Several of the Far East countries permit holders of quota allocations to sell their allocations to other manufacturers. One of our jeans manufacturing members is concerned with the practice of selling quotas as it pertains to the exports of jeans from Hong Kong.

Because of the demand for fashion jeans in the United States today, quota premiums in Hong Kong are currently being sold at approximately $20 per dozen.

Senator RIBICOFF. Could you tell me how this works, the quota premiums? How does this work?

Mr. PRIESTLAND. The quotas are allocated to individual companies in, let us say, Hong Kong. If a manufacturer there does not have orders for all of the quota that he has, he can sell part of that quota to another manufacturer who may have a demand for that part of the quota.

For example, a manufacturer could hold a quota for 50,000 dozens but he is only shipping 40,000 dozen jeans to the United States in a year. He could sell 10,000 dozen of his quota which is legal in Hong Kong. It is legal in Korea and Taiwan also.

Senator RIBICOFF. In other words, if that is the case, he would not have to manufacture it all. He could make a handsome profit by just selling his quota?

Mr. PRIESTLAND. That is exactly what is happening in the case of Hong Kong with the larger manufacturers. They have become smaller manufacturers and sell their excess quota premiums. They have been selling their quotas for a premium.

Senator RIBICOFF. Do you know how many of these jeans come in the United States?

Mr. PRIESTLAND. We have approximately 9.5 million dozen woven cotton trousers, slacks or shorts, of which I estimate about a third—3 million dozen—are jeans, and a great portion of those jeans are what we call fashion jeans, which carry a higher duty rate. A 35-percent duty, as a matter of fact. So if you could reduce by $20 your FOB foreign export price, you could save yourself $7 a dozen. And what is happening in Hong Kong is that owners of the quota allocations are selling them to one another so that it is sort of a washout between the two firms. They, then, can show that they have paid $20 for the quota premiums and subtract that from the FOB price.

So, if they were offering jeans at $50 a dozen, they could offer them at $50 a dozen minus $20 quota premium, and therefore, could show an FOB price of $30, not $50.

Senator RIBICOFF. You want to include what was paid for the quota in the value of the import?

Mr. PRIESTLAND. That is right. We feel that the total value of the goods exported including the value of the quota premium should be part of the dutiable price of the garment.

Senator RIBICOFF. Thank you very much. If you have any figures to supply us as to the size of the market, how many jeans are manufactured by American manufacturers and how much are imported and where they come from, we would appreciate your giving that to the committee.

Mr. PRIESTLAND. That, we can supply.

[The prepared statement of Mr. Priestland and material referred to above follow:]

STATEMENT ON BEHALF OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

(By E. W. Weant, Managing Director International Operations. Blue Bell, Inc.)

Mr. Chairman and members of the committee, my name is E. Wayne Weant. I am Managing Director, International Operations, Blue Bell, Inc. I am appearing before you today on behalf of the American Apparel Manufacturers Association. Members of AAMA produce $20 billion worth of apparel for the American consumer, about two-thirds of all apparel produced domestically. AAMA is the largest trade association in the industry.

The apparel industry by itself is the sixth largest employer in the manufacturing sector of our economy. The health of the apparel industry is critical to the health of both the textile and fiber industries. These three industries together—apparel, textiles, and fibers—provide 2.4 million manufacturing jobs in our economy.

AAMA supports passage of S. 3246 which would change the method of determining the dutiable value of imported apparel. We believe that the total value of a garment should include the cost of any quota premium purchased by an exporter which allows that exporter to export to the U.S. The premium cost should be part of the dutiable cost of the garment being exported.

Several of the Far East countries permit the holders of quota allocations to sell the allocations to other manufacturers. Being a jean manufacturer, I am personally concerned with the practice of selling quotas as it pertains to the export of jeans from Hong Kong.

Because of the demand for fashion jeans in the U.S. market today, quota premiums in Hong Kong are currently being sold for approximately $20 U.S. per dozen. A manufacturer of fashion jeans in Hong Kong, with no quota allocation, would have to pay $20 per dozen for the right to ship a dozen jeans to the U.S. If he were selling a dozen jeans for $50, the total cost to ship those jeans f.o.b. the foreign port would be $70. As our law now reads, the dutiable value of those goods would be $50. The full cost of the jeans is not being assessed for duty.

A much more common practice, however, in the sale of these quota premiums actually results in a lowering of the f.o.b. price. As I understand it, the quota premium can be deducted from the value of the export by attaching proof of purchase of the quota. What is frequently taking place in Hong Kong is that two owners of quotas are selling their respective quotas to each other. They can then each reduce the dutiable price of their exports by the price of the quota premiums they have each purchased from each other. This makes the price of the exported garments $30 per dozen rather than $50 per dozen.

By the sale of quota premiums between quota holders, these holders are able to reduce the f.o.b. price of their garments below their normal f.o.b. price.

The U.S. duty on non-ornamented jeans is 16½ percent which should result in a duty savings of $3.30 if the Hong Kong exporter could reduce the price per dozen by $20. This savings would increase to $7 if they were ornamented jeans because the duty rate is 35 percent.

Competing with foreign-made apparel in our market today is very difficult. It should not be made any more difficult by allowing manipulation of these quota premiums to reduce the f.o.b. value of imported garments, and thereby reducing the duty paid on them. This further increases the gap between American-made and foreign-made apparel.

The apparel industry urges this Committee to press for early passage of S. 3246 which would include these quota premiums in the f.o.b. value of apparel exported to the U.S.

PRIESTLAND ASSOCIATES,
Alexandria, Va., August 16, 1978.

MEMORANDUM

Subject: Additional information for Senator Ribicoff

The following is in answer to Senator Ribicoff's questions:

1. Size of the market.—At wholesale the jean market is about $3 billion.

2. U.S. jean production.—The latest data are for 1976.

	Dozen
Men's jeans	11,732,000
Boys' jeans	4,372,000
Women's jeans	5,012,000
Girls', children's & infants'	2,275,000
Total	23,391,000

3. U.S. imports.—These are 1977 data for woven trousers and slacks, including jeans.

[In dozens]

	Total	Estimated jeans	Percent jeans
Cotton:			
Men's and boys'	3,364,000	1,000,000	30
Women's and children's	6,154,000	2,150,000	35
Total	9,518,000	3,150,000	
Manmade fiber	3,093,000	350,000	11
Total	12,611,000	3,500,000	

Import of jeans equal 15 percent of domestic production. In 1978 I estimate that this will increase to 18 percent.

4. Major suppliers of jean imports.—These are estimates for 1977.

[In dozens]

	Hong Kong	Korea	Taiwan	All countries
Cotton:				
Men's and boys'	527,135	27,313	89,372	1,000,000
Women's and children's	1,267,994	30,916	195,647	2,150,000
Manmade fiber	28,335	20,555	80,913	350,000

Senator RIBICOFF. Next is S. 3326: Dr. Sullivan, Mr. Williamson, and Mr. Hofer.

There is a letter from Senator Javits who asked that his position be placed in the record at this point, which it will be done.

[The material referred to follows:]

U.S. SENATE,
Washington, D.C., July 26, 1978.

Hon. ABRAHAM RIBICOFF,
U.S. Senate, Washington, D.C.

DEAR ABE: I am pleased to hear that the Subcommittee on International Trade, which you chair, is holding hearings on S. 3326, a bill to suspend duty on freight cars. As a cosponsor of the bill, I believe that the duty suspension will be very beneficial to the United States by relieving the shortage of freight cars in the United States which cannot be met by increased United States production.

In addition, the bill will help the economy of Mexico by increasing exports and thus creating the type of employment which would assist in stemming illegal immigration into the United States.

With warm regards,

Sincerely,

JACK.

Mr. SULLIVAN. It is my understanding that our written statement of testimony will be included for the record in its entirety, so I will make only summary comments this morning.

STATEMENT OF GLENN H. SULLIVAN, CHIEF ECONOMIST, NORTH AMERICAN CAR CORP.; THOMAS D. WILLIAMSON, CORPORATE ASSISTANT. VICE PRESIDENT FOR TRANSPORTATION, CONTINENTAL GRAIN CO., ON BEHALF OF NATIONAL GRAIN AND FEED ASSOCIATIONS. AND GLENN HOFER, VICE PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. SULLIVAN. As you well know, we are in the midst of a major transportation crisis in the United States today, primarily because of a rail car shortage. The impact of this rail car shortage will be felt primarily in the agricultural industries of this country and therefore the support for Senate bill 3326 by the U.S. Grain and Feed Association, the Fertilizer Institute, the National Association of Wheat Growers, the U.S.-Mexico Chamber of Commerce, the U.S. Chamber in Mexico, and ourselves, North American Car Corp., the largest private car company in the United States.

We have found that three primary factors have caused the current shortage. One, the cyclic nature of the agricultural industries themselves, coupled with the increased amount for coal cars to meet this country's ever-increasing energy needs.

Second, the boxcar retirement in the United States has reached major proportions. The boxcar fleets that have been used to haul grain in this country are being phased out in a very rapid rate and we lack the rail car manufacturing capacity to fill the demand void left.

And then, Government regulation has impacted the situation.

In agricultural this fall, we are going to see large amounts of grain unable to make its way to the market in an expedient fashion. We are going to see problems within the railroad industry itself at a time when the railroads are making an economic comeback and they can least afford a negative impact.

We are going to see some impact on the future of jobs and employment in this Nation. I think this is probably why the Iron and Steel Institute has gone on record recommending that we resolve this problem in the railcar industry as soon as possible, and the American Association of Railroads themselves do not oppose this bill.

And, as we move in the direction of coal to solve—further in the direction of coal to solve this Nation's energy needs, as we have legislation now pending before Congress, we are going to increase the demand for coal cars in this country from 7,000 cars annually up to 14,000 cars annually.

We have a crisis of major proportions developing in this country, only the first impact to be felt this fall.

We are supporting Senate bill 3326 for many, many reasons, but not the least of them is to make sure that this type of problem is resolved, the shortage is resolved, as soon as possible. We feel it requires emergency legislation.

Senator RIBICOFF. If we pass this bill, how many additional freight cars do you think we can import every year?

Mr. SULLIVAN. We need approximately 2,000 per year for the next 4 to 5 years, just to meet the demand that cannot be filled by American manufacturers.

Senator RIBICOFF. How many do you think the foreign manufacturers can supply?

Mr. SULLIVAN. They can supply fully the 2,000 a year if they get the authority to do so.

Senator RIBICOFF. How does the present system militate against this supply?

Mr. SULLIVAN. As you know, Mexico has a special class for importing railcars. Because of the automatic 50-percent quota that was enacted, the 18-percent duty is imposed on those cars and makes it a less economic decision—essentially, a non-economic decision—to get the cars from Mexico which we need badly here.

Senator RIBICOFF. We are not only hurting the Mexican economy but the American economy. Thank you very much, sir.

[The prepared statement of Mr. Sullivan follows:]

STATEMENT OF DR. GLENN H. SULLIVAN, CHIEF ECONOMIC COUNSEL, NORTH AMERICAN CAR CORP.

SUMMARY

North American Car Corporation comprises the railcar entity of Tiger International, a U.S. firm with substantial commitments to the transportation industries. North American Car Corporation is among the major suppliers of railcars for the covered hopper car market, with the domestic agricultural industries comprising our largest commitment.

In recent months we have witnessed considerable national debate concerning the problems that exist in the rail transport of agricultural commodities.

We, at North American Car Corporation, have assessed the aforementioned problem and have concluded that no single market force can be cited as the primary cause of the current railcar shortage.

The current railcar shortage appears to have arisen primarily from abnormal conditions in the agriculturally related industries. The cyclic nature of the agricultural industries, coupled with increased railcar demand pressures in other industry segments, has created a railcar shortfall that will likely continue for 3 to 5 years. Increased agricultural commodity production, coupled with an increased demand for railcars in the coal industry to meet critical national energy needs, can be cited as a principal case-in-point leading to the current shortfall situation.

The current railcar shortage has been further heightened by the accelerated phasing-out of boxcars owned by railroads and private railcar companies. The use of boxcars for the transport of agricultural commodities has been marginally economic for several years.

Regulations governing the import of foreign made railcars have substantively compounded the current shortfall problem in the United States. Mexican railcar manufacturers have the capacity to meet the current shortfall needs of domestic shippers, at least on a short-term basis, if given the authority. In 1977, Mexican manufacturers exported only $10.5 million worth of railcars to the United States (approximately 350 units). However, even at this low level of participation, the export of railcars to the United States was brought to a standstill in March 1978 due to the removal of the Generalized System of Preferences (GSP) allowed Mexico as a most favored trading partner. The GSP removal automatically imposed an 18 percent tariff on all Mexican railcars exported to the United States.

The management of North American Car Corporation therefore endorses S. 3326 in principle and recommends immediate legislative action. In this time of national emergency, we view S. 3326 as an attempt to resolve some of the aforementioned problems.

NORTH AMERICAN CAR CORP.,
Chicago, Ill.

STATEMENT

North American Car Corporation comprises the railcar entity of Tiger International, a U.S. firm with substantial commitments to the transportation industries. North American Car Corporation is among the major suppliers of railcars to the domestic economy, with nearly 50,000 cars in operation. The U.S. agricultural industries comprise our largest commitment.

In recent months we have witnessed considerable national debate concerning the problems that exist in the rail transportation sector of the U.S. economy. The Congress of the United States is to be commended for its efforts to date in seeking expedient solutions to the emergency needs of the rail transportation industries. Legislation to resolve the critical problems confronting these industries, including S. 3326, is now pending action before the Congress. It is our hope that Congress. It is our hope that Congress will not be content to end the current session without substantive legislative action to assure future stability in the transportation sector.

As we are all aware, a severe railcar shortage exists in the United States today. Our analysis of the problems clearly indicates that this situation will prevail through 1981. In our analysis, we found that no single market force and/or institutional factor can be cited as the primary cause of the current shortfall in railcars for domestic transportation needs, but rather the simultaneous adverse culmination of several factors.

First, the cyclic nature of the agricultural industries, coupled with increased demand pressures in other industry segments, has created long-term disruptions in domestic railcar scheduling and manufacture. Expanding agricultural commodity production, coupled with an increased demand for railcars in the coal industry to meet critical national energy needs, can be cited as a specific case-in-point leading to the current shortfall situation. Our forecasts indicate that the shortfall will extend at least through 1981, with aggregate domestic demand exceeding total domestic manufacturing capacity by nearly 2,000 railcars annually during this period.

Grain is the single most important food product in the world. America is the single most important supplier of grain to the world. Since 1965, total domestic production of corn, wheat, soybeans, oats, sorghum, barley, rye and rice has increased by 95 million tons. Exports for these same commodities increased 40 million tons during this same period. The North American share of the world grain market increased from 45 percent in the 1960's to nearly 55 percent in the 1970's. Our forecasts indicate that the North American share of the world grain market will increase to 63 percent by 1990. Although the United States currently represents 80 percent of all North American exports, future trade share will be significantly dependent upon the capability of the domestic transportation system to move grain from central production areas to port facilities for export. As nearly 65 percent of all grain shipments and 79 percent of all fertilizer shipments move by rail, the economic importance of seeking immediate solutions to the railcar shortage is incisively apparent.

Second, the current railcar shortage in the United States has been further heightened by the accelerated phasingout of boxcars owned by railroads and private railcar companies. The use of boxcars for the transport of agricultural commodities has been marginally economic for several years. To no small extent, the use of boxcars for the transport of grain has contributed to economic inefficiency in the rail transportation industries. Thus, the retirement of boxcar fleets from agricutural commodity transport should precipitate long-run economic benefits for the rail transportation industries. In the shortrun, however, accelerated boxcar retirement will compound the domestic shortfall situation for railcars. This added pressure will require the manufacture of approximately 2,200 additional new covered hopper railcars annually through 1983. Under normal industry conditions, the overall capacity of domestic railcar manufacturers is adequate to meet long-term domestic demand for railcars. This is particularly true for covered hopper railcars. However, under the current abnormal conditions within the industry, domestic manufacturers are not positioned to meet fully the aggregate short-run domestic demand for railcars.

Finally, the current railcar shortage has been compounded by government actions . . . or the lack thereof. In the former case, the issuance of regulations such as Interstate Commerce Commission Service Order No. 1304 has created

disruption in the utilization of railcars. Service Order No. 1304 requires that the carriers use no more than 20 percent of their ownership of jumbo covered hopper cars in unit train grain service. There is evidence to suggest that the 20-percent mandate is too restrictive to permit efficient grain transport, particularly under current industry conditions.

In the latter case, regulations governing the import of foreign made railcars into the United States have compounded the shortfall problems domestically. Mexican railcar manufacturers have the capacity and technical capability to meet the current shortfall needs of domestic shippers, at least on a short-term basis, if given the authority. In 1977, Mexican manufacturers exported only $10.5 million worth of railcars to the United States and purchased nearly $800 million worth of agriculturally related commodities from the United States. However, even at this favorable level of trade, the export of railcars to the United States was brought to a standstill in March 1978 due to the removal of the GSP (Generalized System of Preferences) status allowed Mexico under Section 504 of the Trade Act of 1974, withdrawal of the GSP automatically raised the duty on railcars from Mexico 18 percent ad valorem, effective March 3, 1978, and removed the incentive for American railcar suppliers to seek relief from the domestic shortfall, at least on a short-term basis, through Mexican manufacturers. We, at North American Car Corporation, were victims of the aforementioned regulatory actions, and we will not likely continue to seek solutions to the railcar shortages in the United States . . . through Mexican manufacturing interests . . . unless trading equity is reestablished, through reinstatement of Mexico's GSP status. We believe that we were, in effect, unduly penalized for taking a leadership role in seeking solutions to the current rail industry crisis, even though purchase orders were completed prior to the March 3rd effective date and our actions were consistent with United States policy in cooperating with Mexico as a most favored trading partner.

Mr. Chairman, the management of North American Car Corporation endorses Senate bill 3326 and recommends immediate legislative action. The domestic food industries are the foundation of America's prosperity . . . employing nearly 8 million people in production and millions more in related industries. The future of our domestic rail transportation system will impact substantively the prosperity and economic welfare of all Americans in the decades ahead. At a time when this nation's railroads are regaining economic position, we can ill afford to neglect the potential negative impact of the current railcar shortage in the United States.

Senator RIBICOFF. Next in S. 3329. Mr. McIlhenny.

STATEMENT OF EDMUND McILHENNY, JR., ASSISTANT SECRETARY, McILHENNY CO.

Mr. MCILHENNY. Mr. Chairman, my name is Edmund McIlhenny, Jr., and I am the assistant secretary of the McIlhenny Co., at Avery Island, La., and I am here to speak on S. 3329, a bill to relieve the tariff on ground red peppers and salt.

We have been growing a special red pepper for the last 110 years and we picked the pepper; the same day that it is picked we grind it, mix it with salt, put it in a white oak barrel and we age it for use in our Tobasco brand pepper sauce.

Unfortunately, we have been finding it increasingly difficult to locate these peppers to buy them for our use.

Senator RIBICOFF. I am curious; Where do you import them from? Where are you raising them?

Mr. MCILHENNY. We are growing peppers in Venezuela, Colombia, Honduras, Guatemala, and in Mexico.

Senator RIBICOFF. Why do not the U.S. farmers raise these?

Mr. MCILHENNY. It is a very specialized item. It is very hard to grow, and it is almost impossible to pick. It is all hand labor to pick it. We are a small company and we are working on a mechanical pepper picker and we still classify as experimental.

Senator RIBICOFF. I have been using Tabasco sauce for many years, and this is the first time that I realized what it was all about.

Mr. MCILHENNY. I hope you continue to use it.

Senator RIBICOFF. I think it is something worth saving—American gastronomy.

Mr. MCILHENNY. We are not claiming that if we do not get this bill passed that we will go out of business, but quite honestly, we feel the tariff falls within a basket tariff just on peppers.

Senator RIBICOFF. I am curious. How many bottles of that Tabasco Sauce do you sell a year?

Mr. MCILHENNY. I would say roughly 30 million.

Senator RIBICOFF. 30 million? It seems to me that Tabasco lasts forever. You put one drop in a cocktail and the bottle never gets used up.

Mr. MCILHENNY. We are going to have to send you some recipes.

Senator RIBICOFF. I think we understand the situation, Mr. McIlhenny. Thank you.

Mr. MCILHENNY. Thank you.

[The prepared statement of Mr. McIlhenny follows:]

STATEMENT OF EDMUND MCILHENNY, MCILHENNY CO.

Our company has been growing a special variety of pepper for our use since 1868. Within the last fifteen years, in order to keep up with production of our pepper sauce, we have been forced to grow this pepper outside of the United States. The ripe red peppers are mixed with salt and are ground or macerated the day they are picked. The "mash" is then put in white oak barrels for aging. At that point, the peppers are ready for shipment to our plant in the United States. This mash is then aged in warehouses on Avery Island, Louisiana until judged by a member of the McIlhenny family to be properly mellowed and cured for use in TABASCO brand pepper sauce.

We estimate that less than 600 acres a year of the special variety of pepper we use in our mash is being cultivated in the United States. Of that amount we have grown as much as half. The special pepper "mash" is not offered for sale in the United States by any individual or business entity. Our company stands ready to purchase any mash made with our special variety of peppers and which we judge to be a suitable quality and within reason as to price. We feel that the duty we are forced to pay on some of the pepper mash we import was not meant to protect this very specialized product and industry. The revenues involved were approximately $20,000 in 1977 as far as our company is concerned.

Senator RIBICOFF. House bill 8222, relating to imported watches, is now before the Committee on Ways and Means. Although it is not listed for hearings today, we have received testimony on the bill. We will include the testimony in the record today so that the Finance Committee can consider it, if and when the bill is referred to the committee.

Are there comments from anyone in this room regarding the legislation on watches covered in H.R. 8222?

Yes, sir?

Would you like to come forward and comment on it?

STATEMENT OF EMILIO COLLADO, NEUMEIER ASSOCIATES, GOVERNMENT RELATIONS CONSULTANTS TO THE AMERICAN WATCH ASSOCIATION

Mr. COLLADO. Senator, my name is Emilio G. Collado III. I am with Neumeier Associates, Government Relations Consultants to the American Watch Association, which has filed the statement that you have.

Senator RIBICOFF. The entire statement will go into the record. We will supplement it by your testimony when H.R. 8222 is referred to the committee. If there is any testimony in opposition, opportunity should be given to any other witnesses to testify.

You may proceed.

Mr. COLLADO. The use of headnote 3(a) of the tariff schedules is providing a duty-free privilege by which the Soviet Union has found a way to circumvent the tariff policy established by the U.S. Congress by shipping watch assemblies to certain U.S. possessions, the Virgin Islands and Guam, and selling them at unrealistically low nonfree market prices, then by assembling them into a watch movement with a de minimis amount of labor and reshipping them to the United States.

The Soviets have not only been able to avoid the higher column 2 duties required of countries not designated most-favored-nations by Congress, but they have been able to avoid having to pay any duty at all on these watches.

This circumvention of the U.S. tariff laws threatens to destroy the existing Virgin Islands watch industry including putting many of our members who are in the Virgin Islands out of business. It gives the Soviet Union a sizable share of the U.S. watch market and produces severe injury to the Virgin Islands industry itself.

Our association testified in July of last year before the Vanik Trade Subcommittee on the House side. The subcommittee suggested that we seek an administrative solution. We have been striving since then through the Commerce Department, which administers the headnote 3(a) program and the Interior Department, Customs Service, and other agencies, to seek such a solution.

At this point in time, we have been unable to find a solution although some gradual efforts have been made. Our members are concerned that if they do not relief in time for the 1979 calendar year they are either going to be put out of business or forced to find other alternatives.

Senator RIBICOFF. How many of these watches come in?

Mr. COLLADO. The data that we have are in terms of dollar value instead of units. The Commerce Department collects it in dollars and in 1974, only $200,000 worth of these watches came in. As of last year, the Commerce Department figures were over $2 million, a thousandfold increase—I am sorry. A tenfold increase, 1,000 percent.

Our concern is that the administrative approach has so far not gotten off the ground and we are hoping that perhaps a congressional legislative solution can be found for this.

Senator RIBICOFF. Have they finished their hearings?

Mr. COLLADO. There were hearings a year ago, then some additional hearings about 2 weeks ago.

Senator RIBICOFF. Have you had hearings before the Ways and Means Committee?

Mr. COLLADO. They have held hearings. They finished them. They have marked up the bill.

Senator RIBICOFF. They have not acted on it yet?

Mr. COLLADO. In the subcommittee, yes. They approved a bill.

Senator RIBICOFF. But it has not gone to the full committee?

Mr. COLLADO. That is correct.

Senator RIBICOFF. We understand. Thank you very much. Your entire statement will go into the record as if read.

[The prepared statement of Mr. Collado follows:]

STATEMENT OF EMILIO G. COLLADO III, NEUMEIER ASSOCIATES

CIRCUMVENTION OF U.S. TARIFF LAWS BY THE SOVIET WATCH INDUSTRY

Discussion of the problem and proposal

Through the use of the General Headnote 3(a) duty-free privilege[1] which is intended to benefit the economies of the U.S. insular possessions, the Soviet watch industry has found a way to circumvent the tariff policies established by the United States Congress. By shipping watch subassemblies to certain United States insular possessions (the Virgin Islands and Guam), selling them at unrealistically low non-free market prices, assembling them into watch movements with a *de minimis* amount of labor, and then reshipping them to the United States, the Russian watch industry has not only been able to avoid higher Column 2 duties, required of countries not designated most-favored nations by Congress, but they have been able to avoid having to pay any U.S. duty at all.

This circumvention of the United States tariff laws deprives the U.S. watch industry of domestic markets, threatens to destroy the existing Virgin Islands watch industry, gives the Soviet watch industry a sizeable share of the United States watch market and does severe injury to the Virgin Islands economy. Repeated attempts to solve the problem administratively have failed. Only Congressional action of the type suggested below can resolve this serious problem.

Reluctance of Russians to pay Column 2 duties and import watches directly into the United States

The Soviet Union has never shipped many watches or watch movements directly to this country because of the Column 2 tariff rates which the U.S. levies against Soviet products. During 1976, the only Soviet direct watch exports to the U.S. were 1,000 watch movements that entered under TSUS Item No. 716.11 (zero to one jewel) at a value of $3,265 or $3.27 a unit.

Dramatic increase in entry of duty-free Soviet watches into the United States

The increase over the last few years in the number of Soviet watches "assembled" in the Virgin Islands and then shipped to continental U.S. markets duty-free is staggering. Between 1947 and 1977 alone the value of Russian movements entering the United States duty-free from the Virgin Islands has increased more than 1,000 percent ($200,000 to more than $2 million). By 1977, the Soviet watch movements accounted for a full 18 percent of the entire watch production in the Virgin Islands.

Most, if not all, American concerns operating in the insular possessions are convinced that unless something is done to stem the Russian tide, they will be put out of buiness and the Soviet watch industry will have complete control of watch production in the insular possessions which by law amounts to 1/9 of the entire United States market or approximately 8,000,000 units in 1977.

Nonmarket determined prices of Russian watch movements

Users of Soviet watches are achieving a take-over of the insular possessions watch industry by pricing their watch movements far below the prices for movements of comparable size and jewel count available from any U.S. or other free-market supplier. They are able to do this because of the non-market determined prices at which Russian watch subassemblies are sold in the insular possessions.

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[1] General headnote 3(a) allows for products to be imported duty-free from U.S. insular possessions—the Virgin Islands, Guam and American Samoa—whenever the value of foreign parts or materials contained in the merchandise represents no more than 70 percent of the landed value of the goods in the United States. This means that if a Virgin Islands watch operator imports parts worth $4.00, he must be able to sell the completed movement in an arm's length transaction in the U.S. for at least $5.71. General headnote 3(a) became part of U.S. trade law under the provisions of P.L. 83-768, the Customs Simplification Act of 1954. Watch assembly operations commenced with the shipment of 5,000 units from the Virgin Islands in 1959. However, under the shelter of the very high escape clause duties then in effect, they mounted rapidly thereafter. By the middle 1960's, duty-free shipments from the insular possessions had increased to the point where they were threatening to undermine the stability of the U.S. watch market. As a result, Congress in 1966 enacted legislation restricting duty-free insular imports to one-ninth of U.S. apparent consumption during the immediately preceding calendar year. One-ninth of U.S. apparent watch consumption for 1977 is approximately 8 million units.

The fact that there is no free-market determination of Russian pricing techniques and the fact that Column 2 rates (which prevent the penetration of U.S. markets by artificially-priced goods of certain countries) can now be circumvented have given the Soviet watch industry a free hand to price their watch parts and subassemblies at a low enough level to make competition by any free-market economy impossible. These tactics permit watches assembled from Russian components to rapidly penetrate a relatively new market for the Russians such as the United States, thereby depriving the domestic watch industry of its traditional markets.

The price advantage to the users of Russian-origin subassemblies and parts is magnified by the operation of Headnote 3(a). A movement assembled from Russian parts may cost at most $3.25 per unit; whereas, equivalent movements from free-world suppliers cost not less than $4.00 a unit. Under the General Headnote 3(a) program, the $3.25 movement can be sold in the United States for as little as $4.65. The $4.00 movement, on the other hand, must be sold for at least $5.71. What begins as a 75-cent advantage for the Soviets becomes a $1.06 advantage under the statute. Coupled with the 9-to-1 labor advantage enjoyed by the low-labor firms, users of Russian watches can undersell their high-labor competitors by a very wide margin and still make a larger profit.

Unwillingness of the Russians to engage in meaningful assembly operations in the insular possessions

In addition, the Soviets have been able to undercut their competition in the insular possessions by engaging in only limited assembly operations there. Whereas, a high-labor concern, in compliance with the intent of the Headnote 3(a) program, is currently engaged in complex assembly operations in the insular possessions, the low-labor firms using Soviet movements "assemble" watches by combining a few pre-assembled subassemblies with generally not more than two or three screws. Instead of the 90 cents to $1.25 in local labor per watch movement added by most high-labor firms, the low-labor firms frequently add only 6 cents in local labor value to each watch movement.

What is more, even this miniscule amount of assembly in the insular possessions may be a sham. There is reason to believe that the Russian movements are totally assembled in Russia (for technical and economic reasons) and then slightly disassembled in the Soviet Union or elsewhere so that they can supposedly be "assembled" in the U.S. insular possessions and thereby qualify for duty-free entry into the United States.

Detrimental effects to the Virgin Islands economy as a result of the success of the Soviet watch industry

As the Soviets continue to ship more duty-free watch movements through the insular possessions to the mainland and thereby destroy the high-labor watch producers in the Virgin Islands, they are drastically reducing the number of watch-related jobs in the economies of the insular possessions. The Commerce Department reports that the number of employees in the Virgin Islands' watch industry declined from 1,193 in 1973, when the Russian shipments first began to surge, to 914 in 1977. A low-labor firm using Soviet-origin movements, must manufacture nine times as many watch movements to provide the same amount of territorial employment as a high-labor firm. Because the Congress has seen fit to limit the number of watches that can be imported duty-free into the United States to 1/9 of the overall watch consumption in the United States, the Soviet watch industry in the insular possessions cannot under existing law ever produce enough duty-free watches to provide the same employment presently being provided by the high-labor firms.

Need for amendment to headnote 3(a)

Clearly, the Congress never intended the insular possessions quota system to be exploited by a country seeking to ship the vast majority of its U.S.-bound exports past American tariffs. Nor did it intend the system to have the paradoxical effect of discriminating against our closest trading partners, who enjoy most-favored-nation treatment, in favor of countries such as the U.S.S.R. which must pay the higher duty rates of Column 2. The benefits of duty-free treatment are obviously greater for Column 2 countries than for countries enjoying the lower rates of Column 1. However, that is exactly what has happened in the Virgin Islands and Guam under General Headnote 3(a). It is, at best, ironical that the Soviet Union has been able to penetrate the U.S. market with duty-free watches at the same time that the House Ways and Means Committee and Con-

gress as a whole established substantial conditions on trade with that country through the provisions of Title IV of the 1974 Trade Act, the Export-Import Authorizations Act and other statutes.

For more than a year, members of the House Subcommittee on Trade have waited for the Commerce Department and the Customs Service to solve this problem. Distressed by the glacially slow progress of these agencies, as well as the ever-increasing take-over of the watch industry in the Virgin Islands by low-labor firms marketing Soviet movements, the Subcommittee on July 17 of this year unanimously adopted an amendment proposed by Representative Dan Rostenkowski (D.-Ill.) to a bill by Virgin Islands Delegate Ron de Lugo, H.R. 8222. This amendment attempts to resolve the Soviet watch problem by requiring that for a watch movement to obtain a Headnote 3(a) duty-free treatment, it must be assembled in the insular possessions from at least 25 discrete parts.

The Rostenkowski amendment is clearly a step in the right direction. Unfortunately, however, if enacted, it is apt to be effective only temporarily in resolving the Russian watch problem.

The Rostenkowski amendment will almost certainly cause low-labor firms to stop their present "two- or three-screw" operations. Nevertheless, the enormous Soviet watch industry is undoubtedly capable of altering its operations so that it can meet the 25-part test in short order and still undercut the higher labor concerns. Compliance with this test in no way causes the Russians to engage in fair free-market pricing of watch movements. On the contrary, the Russians can be expected to adjust their prices to continue to take advantage of Headnote 3(a) to leapfrog over Columns 1 and 2 of the tariff schedules in order to penetrate the U.S. watch market with duty-free merchandise.

In addition to reliance on a 25-parts test to stop the Russian take-over of the insular possessions watch industry, the circumvention of the United States tariff laws by the Soviet Union and traders of its products should be dealt with directly. Neither the tariff laws themselves nor applicable legislative history suggest that Headnote 3(a) was meant to provide a springboard for Column 2 countries to export their watches to the United States duty free. On the contrary, this appears to be a disturbing contradictions of Congressional intent in repeatedly refusing to apply most-favored-nation treatment to the Soviet Union.

Proposal

Accordingly, the following proposals provides that the watch products of Column 2 countries would be prohibited from obtaining duty free treatment under Headnote 3(a). Headnote 3(a) of the TSUS, 19 U.S.C. § 1202 headnote 3(a), should be amended by adding the following subsection:

"(iv) No watch or watch movement containing any parts manufactured, assembled or otherwise processed in a country, all or some of the goods of which are subject to the rates of duty set forth in column numbered 2 of the schedules, shall be exempt from duty under this headnote 3(a), and any such watch or watch movement shall be subject to the rates of duty set forth in column numbered 2 of the schedules."

Senator RIBICOFF. The subcommittee will stand adjourned.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

[By direction of the chairman the following communications were made a part of the record:]

STATEMENT OF SENATOR BENTSEN FOR THE FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE HEARINGS, JULY 31, S. 3326

Mr. BENTSEN. Mr. Chairman, I regret that I am unable to appear personally to testify on behalf of S. 3326, a bill to suspend duty on imported freight cars, which has been co-sponsored by Senators Dole, Curtis, and Javits.

I think the requirement for legislation of this sort is by now apparent; the testimony and the statements submitted before your Subcommittee today should shed new light on our urgent need for freight car capacity.

I would, however, like to state for the record that when S. 3326 comes to mark-up, I shall consult with my co-sponsors to propose two amendments to the legislation.

First, in deference to the concerns of domestic producers, I am prepared to make this a two year bill, i.e. to suspend duty on freight cars until June 30, 1980 rather than 1982 as now proposed. I assume that we could take another look at the situation at that time and determine whether further suspension is in our national interest.

Second, I think S. 3326 can be improved by eliminating the possibility of any firm raking in windfall profits as a result of this legislation. Accordingly, I shall propose an amendment that makes the suspension of duty applicable only to contracts entered into prior to March 1, 1978 (when GSP prevailed) or after date of enactment. Any foreign firms that contracted for cars between March 1 of this year and the date of enactment, on the assumption that the cars would be dutiable at 18%, would not benefit from the provisions of S. 3326. I am not aware of any contracts of this nature, but I believe this potential loophole should be closed and I would like to express my appreciation of Congressman Fithian of Indiana who brought this matter to my attention.

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 31, 1978.

HON. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade, Senate Finance Committee, Washington, D.C.

DEAR MR. CHAIRMAN: I learned this afternoon that hearings on H.R. 7108, a bill I introduced earlier this year to suspend the tariff on "Yankee Dryers", were held this morning before your subcommittee. I was never informed that hearings on the bill had been scheduled, nor were interested individuals from the Scott Paper Company in my Congressional district. As a result, neither I nor Scott Paper officials made an appearance at the hearings to present testimony in support of the bill.

I am writing to advise you that, despite the "no-show" this morning, support for H.R. 7108 remains very strong. Had I been aware of the hearings, I can assure you that I would have been before your subcommittee this morning.

I am enclosing a copy of the testimony presented by Peter Miller, Director of Government and Community Relations for Scott Paper Company, at the May 3 hearings on H.R. 7108 before the Ways and Means Trade Subcommittee. Also enclosed is a copy of a brief written statement that I presented to the subcommittee. As you may know, the Department of the Treasury, the Department of Commerce, and the U.S. International Trade Commission have all indicated that they support the bill as amended by the Ways and Means Trade Subcommittee on June 28.

I hope that this information is helpful to you. Should you have any questions about H.R. 7108, please do not hesitate to contact me. Your interest in this matter is appreciated.

Cordially,

ROBERT W. EDGAR.

Enclosure.

STATEMENT OF CONGRESSMAN ROBERT W. EDGAR IN SUPPORT OF H.R. 7108

Mr. Chairman, because of prior commitments in the Public Works and Transportation Committee, I am unable to present oral testimony today in support of H.R. 7108, a bill I introduced last year to temporarily suspend the tariff on Yankee Dryer cylinder rolls. However, I would like my statement included as part of the hearing reacord on this bill.

A Yankee Dryer is a cylinder used in the paper industry in the drying and finishing of various grades of paper. The tariff on Yankee Dryers was implemented some time ago in order to protect domestic manufacturers of this equipment. However, the last shipment of domestically produced Yankee Dryers was shipped out on the approximate date of August 31, 1975, by a manufacturer in Newport News, Virginia. There are no longer any domestic producers of this piece of equipment. H.R. 7108 would provide that the tariff be suspended retroactively to August 31, 1975.

H.R. 7108 specifies a termination date for the tariff suspension of December 31, 1977. Since the bill was not considered last year, it will be necessary for this termination date to be changed to an appropriate date at the Subcommittee's discretion. I would suggest a date of December 31, 1980, or December 31, 1981, which will provide some relief to our domestic paper industry while maintaining the temporary nature of the suspension.

I am pleased that Peter Paul Miller, Director of Government Relations for Scott Paper Company, a major employer in my Congressional district, is able to appear today to testify on the merits of this bill.

Thank you, Mr. Chairman, for your interest in this issue.

STATEMENT PREPARED FOR THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS AND MEANS COMMITTEE, MAY 3, 1978

I am Peter P. Miller, Jr., Director of Government and Community Relations for the Scott Paper Company headquartered in Delaware County, Pennsylvania. Scott Paper Company is one of the largest manufacturers of sanitary tissues and towels and has seven plants around the country using papermaking equipment that requires the Yankee Dryer cylinders which are the subject of H.R. 7108. This legislation applies to all users of Yankee Dryer cylinders, whether they are making sanitary tissue or other grades of paper requiring a glazed finish.

The manufacture of sanitary tissue grades requires dryer cylinders to dry the paper and finish it with a uniform creping. The cylinders range in diameter from about 10 to 18 feet, are steam heated and have shells of two to three inches made from metals that provide high strength and high conductivity. Normally, the cylinders must be customized to each paper machine, and their useful life varies depending in the interplay of numerous factors in manufacturing operations.

Yankee Dryers normally have been purchased in the United States, but in mid-1975 the last remaining producer, Newport News Shipbuilding Company, stopped production. It is our understanding that this was due primarily to projected costs of compliance with Environmental Protection Agency regulations on air quality. This decision forced users of Yankee Dryer cylinders to seek suppliers in other countries, primarily West Germany, the United Kingdom and Sweden. Since there are no longer any domestic manufacturers who might need protection from foreign competitors and since there are no known prospects for the reappearance of domestic producers of these dryers, we believe that the customs duties should be suspended as proposed in H.R. 7108.

I previously supplied the Trade Subcommittee staff with the results of a survey conducted by the American Paper Institute (API) to determine the number of Yankee Dryer cylinders expected to be imported from September 1, 1975 through December 31, 1981. This information, together with the landed value including tariff, is listed below for each year:

Year	Number of Yankee dryers	Value including tariff and landed port costs
1975 (4 mo)	1	$344,000
1976	8	3,130,000
1977	12	5,875,000
1978	9	4,800,000
1979	8	5,135,000
1980–81	19	12,300,000
Total	56	31,584,000

The forecast for 1980–81 has been grouped together because API advises that respondents were unable to identify precisely when during that period replacement cylinders will have to be purchased.

I would like to conclude with two comments on H.R. 7108. On the matter of retroactivity, the date of August 31, 1975 was selected because it relates to the Newport News Shipbuilding cessation of dryer production. My other comment concerns the date through which the suspension would be effective. The date of December 31, 1977 was used when this subject was first discussed in 1976. Clearly a new date is needed, and our recommendation is that it be December 31, 1981. This would provide an opportunity and time for a new Congress convening in January 1981 to review the state of domestic manufacture of this equipment and consider the desirability of continuing the tariff suspension.

Mr. Chairman, this concludes my statement and I would be happy to try to answer any questions you may have.

STATEMENT OF HON. RICHARDSON PREYER, SIXTH DISTRICT, NORTH CAROLINA

Mr. Chairman, I thank you for the opportunity to speak to the written record today about legislation I have sponsored in the House which would suspend until June 30, 1980 the duty on certain nitrocellulose imported into the United States. This legislation has been reported out of the House Ways and Means

Committee and will be before the full House soon. I hope the Senate Finance Committee will give quick action also.

Nitrocellulose is the basis for a large number of fast drying, durable lacquer coatings and is used for automotive refinishing, for primers, and other fast drying coatings for metals and plastics. It is also used for nonfurniture wood finishes, paper coatings, and many novelty coatings. However, one of the principle uses for nitrocellulose, and one for which there is no substitute is the manufacture of finishes for wood furniture. It is vital to the furniture manufacturers of North Carolina and the nation.

The need to suspend the import tariff on this product has resulted from the termination of manufacture by the E. I. Du Pont de Nemours & Co., Inc., one of only two domestic suppliers of nitrocellulose. The other supplier, Hercules, Inc., has indicated that it is going to do everything possible to help meet the demand but acknowledges that it will take some time to expand their production. In the interim, companies that use nitrocellulose have had to import the item at a higher cost to them due to the 9.7 cent per pound duty. Eventually, this higher cost will be reflected in the selling price of their products. The price increase would alter substantially the competitive stance in the market place for paint and coating manufacturers. A suspension of the tariff would provide the necessary time to allow Hercules to make decisions on expanding production and permit time for other domestic manufacturers to enter the market without an inflationary period of adjustment.

Again, I appreciate this opportunity to speak to the written record and I urge the Senate Finance Committee to approve the legislation for consideration before the full Senate.

STATEMENT OF HON. FLOYD FITHIAN, A REPRESENTATIVE FROM THE STATE OF INDIANA

Mr. Chairman, I welcome the opportunity to testify before the Subcommittee on International Trade in support of S. 3326, introduced by Senators Lloyd Bentsen, Robert Dole, and Carl Curtis. I have introduced a similar bill, H.R. 13616, on the House side with some modifications.

I believe that you are all well aware of the serious problems caused by the current shortage of railroad freight cars, hopper cars, and other rolling stock. Last year at this time, our country had a small surplus of hopper cars; now the railroad shortage has reached more than 28,500 railroad cars *per day*, including a shortage of 5,200 freight cars and 16,635 hopper cars daily. Analysts expect the shortage to worsen during the fall harvest and remain difficult in the foreseeable future (up to 1985). This shortage is crippling our ability to transport grain, cotton, and other agricultural commodities and to ship bulk products such as the fertilizer needed by American agriculture.

Even working at full capacity, it would appear that American producers are unable to meet the escalating demand for freight and hopper cars. American steel companies such as Bethlehem have about a one-year backlog of orders from the rail industry. There are numerous reason for American industry's inability to meet this demand for cars.

The causes of the car shortage are complex and diverse. Part of the difficulty has been experienced in loading and unloading cars, as a result of which turnaround time has sharply increased. Poor track conditions have significantly affected the delivery of agricultural products. More cooperation between railroads and an accelerated transfer policy are needed. Severe winter storms have damaged track, slowed shipments, and resulted in higher incidents of maintenance (about 50%). The coal strike has caused a shift of locomotive power to long-distance unit trains from coast to coast, adversely affecting grain shipments. The number of bad order cars has more than doubled since 1968, increasing from 3% to 6.5% by 1978. The unseasonal shipments of grain, especially corn and wheat, this last spring have coincided with increased demand from fertilizer shippers and other bulk commodities. The Interstate Commerce Commission's inability to enforce its service orders has exacerbated problems. Thus, the present shortage has grown from various factors and has no simple, single solution.

In Indiana the car shortage is already severe. Our state Agricultural Stabilization and Conservation Service office surveyed all Indiana grain elevators on the impact of the car shortage last month and found that:

1. Indiana Farm Bureau's Grain Division reported that their main elevator in central Indiana is not receiving cars and that they are short 1,000 hopper cars per month.

2. Some elevators are closed from three to seven days per week because they can't move the grain now on hand, and their bins are full.

3. Many elevators have given up on moving grain by rail and are now having to ship by truck—something which we must watch with concern as we consider energy use, since railroads use less than one-third as much fuel as trucks, on the average, to move big loads.

4. One elevator manager estimated that the total impact on his farm customers as a result of the car shortage was 25 to 30 cents per bushel.

We all know what elevator operators do when they face late delivery charges or extra interest on extended loans or when they can't fulfill a contract. Their losses are passed along to farmers. Indiana farmers are losing about a dime a bushel on corn right now as a result of the hopper car shortage, according to the best estimates I've been. That reduces farm buying power and affects the entire rural economy.

In the past, the United States has imported freight and hopper cars from Mexico and Canada, with Mexican cars being duty-free under the Generalized System of Preferences (Section 504 of Trade Act of 1974). When Canadian sources failed due to their domestic shortages, Mexico became the sole source of imports.

Until March 1, 1978, freight and hopper cars from Mexico entered the United States free of duty. U.S. imports of cars from Mexico amounted to U.S. $10.5 million in 1977. The Mexican exporters had no way of realizing that these imports constituted more than 50% limit per country of the total imported in this category. On the basis of an automatic application of Sec. 504 of the Trade Act of 1975, the United States withdrew GSP treatment and raised the duty to 18% ad valorem, effective March 1, 1978. The U.S. government informed Mexican authorities of the elimination of GSP only shortly before publication of the new GSP list and after Mexican producers had signed contracts with American purchasers for delivery in 1978 of U.S. $31.7 million worth of gondolas and hoppers, FOB, El Paso, Texas.

Both S. 3326 and H.R. 13616, the similar House bill, would exempt Mexican freight and hopper cars from this 18% ad valorem duty for four years, with an effective date of suspension retroactive to March 1, 1978, with some conditions.

Prior to March 1, 1978, Mexican freight and hopper cars were accorded BSP treatment, so this legislation is no new departure in international trade. In the context of the multi-lateral trade negotiations, the United States has also offered to lower freight car duties for Mexico gradually to 7.5% by 1982. When the provisions of this legislation terminate, Mexican cars will be dutiable at that rate.

There is one significant difference between H.R. 13616 and S. 3326. The House bill's language eliminates the potential for any windfall profits to accrue to companies purchasing Mexican freight and hopper cars. All contracts negotiated and concluded prior to March 1, 1978, without the knowledge that GSP's 18 percent ad valorem tariff would be applied, would be granted a retroactive exemption. Those contracts negotiated and concluded between March 1, 1978 and the enactment of this legislation, with full knowledge of the 18 percent add-on, would not be exempt from duty. Therefore, no American company would receive any windfall profit as a result of this legislation. I respectfully urge this Subcommittee on International Trade to add the appropriate language in H.R. 13616 to S. 3326, and retain this language in the House-Senate conference committee.

In recent years, the United States, Canada, and Mexico have established an integrated rail system with standard rail equipment. Mexican cars are built to the standards of the American Association, the Federal Railway Administration, and the Interstate Commerce Commission. This facilitates the interchange of cars and equipment across the border.

Units sold in the United States market have a high proportion of parts produced in the United States or under licensing arrangements. Nearly half of the value of the 1977 exports were U.S. products, and it would be expected to reach U.S. $23.6 million for the 1978 exports for a 56.8% of the total value. A close relationship exists between American and Mexican producers.

Imposition of this duty will be detrimental to the United States since it would reduce Mexican sales and thereby sharply decrease the volume of U.S. parts and U.S. licensed technology purchased by Mexico. Moreover, fewer cars will be available to meet the demand of the U.S. railroads and the growing group of freight car leasing companies. The unsatisfied demand is evidenced by the rental by U.S. railroads of 2,000 units from Ferrocarriles Nacionales de Mexico in

1977. The application of Sec. 504 risks disrupting the cooperation that exists today between U.S. railroads and the Mexican rail system. That cooperation is further evidenced by the fact that 9,000 U.S. units are operating in Mexico without import duty on the basis of a Mexican Government administrative ruling. Similarly, U.S. cars are permitted to carry freight from Mexico to the United States instead of returning empty to the U.S. All in all, this close cooperation has been beneficial to both countries.

The change from duty-free importation of freight cars to an 18% ad valorem duty is solely the result of an automatic application of a provision of the Trade Act and does not reflect hostility to these imports on the part of the U.S. industry or government.

It should be noted that easing the freight and hopper car shortage will help Mexico to obtain delivery of agricultural commodities already purchased in the United States. In 1978, estimated Mexican purchases of American agricultural products includes 1 million metric tons of soybeans, 800,000 of wheat, 500,000 of corn, 400,000 of sorghum, 90,000 of dry powdered milk, and various other products. The prospects are that Mexico will continue to be a market for American agricultural exports.

In conclusion, this legislation will foster better relations with Mexico, strengthen the Mexican economy, and serve our own best interests by helping, in part, to resolve the freight and hopper car shortage in the United States. The legislation will facilitate the movement of grains and other agricultural commodities, thus helping farmers and shippers. It will assist Mexico in obtaining delivery of tons of agricultural commodities already purchased in the United States. It will hold down the price of freight cars, resulting in a savings to American purchasers and consumers, without adversely affecting the American car production industry or the steel companies. Finally, it will generate continued American employment for suppliers of components for Mexican cars and stimulate the export of steel products. I believe that this legislation is mutually beneficial to both the United States and Mexico, and I respectfully urge your consideration of this legislation.

H.R. 13616

A BILL

July 27, 1978

Mr. FITHIAN (for himself and Mr. FINDLEY and Mr. VANDER JAGT)

To suspend the duty on freight cars until the close of June 30, 1982

Be it enacted by the Senate and House of Representatives of the United States of America assembled.

That subpart B of part 1 of the appendix to the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by adding, immediately after item 912.12, the following new item:

912.13	Freight cars (provided for in item 690.15, subpart A, part 6, schedule 6).	Free	No charge	On or before June 1, 1982.

SEC. 2. (a) The amendment made by the first section of this Act shall apply with respect to articles entered on or after date of enactment of this Act, provided that the contract for sale for any such article is concluded either before March 1, 1978 or after the date of enactment of this Act.

(b) Upon request therefore filed with the customs officer concerned on or before the ninetieth day after the date of enactment of this Act, the entry of any article—

(1) which was made on or after March 1, 1978, and before the date of enactment of this Act, and

(2) for which the contract for sale was concluded prior to March 1, 1978, and

(3) with respect to which there would have been no duty if the amendment made by the first section of this Act applied to such entry shall,

notwithstanding the provisions of section 514 of the Tariff Act of 1930 or any other provisions of law, be liquidated or reliquidated as though such entry has been made on the date of enactment of this Act.

UNITED STATES INTERNATIONAL TRADE COMMISSION

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE ON S. 2985, 95TH CONGRESS, A BILL TO AMEND THE TARIFF SCHEDULES OF THE UNITED STATES TO PROVIDE FOR AN INCREASE IN THE DUTIES ON IMPORTS OF POTATOES, AND TO REDUCE THE QUOTA FOR POTATOES SUBJECT TO THE LOWER OF THE TWO RATES OF DUTY

Purpose of the bill

S. 2985 would, if enacted, increase the rates of duty on imports of white or Irish potatoes and reduce the tariff-rate quotas for such potatoes. The bill would also eliminate the tariff distinction between certified seed potatoes and other white or Irish potatoes.

The bill would establish an annual tariff-rate quota of 100 million pounds on all imports of white or Irish potatoes which, if enacted, would unilaterally modify GATT-bound trade agreements with Canada. Imports up to that amount would be dutiable at a column 1 rate of 75 cents per 100 pounds and a column 2 rate of $1.50 per 100 pounds. Imports in excess of 100 million pounds annually would be dutiable at a column 1 rate of $1.00 per 100 pounds and a column 2 rate of $2.00 per 100 pounds.

The bill would also eliminate two TSUS provisions for preferential tariff treatment for white or Irish potatoes, other than certified seed potatoes, if the produce of Cuba and if entered during the period December 1 in any year through the last day of February in the following year, inclusive.[1]

Headnote 2 to subpart A of part 8 of schedule 1 would be deleted.[2]

The column 1 rate, as amended by S. 2985, would "be considered to have been proclaimed by the President as necessary or appropriate to trade agreements to which the United States is a party, and not as a statutory provision enacted by the Congress".

The provisions of the bill would become effective for potatoes entered or withdrawn from warehouse for consumption on or after the date of enactment.

Description and uses

The white potato is the most important vegetable crop grown in the United States. In this country potatoes are used primarily as human food (table stock potatoes) and, to a lesser extent, as seed stock and animal feed. Seed potatoes are usually selected grade potatoes mainly used for planting.

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[1] The "Cuban preference" provisions (TSUS items 137.26 and 137.29) are suspended and an embargo placed on imports of Cuban origin pursuant to General Headnotes 3(b) and 3(e).

[2] This headnote provides for an increase in the annual tariff-rate quota for white or Irish potatoes, other than certified seed potatoes, whenever domestic production of all white or Irish potatoes, including seed potatoes, falls short of 21 billion pounds, as estimated on September 1 each year by the U.S. Department of Agriculture. The increase in the annual tariff-rate quota would equal the "shortfall" in domestic production; i.e., the amount by which domestic production fell short of 21 billion pounds.

TARIFF TREATMENT: RATES OF DUTY APPLICABLE AS OF MARCH 1978

Item	Articles	Rates of duty (cents per 100 lb) (1)	(2)
	Potatoes, white or Irish:		
	Seed, certified by a responsible officer or agency of a foreign government in accordance with official rules and regulations to have been grown and approved especially for use as seed, in containers marked with the foreign government's official certified seed potato tags:		
137.20	For not over 114,000,000 lb entered during the 12-mo period beginning Sept. 15 in any year	37.5	75.0
137.21	Other	75.0	75.0
	Other than such certified seed:		
137.25	For not over 45,000,000 lb and such additional quantity as may be allowed pursuant to headnote 2 of this part, entered during the 12-mo period beginning Sept. 15 in any year	37.5	75.0
137.26	If products of Cuba and entered during the period from Dec. 1 in any year to the last day of the following February, both dates inclusive	[1] 30.0	
137.28	Other	75.0	75.0
137.29	If products of Cuba and entered during the period from Dec. 1 in any year to the last day of the following February, both dates inclusive	[1] 30.0	

[1] Cuban preferential rates are suspended.

The column 2 rates of duty are applicable to imports from certain countries or areas designated as being under Communist domination or control; imports from all other countries are dutiable at the column 1 rates. Imported fresh potatoes are not eligible for duty-free treatment under the Generalized System of Preferences.

Pursuant to a 1936 trade agreement with Canada, annual tariff-rate quotas were placed on imports of certified seed potatoes. A later trade agreement negotiated under the General Agreement on Tariffs and Trade (GATT) became effective January 1, 1948. This agreement increased the quota on certified seed potato imports, dutiable at 37.5 cents per hundred pounds (now TSUS item 137.20) from 90 million to 150 million pounds during each quota year beginning on September 15. This concession was renegotiated to limit the quota to 114 million pounds annually, effective September 15, 1957.

In a 1939 trade agreement with Canada, annual tariff-rate quotas were also placed on imports of table stock potatoes. Under the GATT, effective January 1, 1948, the time during which the first 6 million pounds of such potatoes could be imported in any quota year at the 37.5-cents-per-hundred-pounds reduced rate (now TSUS item 137.25) was expanded from the original March 1 to November 30 period to include the entire year. This concession was renegotiated effective September 15, 1957, to reduce the quota on imports dutiable at 37.5 cents per hundred pounds from 60 million to 36 million pounds annually. This agreement also established a new quota category for imports over 36 million pounds but less than 60 million pounds annually, dutiable at 60 cents per hundred pounds. On August 31, 1963, when the TSUS became effective, this latter quota category was eliminated and the 36-million-pound quota category was increased to 45 million pounds annually.

Headnote 2 to subpart A of part 8 of schedule 1 of the TSUS provides that whenever the U.S. Department of Agriculture estimates (as of September 1) that the domestic potato crop (including seed potatoes) in any calendar year will be less than 21 billion pounds, the quota imposed under TSUS item 137.25 for the next quota year will be increased by the amount by which domestic production will fall short of 21 billion pounds.

"2. For the purposes of item 137.25 in this part, if for any calendar year the production of white or Irish potatoes, including seed potatoes, in the United States, according to the estimate of the Department of Agriculture made as of September 1, is less than 21,000,000,000 pounds, an additional quantity of potatoes equal to the amount by which such estimated production is less than the said 21,000,000,000 pounds shall be added to the 45,000,000 pounds provided for in the said item 137.25 for the year beginning the following September 15. Potatoes, the product of Cuba, covered by item 137.25 or 137.26 shall not be charged against the quota quantity provided for in item 137.25."

Structure of the domestic industry

In 1974, about 33,000 farms reported sales of white potatoes. The bulk of domestic output is produced on relatively large farms. Eleven percent of the farms (having 100 acres or more in potatoes) produced 82 percent of the output in 1974 according to U.S. Census Bureau data. Many producers raise potatoes for both table stock and seed stock; separate data are not available. It is believed, however, that about 10 to 15 percent of the annual potato acreage harvested is devoted to certified seed potatoes.

The principal potato-producing states are Idaho, Washington, Oregon, Maine, and California. In 1976/77, these five states accounted for 63 percent of total domestic output.

Domestic production

During the marketing years[1] 1972/73 to 1976/77, annual U.S. production of white or Irish potatoes increased irregularly from 29.6 billion to 35.8 billion pounds (see Table 1) and averaged 32.4 billion pounds valued at $1.3 billion. Potatoes are harvested during each season of the year. Percentage shares of the total harvest of the 1976 crop, by season, are as follows:

	Percent
Fall	86
Spring	7
Summer	6
Winter	1

U.S. imports

During the period 1972/73 to 1976/77, U.S. imports of white or Irish potatoes ranged from 65 million pounds (1975/76) to 188 million pounds (1973/74), and averaged 111 million pounds valued at nearly $6 million. Virtually all imports were entered from Canada. During this period annual imports of certified seed potatoes did not surpass the tariff-rate quota of 114 million pounds in any quota year. Annual imports of certified seed potatoes ranged from 25 million pounds (1976/77) to 77 million pounds (1973/74). Imports of other white or Irish potatoes, however, exceeded the tariff-rate quota of 45 million pounds in each quota year except 1975/76. Other white or Irish potatoes entered in excess of the quota ranged from 10 million pounds (1976/77) to 59 million pounds (1973/74).

Apparent U.S. consumption

During 1972/73 to 1976/77, annual apparent domestic consumption of white or Irish potatoes increased irregularly from 29.6 billion to 34.8 billion pounds. Imports supplied less than 1 percent of domestic consumption annually.

In 1976/77 about 83 percent of the domestic potato crop was consumed as human food. Somewhat more than one-half of the potatoes consumed as food were in a processed form; e.g., as frozen french fries, dehydrated potatoes, and chips and shoestrings. About 7 percent of the domestic crop was used as seed potatoes and 2 percent was fed to animals. The remainder of the crop (8 percent) was lost because of spoilage.

Technical comments

We suggest that the matter following line 6, page 1 of the bill be amended, as follows:

(*a*) Strike out "137.20" and "137.25" and insert "137.22" and "137.27", respectively, in lieu thereof;

(*b*) Strike out "Cwt." in each of the proposed items 137.20 and 137.25.

The suggested renumbering of the proposed new TSUS items is based upon our desire to avoid statistical confusion, since these new item numbers are already used for the current quota categories.

We recommend deletion of "Cwt." since it is a part of the statistical annotation of the Tariff Schedules of the United States Annotated, formulated pursuant to section 484(e) of the Tariff Act of 1930, as amended [19 U.S.C. 1484(e)], and is *not* part of the legal text of the TSUS [19 U.S.C. 1202].

We also suggest that line 11, page 2 of the bill be amended by inserting "on or" immediately following the words "for consumption".

[1] The marketing year as herein used begins September 1 and ends the following August 31.

Regulatory impact of proposed legislation

The enactment of S. 2985 would not have an adverse impact on the personal privacy of the individuals affected, nor would it require additional paperwork.

S. 2985 would replace two quota categories (certified seed potatoes and other white or Irish potatoes) with a single quota category covering all white or Irish potatoes. This change could result in a decrease in paperwork for both the Government and importers.

Potential gain in customs revenue

The calculated duties of within-quota and above-quota imports of white or Irish potatoes in the marketing year 1976/77 amounted to $340,000; within-quota imports accounted for about three-fourths of this amount.

Enactment of S. 2985 would reduce the volume of imports which could be entered at the lower rate of duty by 59 million pounds (from 159 million to 100 million pounds). The bill would also increase the rates of duty on imports within the quota from 37.5 cents to 75 cents per 100 pounds and those above the quota from 75 cents to $1.00 per 100 pounds.

Aggregate imports in 1976/77 amounted to about 80 million pounds—20 million pounds less than the tariff-rate quota in S. 2985. Under this proposal, 80 million pounds would have been dutiable at 75 cents per 100 pounds and the customs revenue collected would have amounted to about $600,000. Accordingly, there would be a potential gain in customs revenue of $260,000.

TABLE 1.—POTATOES, FRESH: U.S. PRODUCTION, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, MARKETING YEARS 1972-73 TO 1976-77

[Quantity in millions of pounds; value in millions of dollars]

Year beginning Sept. 1—	Production	Imports [1]	Exports	Apparent consumption	Ratio (percent) of imports to consumption
			Quantity		
1972	29,596	75	432	29,239	0.3
1973	30,001	188	564	29,625	.6
1974	34,240	148	359	34,029	.4
1975	32,225	65	1,006	31,284	.2
1976	35,767	80	1,097	34,750	.2
			Value		
1972	894	3	18	(2)	(2)
1973	1,472	12	26	(2)	(2)
1974	1,355	6	17	(2)	(2)
1975	1,445	4	59	(2)	(2)
1976	1,283	4	73	(2)	(2)

[1] Virtually all imports came from Canada.
[2] Not meaningful.

Source: Production compiled from official statistics of the U.S. Department of Agriculture; imports and exports compiled from official statistics of the U.S. Department of Commerce.

U.S. International Trade Commission

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE U.S. SENATE ON S. 3329, 95TH CONGRESS, A BILL TO SUSPEND THE DUTY ON MIXTURES OF MASHED OR MACERATED HOT RED PEPPERS AND SALT UNTIL THE CLOSE OF JUNE 30, 1981

Purpose of the bill

S. 3329, if enacted, would suspend the column 1 rate of duty on imports of mixtures of mashed or macerated hot red peppers and salt until the close of June 30, 1981 by inserting a new item number (903.60) covering such mixtures into part 1B of the Appendix to the Tariff Schedules of the United States (TSUS). The column 2 rate of duty, which applies to products of most Communist-dominated countries (except Poland, Romania, Hungary, and Yugoslavia) would not be affected.

Description and uses

Peppers, the red, yellow, or green fruit of the pepper plant, may generally be classed as either (1) hot or pungent or (2) sweet or nonpungent.

The product in question in the proposed legislation is made by crushing any of several varieties of hot red peppers and preserving the resulting pulp in salt, usually an 8 percent salt solution in wooden kegs. This product is often termed "pepper mash" and is the raw material for the production of hot red pepper sauce. The varieties of peppers commonly used in this process are cayenne, tabasco, serrano, and chili.

The end product, hot red pepper sauce, is made, essentially, by adding vinegar to this mixture of macerated peppers and salt. One common term for such sauce is "Louisiana hot sauce." The composition of the sauce can vary, depending upon the ultimate use, by varying the proportion of the different varieties of hot red peppers in the mash. The McIlhenny Company, which is the only known importer of this product, uses the tabasco variety of peppers exclusively in its product, and ages the mash for at least 2 years at its Avery Island facilities prior to final processing. At least one other firm produces a pure tabasco line as well as various non-tabasco pepper sauces.

Tariff treatment

Imports of mixtures of mashed or macerated hot peppers and salt are currently classified in item 141.77 of the TSUS as set forth below:

GSP	Item	Description	Rates of duty Col. 1	Rates of duty Col. 2
		Vegetables (whether or not reduced in size), packed in salt, in brine, pickled, or otherwise prepared or preserved:		
		Other:		
		Packed in salt, brine, or pickled:		
		• • •		
A[1]	141.77	Other (including mixtures of mashed or macerated hot red peppers and salt).	12 percent ad val.	35 percent ad val.
		Other:		
		• • •		
	141.81	Other	17.5 percent ad val.	35 percent ad val.

It is noted that such imports are subject to a column 1 rate of duty of 12 percent ad valorem, and that the articles imported under item 141.77 are eligible for duty-free treatment under the Generalized System of Preferences (GSP) if they are the product of certain designated beneficiary developing countries. Although Mexico is a designated beneficiary developing country, imports of articles classified under item 141.77 from that country are denied GSP benefits because over 50 percent of the appraised value of articles imported under such items in 1977 originated in Mexico.[1] Mexico, which supplied 67 percent of U.S. imports under item 141.77 in 1977, appears unlikely to become eligible for GSP duty-free treatment in the near future.

Although the mixtures of mashed or macerated hot red peppers and salt which are the subject of this bill are currently classified by Customs in item 141.77, there is a possibility that Customs may change its practice in the near future and begin classifying such mixtures in item 141.81.

Item 141.77 covers vegetables which are "packed in salt, in brine, or pickled" and item 141.81 covers other vegetables, otherwise prepared or preserved. Headnote 1(a) of part 8C of schedule 1 of the TSUS defines the term "in brine" to mean provisionally preserved by packing in a preservative liquid solution such as water impregnated with salt or sulphur dioxide, but not specially prepared for immediate consumption.

Customs import specialists in the New York seaport have recently taken the position that a minimum concentration of 15 percent of salt is required in order for a mixture to be "provisionally preserved" within the meaning of the definition of "packed in brine" in the above headnote. Thus, mixtures containing less than 15 percent of salt would be classified in item 141.81 rather than 141.77. Industry practice in the case of pepper mash is to use a salt concentration of about 8 percent.

[1] c.f. section 504(c)(1)(B) of Title V of the Trade Act of 1974.

The latest official ruling on the classification of imported pepper mash was issued by the Customs Service in 1968 (C.I.E. #C–39/68) and involved an importation consisting of macerated peppers with about 8 percent salt added. The ruling assumed that the added salt "would create a brine which would provisionally preserve the peppers" and found the mixture to be properly classified under the provision for "other vegetables packed in brine," currently item 141.77. This ruling created an "established and uniform practice" for classifying the subject imports under item 141.77, which can only be changed after publishing notice of intention to change the practice in the *Federal Register* and providing interested parties with the opportunity to make written submissions. To the Commission's knowledge, no such notice has been published up to this time. Imports of pepper mash should, therefore, continue to be classified in item 141.77 until such notice is given.

Structure of the domestic industry

The domestic hot sauce industry is comprised of about one-half dozen firms, mostly in Louisiana, which produce hot red pepper sauces from pepper mash, and at least another 30 hot sauce makers scattered around the United States that use ingredients other than hot red peppers. Such ingredients usually consist of jalapeno peppers (a hot green pepper) or an oleo-resin (a synthetic) and tomato sauce mix, and are generally used to make taco or enchilada sauces for Mexican-type foods.

The taco or enchilada sauces are believed to be roughly competitive with the hot red pepper sauces, especially those lower-priced red pepper sauces made from non-tabasco peppers. Pure tabasco sauce is believed to be a higher priced sauce, and, according to its makers, a higher quality sauce. The McIlhenny Company produces only tabasco sauce and probably accounts for the bulk of the U.S. production of this article, but it is not known what share of U.S. production of hot sauce is accounted for by that company.

The growers of hot red peppers might also be considered a part of the hot red pepper sauce industry. The growers of hot red peppers are concentrated in Louisiana, Mississippi, and Texas. Approximately 4,000 acres are devoted to the production of such peppers in these states. Most of these growers are believed to grow some specialty crops as well as hot peppers.

Domestic production

Data covering the U.S. production of pepper mash or of hot sauces are not available, but it is believed that such production is trending upward. The production of hot sauces is not believed to be seasonal, but the production of pepper mash, the major ingredient of hot red pepper sauce, is believed to follow the seasonal pattern of the hot red pepper harvest during the summer and fall months.

Exports of pepper mash are believed to be insignificant, however, a significant amount of the U.S. output of hot sauces is shipped abroad. Precise figures are not available, but an estimated 30–40 percent of U.S. production is sold in foreign markets. Japan and Europe are the principal markets for the higher priced hot sauces and the Middle East is a leading outlet for the lower priced products.

U.S. imports

Data on U.S. imports of pepper mash are not available. However, U.S. imports of pepper mash in recent years are believed to be entirely of the tabasco pepper variety for the account of the McIlhenny Company The company has contracts with growers in six Latin American countries to take advantage of more favorable climatic conditions and lower costs of labor in producing this temperature-sensitive, labor-intensive crop. This importer provides seed and technical assistance to small growers in these countries. Each growing operation in Latin America probably averages only about 10 acres in size, and Latin American acreage of tabasco peppers under agreement is believed to be about 600 acres, or about one-half of the total U.S. acreage. The McIlhenny Company also supervises the pepper mashing operations in Latin America. Because in the McIlhenny operation mashing must be done immediately after harvest, the tabasco peppers are mashed abroad prior to shipment to the United States.

Colombia and Honduras together account for almost two-thirds of McIlhenny's imports; the supplies from Mexico constitute less than one-fifth. U.S. imports from Colombia and Honduras are designated beneficiary developing countries and are entitled to duty-free treatment under the GSP.

One domestic user of pepper mash, other than McIlhenny, has indicated some interest in importing the product from Mexico, should the duty be suspended. In addition to McIlhenny's importations, there are believed to be small imports of whole hot peppers packed in brine. While such whole peppers are also dutiable under item 141.77, the proposed legislation would not affect their dutiable status and probably would have little noticeable impact on importers of this product.

Also, it has been reported that a Dominican producer of certain specialty food products is interested in producing pepper mash for export. The proposed duty suspension probably would have little impact on the magnitude of that firm's exports to the United States, however, since Dominican is currently eligible for GSP treatment for imports under item 141.77.

Apparent U.S. consumption

Consumption of hot sauce in the United States is believed to be in a long-term uptrend because of (1) the evolution of American taste toward spicier foods in general, and (2) the increased consumption of Mexican-type foods, specifically.

Data covering U.S. consumption or of imports as a percent of consumption of pepper mash or of hot sauces are not reported nor otherwise available. However, consumption of hot red pepper sauces probably amounts to several million pounds annually.

Technical comments

Proposed item 903.60 would suspend the duty on "mixtures of macerated hot red peppers and salt (*provided for in item 141.77, part 8, schedule 1*)" (Emphasis added). However, as discussed in the tariff treatment section of this report, there is some question as to whether such mixtures of peppers and salt would be classified under item 141.77 or 141.81. Since the determination may hinge on the salt content of the product (i.e., whether the salt content equals or exceeds 15%), it is conceivable that "mixtures of hot red peppers and salt" could be classified under either provision depending on the actual salt content of the mixture. In order to avoid any ambiguity in the proposed new item number, it is suggested that the article description for proposed item 903.60 be amended to read as follows:

"Mixtures of mashed or macerated hot red peppers and salt (provided for in item 141.77 or 141.81, part 8C, schedule 1)".

Regulatory impact of proposed legislation

S. 3329, if enacted, would likely have very little regulatory or personal privacy impact on any firm or group of firms in the United States.

Potential loss of revenue

The Commission does not have sufficient data on the volume of imports of pepper mash to estimate the potential loss of revenue which would be likely to result from the enactment of S. 3329. However, it is believed that the loss in revenue from duty collections, should the bill become law, would be approximately $20,000, the amount of duty the McIlhenny Company alleges to have paid in 1977.

KIMBERLY-CLARK CORP.,
August 10, 1978.

HON. ABRAHAM A. RIBICOFF,
Chairman, Subcommittee on International Trade,
Washington, D.C.

DEAR SENATOR RIBICOFF: We have been informed that S. 3326, introduced by Senator Bentsen, is now before the Subcommittee on International Trade for its consideration.

The purpose of this letter is to inform you, as a member of the Subcommittee, of Kimberly-Clark Corporation's strong endorsement for passage of this measure. Kimberly-Clark Corporation is a worldwide manufacturer of pulp, paper and wood products with operations in 19 states, Puerto Rico and 21 foreign countries

Current Federal law permits imports on a duty-free basis for a limited amount of railway equipment produced in a foreign country. Once this limit is reached, an 18% ad valorum tariff is imposed. S. 3326 would remove this economic disincentive by suspending the 18% tariff on foreign-made hopper, gondola, and box cars for a period of two years.

The current daily shortage in the United States of all three categories of freight cars is about 37,000. While U.S. manufacturers have been operating at full capacity over the past several years a backlog of unfilled orders extending into June, 1979 still exists. A two year suspension of the freight car tariffs, therefore, should have little or no adverse affect on domestic producers.

Further, Kimberly-Clark Corporation relies heavily on the U.S. rail system for receiving raw material used in manufacturing and for shipping finished products to its customers. We, as well as many other manufacturers in our industry, have been seriously affected by the lack of available freight cars and as a result have had to seek other more costly methods of transportation services. While the passage of S. 3326 will not solve the overall freight car shortage problem, it will represent a significant step in reversing the trend in freight car shortages that has existed for some time.

For the above reasons, we hope you will give favorable consideration to this measure when it is taken up by the Committee for action.

Thank you.

Sincerely,

CYRIL B. LIPPERT,
Director, Transportation.

AUGUST 14, 1978.

DEAR SENATOR: Recently hearings were conducted by your International Trade Subcommittee on Senate Resolution 483 which, if passed, would override a U.S. Department of Treasury decision to waive countervail duties on certain fish products imported from Canada. I urge you to vote against this resolution. There is no need to override the U.S. Treasury Department decision which was made in full context of the provisions of the Trade Act and in the best interest of the negotiations now being conducted in Geneva and also in the best interest of the U.S. consumer.

Very simply, the government of Canada had been providing certain subsidies to its fish industry during a period of low production caused by overfishing off of Canada by foreign fleets. In order to keep its industry alive, certain subsidy programs were enacted. Even thought there is some question that these were bounties or grants under the term of the Trade Act, the Treasury Department did find that the various programs do constitute bounties or grants and thus are countervailable. However, according to the Department of Treasury, more than 70 percent of these programs have already been eliminated and 94 percent will have been stopped by October of this year. The remainder, which constitutes 1.2 percent of the value of the fish products in question, are the results of long term loan and grant programs which cannot be eliminated. These are similar to many of the programs provided by this country to portions of its industry and should not be countervailable at all. Nonetheless, this amount, the value of these programs can be considered minimal and should be not countervailed, especially when you consider that the majority of the products coming in from Canada are already subject to duty at approximately a three percent level. It is important to note that fish prices being paid to U.S. fishermen at this time are at record levels. Any increase in the cost of fish received from Canada, which makes up a very large portion of our total supply, can only have the impact of increasing food prices to consumers. This is not desirable at this time since food prices are already highly subject to the inflationary spiral.

Accordingly, we believe that Senate Resolution 483 should not be passed, and we urge your vote against it should it come to committee. Thank you for your attention to this matter.

Very sincerely,

SLADE GORTON.

PITTSBURGH FORGINGS CO.
Pittsburgh, Pa., August 8, 1978.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR LONG: We are very much opposed to the suspension of the eighteen percent duty on railroad freight cars imported into the United States. and are, therefore, strongly opposed to S. 3326.

Our wholly-owned subsidiary, Greenville Steel Car Company at Greenville. Pennsylvania, manufactures railroad freight cars. Importation of freight cars

into the United States from Mexico, or from any where else, has a direct negative impact on employment at our Greenville plant and on our capability to maintain a profitable operation.

The present peak demand for freight cars has, in our view, been brought on by abnormal situations. I urge you and the members of the Senate Finance Committee to take the longer view and not allow inflow of foreign cars under the pretext of a shortage of railroad carbuilding capacity in the U.S. A study of statistics related to freight carbuilding capacity in the U.S. will quickly show that there is adequate carbuilding capacity in the U.S., except for much too infrequent peak demand periods.

Thank you for your consideration of this letter.

Sincerely yours,

AUREL F. SAROSDY,
President.

ECHO SCARFS,
August 8, 1978.

Re Hearing on S. 2020 requesting tariff reductions on silk scarfs.
(Attention Mr. Michael Stern, staff director).

U.S. SENATE,
Committee on Finance, Subcommittee on International Trade, Washington, D.C.

GENTLEMEN: I herewith respectfully submit the following text for inclusion in the printed record of the hearings on S. 2920.

The United States negotiators are being pressured in the Multilateral Trade Negotiations to lower tariffs in the highly sensitive textile and apparel sector. Silk scarfs, mufflers, shawls and handkerchiefs are one small part of that sector in which maximum tariff reductions can be offered without danger of harmful effects on domestic interests. There are no domestic producer. The Edgar C. Hyman Co., Inc. ("Echo") and other companies which design, import and distribute these articles are in effect the U.S. industry. Echo respectfully requests that the U.S. Government offer to make the maximum allowable 60% tariff reduction on these items.

The record of a September 29, 1977 public hearing by the Section 301 Committee at the Office of the Special Trade Representative supports our contention that imports are the only source of silk scarfs. That these articles warrant consideration for maximum tariff reductions is clearly recognized on Page 45 of the transcript of those hearings.

The items covered by this request are classified as handkerchiefs, mufflers, scarfs and shawls of silk in Schedule 3, Part 6, Subparts A & B of the TSUS, particularly under the following items: 370.84, 372.10 (part), 372.50, 372.60, and 372.65.

The present rates of duty range from 10 percent to 30 percent ad valorem. The articles we import under these provisions are wholly of silk or of silk blends in chief value of silk. Items 370.19 and 372.08 (part) are not as important to us, although the same trade considerations apply. Item 372.55 is a largely obsolete value provision.

Imports are the sole source of supply of silk scarfs sold in the United States. There is no domestic production. The location of silk scarf production depends upon the availability of high quality printing on facilities staffed by highly skilled personnel. Such capabilities exist today only in Japan and Western Europe, particularly Italy and France, where printing techniques are a tradition, passed down from generation to generation.

Reducing the duty of silk scarfs will not result in a flood of imports. Because of the high cost of silk and fine silk printing, silk scarfs cannot be sold at prices comparable to synthetic fiber scarfs. Furthermore, foreign manufacturers of synthetic fiber scarfs will not switch to silk to any significant extent. World production of raw silk cannot readily be expanded and it is not economically sound to use poorer quality printing on a material as expensive as silk.

The present duties on silk scarfs (including those classified as handkerchiefs), do not protect any domestic industry. Because there is no U.S. production, it follows that there can be no domestic market attributable to silk scarfs for domestic silk fabric weavers or silk yarn producers. No domestic industry will be disadvantaged, either directly or indirectly, by such reductions since there are no like or similar products being produced in the United States. There is no

silk domestic industry in need of protection and such reductions will permit our industry, which is comprised of small businesses, to be able to continue to provide quality scarfs to the American consumer at reasonable prices.

The U.S. silk scarf industry consists entirely of the several companies such as Echo Scarfs which develop new designs, arrange with foreign textile printers to manufacture them from these designs, import the printed scarfs and sell and distribute them throughout the United States. These companies employ several hundred people in the United States.

Lower duties on silk scarfs will primarily benefit the American consumer. This will result from the continued availability of high quality scarfs at affordable prices. The consumer values silk scarfs over synthetic fiber scarfs because silk takes printing and color better, has a more luxurious feel and appearance, and when used as a kerchief, does not slip off the head as easily as synthetic substitutes. There is, however, a limit to how much people will pay for these advantages.

Echo and its competitors face constant increases in the prices paid for imported scarfs. Not only do our foreign suppliers pass on their increased raw material and labor costs, but in the last few years, we have had to contend with deteriorating costs of exchange for the dollar. Retail prices of silk scarfs are already so high that we hesitate to jeopardize our sales by passing increased costs on to our customers.

In order to preserve our market, we must pass on any savings resulting from reduced tariffs either through actual price decreases or by maintaining stable prices while our own costs of doing business continues to climb.

In sum, even if other textiles and apparel will be exempt from tariff-cutting negotiations, steep tariff reductions on silk scarfs will result in a variety of benefits without offsetting disadvantages. Consumers will benefit from a brake on steadily rising prices, and in fact, perhaps even some lower prices. A small but vital group of importing companies will be able to continue to provide a product that meets the desires of the American consumer for quality scarfs. No domestic industry will be disadvantaged, either directly or indirectly. Finally, the United States will gain in the general balancing of concession in the Multilateral Trade Negotiations.

Respectfully submitted.

RICHARD WEILHEIMER,
Vice President.

OZARK-MAHONING CO.,
Rosiclare, Ill., August 7, 1978.

Re H.R. 5265, to provide for temporary suspension of the duty on fluorspar.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade of Committee on Finance, U.S. Senate, Washington, D.C.

DEAR SENATOR RIBICOFF: This is written to voice our opposition to H.R. 5265. Our company is the major domestic producer of fluorspar, a strategic mineral.

To suspend this tariff would only serve to increase dependence on foreign supplies at the expense of domestic producers. Also, this action would practically prohibit any development of new fluorspar mines.

The present U.S. strategic stockpile of 1.3 million tons reflects one year's consumption of fluorspar. The proposed target of 3.5 million tons in this stockpile is no guarantee of a sufficient supply should all foreign sources be cut off. Therefore, domestic production should be encouraged rather than allowing any further decline.

Domestic producers are bound to world pricing. The decline in domestic production can be attributed to the inflationary increases in all costs, materials, labor etc. This is now compounded with South Africa emerging as a major producer.

It would indeed be ironic to give an economic stimulus to the fluorspar industry of South Africa at the same time our government is so critical of their racial policies.

A close look at the cost impact insofar as the steel and aluminum industries are concerned indicates a 2/100 of a percent cost per ton on both items. This would not be sufficient saving to materially aid the competitive position of either steel or aluminum. This is a ploy being used by certain of those industries to enhance the profitability of their foreign fluorspar operations.

In conclusion, we feel this proposed legislation would have a drastic impact on domestic fluorspar production. Currently, eighty percent of this production comes from economically depressed areas in southern Illinois and western Kentucky. The possible loss of 500 jobs and a large percentage of our domestic fluorspar production clearly outweighs the benefits (?) claimed by proponents of this proposed legislation.

We earnestly solicit your opposition to this proposed action.

Very truly yours,

OZARK-MAHONING CO.,
W. W. FOWLER,
Vice President and General Manager.

NATIONAL COUNCIL OF FARMER COOPERATIVES,
Washington, D.C., August 8, 1978.

Senator ABRAHAM RIBICOFF,
Subcommittee on International Trade, Committee on Finance,
Washington, D.C.

DEAR SENATOR RIBICOFF: The Grain Division of the National Council of Farmer Cooperatives consists of 26 large, regional cooperatives. This group of organizations services the entire grain production area of the United States, and their responsibilities include transportation, storage, and marketing of the approximately two billion bushels of grain put through the system each year by the farmer-owners.

During the past decade, rail transportation has emerged as perhaps the most serious and persistent operational problem faced by our members. The inability of the railroads to move grain volumes on a dependable, timely basis in response to harvest demands and market opportunity, has cost the farmer-owners of these cooperatives millions of dollars in ruined grain and lost markets.

A critical factor in this inability to move grain efficiently, is the chronic car shortage which seems to intensify every year. Daily reports of car shortages regularly top the 25,000 level and often are as high as 37,000. The impact of a vacuum of such proportions is devastating, particularly in the rural areas, where the small, local cooperatives are attempting to service their farmers' marketing needs.

For this reason we support the passage of S. 3326, which would amend the Tariff Schedules of the U.S. by suspending duties on imported gondolas, covered hoppers, and box cars.

We realize that this measure is not an adequate solution to the overall rail transportation problem, but we do believe that the modest flow of imported new equipment, as encouraged by the duty suspension in S. 3326, is significant and badly needed.

Sincerely yours,

GLEN D. HOFER,
Vice President.

NATIONAL COUNCIL OF FARMER COOPERATIVES,
Washington, D.C., August 10, 1978.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade, Committee on Finance, Washington, D.C.

DEAR MR. CHAIRMAN: The National Council of Farmer Cooperatives wishes to express grave concern over the proposals of S. 2920 that textile and apparel items be exempted from duty reduction negotiations in the current round of GATT trade negotiations.

We appreciate the difficult problems faced by the U.S. textile industry as a result of heavy import growth, and are especially sympathetic with the difficulties caused by such unfair trade practices as export subsidies which are so widely used to distort world trade from more efficient patterns. This problem reinforces the strong belief of many U.S. agricultural trade interests that a meaningful code to limit unfair subsidy practices is an essential element of any meaningful progress in the Tokyo Round.

Proposals to exempt textiles or other major sectors from the tariff-cutting efforts are not in harmony with the congressional mandate of the Trade Act of 1974, that sectorial negotiations be linked together in the broadest possible fash-

ion. Furthermore, a U.S. move of this scope would invite sweeping counteractions by our trading partners and perhaps literally threaten the collapse of the Tokyo Round. We are concerned at the possible retaliations and other less direct but adverse consequences which would result from failure to reach some constructive international trade agreements in the near future. In fact, we believe there is great danger of chaos, or even breakdown of our international trading system if no success results from the Tokyo Round, with disastrous consequences for the U.S. and the world economy.

We encourage you to assist the administration in every possible way to search for better solutions to these serious trade problems faced by textile, dairy, steel, and many other U.S. sectors, but we oppose the proposals of S. 2920, which are not the best solutions to the textile problems, as being against our best national interest.

Sincerely,

ROBERT N. HAMPTON,
Vice President, Marketing and International Trade.

STATEMENT OF AMERICAN PULPWOOD ASSOCIATION ON S. 3171

I am J. E. Moore, Manager of Forestry Programs for the American Pulpwood Association, a national trade association made up of pulpwood producers, dealers, consumers, and others who are directly concerned with growing and harvesting pulpwood—the principle raw material used in manufacturing pulp, paper, paperboard and other products.

Our association has for many years worked to improve logging safety. We developed the pulpwood logging safety standards which are now part of the OSHA standards package and have supported OSHA programs at several congressional hearings.

We support S. 3171 to amend the tariff schedules to provide duty-free treatment for certain gloves and trousers which incorporate protective features designed specifically for use in forestry.

These worker-protective items incorporating a "ballistic" nylon material have proven effective in eastern Canada and Sweden in preventing or reducing accidental injury to chain saw operators. The material, incorporated in the general knee area of specifically designed trousers and on the backside of loggers' work gloves, serves to either give the chain saw operator sufficient warning time to withdraw from contact with the saw or the severed nylon threads join the saw chain drive and stop the motion of the chain.

For several years we have tried to persuade domestic manufacturers to offer this protective clothing but have not met with success because they did not agree with our estimates of market potential.

Many chain saw operators working the northern forests near Canada are now using this equipment but is not in general use.

There are three reasons for this—availability, cost, and comfort. In a statement presented by a representative of the Work Glove Manufacturers Association, Mr. Stanley Nehmer made the statement that ". . . gloves made of these fabrics are manufactured by the Racine Glove Company of Rio, Wisconsin". A check with the Racine Glove Company reveals that they do not make gloves that incorporate ballistic nylon.

Several manufacturers have made chaps and at the present time the Racine Glove Company is making chaps which are sold through forestry supplier outlets. Chain saw chaps have not been accepted for general use by logging production workers because they are relatively heavy, stiff enough to retard mobility of the wearer, hot for use in warmer climates, and expensive at $34 to $42 a pair.

Safety pants manufactured in Canada are made of wool, nylon or denim at a cost of $18 to $22. Adding the 25% tariff increases the price to an average of $25. An average price of $25 for work pants is higher than most woodsworkers are willing or able to pay.

We can readily understand the concern of domestic manufacturers who want to avoid competition but since these products are not readily available in the United States we feel that removal of the tariff is justifiable on the basis of safety. If at some time in the future, a similar pants of equal quality at a competitive cost are made available we would have no objection to reimposing the tariff.

THE MICHIGAN ASSOCIATION OF TIMBERMEN,
August 2, 1978.

SUBCOMMITTEE ON INTERNATIONAL TRADE,
SENATE FINANCE COMMITTEE,
Dirksen Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to support Senate Bill 3171 that would allow certain items of safety clothing to be imported, free of tariff from Canada.

I am the Administrator of the Michigan Association of Timbermen Self-Insurers Fund. We cover the Workers' Compensation liability of our members, by paying all benefits as required in Michigan's Workers' Compensation statutes. We are able to substantially reduce the member's Workers' Compensation costs by improving safety practices. These savings are a positive incentive to provide safer work conditions for Michigan's forest industry worker.

A part of controlling losses has been the introduction of new safety practices and equipment. We have been especially interested in the introduction of safety mitts, gloves, and pants. This safety apparel is manufactured with a ballistic nylon material as an inner lining. We believe that safety apparel is more readily accepted if its appearance is similar to the clothing now used by the woods' worker. These items are not available from a manufacturer in the United States.

I have contacted Mr. Reed Bigelow, President of the Racine Glove Company, Rio, Wisconsin. They do not currently manufacture this type of glove or mitt. However, he believes that such an item could be produced by them at a competitive rate. They do manufacture a safety chap that costs in excess of $34.00 that they believe is a better alternative to the safety pants that we are interested in. I do not agree. The saftey chap and pant combination as a heavier and stiffer combination than the Canadian safety pants.

We are interested in getting on with the business of making gloves, mitts, and pants available to our members. We cannot wait for this company to develop a new line of products for us. We must move on with our program. A Canadian firm can make safety items available to use on an immediate basis that have been tested and approved by the Safety Division of the Ontario Department of Labor. They are being offered at a price that the woods' workers can afford. For example, gloves and mitts are available for $6.00 to $7.00 per pair and trousers are available for approximately $20.00 if the tariff was lifted.

The Canadian firm is presently producing the clothing that we need in several types of material that recognizes all of the practical problems of varying weather conditions that the woods' worker experiences through our changing seasons.

We already lost several months of valuable time because of the tariff on this material. We have made a substantial effort to find alternative products manufactured in the United States but have been unsuccessful.

The Federal Government, through the Occupational Safety and Health Act, are promoting better safety conditions. This effort is largely ineffective with the logging segment in our industry. The OSHA inspectors simply cannot find these operations, which are generally located in isolated and difficult to find areas. We have demonstrated that we can improve the working conditions of our work force through an economic incentive of saving money on the employer's Workers' Compensation insurance premium. This has been accomplished by maintaining high safety standards as a minimum requirement for membership in our Association. I hope that the International Trade Subcommittee will allow us to proceed with our positive program that does work.

We have absolutely nothing against purchasing needed materials from a manufacturer in the United States when available. I am requesting that the tariff be lifted on these safety items for a least two years so that we can initiate our program at once. During this two year period of time, any manufacturer in the United States interested in our business can get geared up and offer us a better product at a better price. In the meantime, our program will not be stalled. This seems to be a practical solution to resolving a problem that has been placed in front of our practical program.

Your assistance in this matter will be greatly appreciated so that we can get on with the business of solving our own problems.

Sincerely yours,

PETER C. GRIEVES,
Administrator.

STATEMENT OF RUSS TOGS, INC., IN OPPOSITION TO S. 3246

INTRODUCTION

This presentation has been prepared on behalf of Russ Togs, Inc., to voice its opposition to S. 3246. Russ Togs, Inc., is both an importer and domestic purchaser of ladies', girls' and children's wearing apparel. Their import market is worldwide, with the majority of their imports originating from Hong Kong, Taiwan, and Korea, the countries which will be most effected by this pending legislation. As a purchaser from both domestic and foreign sources, Russ Togs, Inc., is particularly aware of the problems facing the apparel industry both here and abroad.

It is the position of Russ Togs, Inc. that this Bill, would do little to further protect the domestic textile industry, but would impose higher costs on the ultimate consumers of imported wearing apparel products. Quota is presently being used by the holders of this export premium to gain huge profits from the manufacturers exporting merchandise. This cost to the manufacturer is passed on to the American importer, and ultimately to the consumer. Therefore, quota already has an inflationary impact in the United States. If the quota itself were made dutiable, this impact would be further exacerbated.

As this statement shall explore in further detail, we believe that the drafters of Section 402 of the Tariff Act of 1930, clearly recognized that dutiable value should relate only to the cost of the merchandise, and not to such extraneous charges as those for quota premiums. The passage of this Bill would disturb this principle.

Furthermore, the passage of S. 3246 would be in clear violation of the provisions of GATT and the Agreement Regarding International Trade in Textiles.

Russ Togs, Inc. strongly opposes passage of this Bill.

Point I.—Passage of S. 3246 would violate Gatt and would subject the United States to retaliatory measures.

Article 2, Paragraph 3 of the General Agreement on Tariff and Trade (GATT) provides that: No contracting party shall alter its method of determining dutiable value or of converting currencies so as to impairt the value of any of the concessions provided for in the appropriate schedule annexed to this agreement.

In "Customs Valuation, Report of the U.S. Tariff Commission to the Committee on Finance and the Subcommittee on Interntional Trade", United States Senate, March 14, 1973, the Tariff Commission recognized that "(A) change in a contracting party's valuation standards that would result in an increase in the dutiable value of articles on which it has made concessions would contravene that commitment". (Emphasis added.)

Developed and developing nations both recognize the "need for special attention to be paid to the difficulties arising in international trade in textiles". Introduction to Arrangement Regarding International Trade in Textiles, General Agreement on Tariffs and Trade, Geneva, 1974. As a result of this need, fifty governments negotiated an arrangement regarding international trade in textiles. The United States is a signatory to this Agreement.

The Agreement recognizes the importance of the textile industry to importing and exporting countries alike, and particularly to developing countries which frequently rely heavily on this industry in maintaining their economic well being. The Agreement commits the participants to a multilateral, rather than a unilateral approach. Article 4, Paragraph 1 provides that: The participating coutries shall fully bear in mind, in the conduct of their trade policies in the field of textiles, that they are, through the acceptance of, or accession to, this arrangement, committed to a multilateral approach in the search for solutions to the difficulties that arise in this field.

The Agreement also severely restricts any further protection outside the Agreement. Article 3, Paragraph 1 provides that: Unless they are justified under the provisions of the GATT (including its annexes and protocols), no new restrictions on trade in textile products shall be introduced by participating countries nor shall existing restrictions be intensified, unless such action is justified under the provisions of this article.

There is no justification under either GATT itself or the textile agreement for adding the further restriction of making quota payments dutiable under our value statute.

Furthermore, the passage of this Bill would be a clear signal to our GATT negotiating partners that the United States is in a protectionist state of mind. The multilateral negotiations now underway are at a most critical point, and a signal of this nature may well jeopardize the talks.

Point II.—Including quota premiums as part of dutible value runs contrary to our system of valuation.

From the early days of our country, imported merchandise has been appraised on the basis of a freely offered price from the point of shipment, as opposed to a C.I.F. (Cost, Insurance, Freight) basis. The point of sale basis of appraisement is a more equitable system and permits importers located in different parts of this country to pay equal duties on the same merchandise.

Furthermore, to ensure uniformity of treatment to importers, our valuation statute is framed so as to exclude from dutiable value, all those charges, other than packing expenses, accruing subsequent to purchase for export. Such costs as inspection fees, buying commissions, inland freight and quota charges have been held to be no-dutiable by the courts, where the merchandise was offered at prices which did not include these costs.

Even bounties or grants upon exportation, when they operate to reduce the freely offered price for exportation to the United States, have been held to be not part of value under Section 402 of the Tariff Act of 1930, as amended.

Section 303 of the Tariff Act of 1930, as amended, was enacted specifically to redress such countervailing duty situations. Congress maintained the basic concept of an objective valuation standard, however. This standard is based on the value of the merchandise itself, and not on extraneous charges which may or may not be incurred.

To now include quota premiums as part of dutiable value would be a clear reversal of the well established law in this area. Uniformity of appraisement has been one of the central goals of our Customs laws. If quota charges were made dutiable, this principle would be serverely eroded. An importer fortunate enough to have easy access to quota would gain a double advantage by paying less for the quota and less for duty, than the importer who could not so easily obtain quota.

Point III.—The Customs Service presently applies a stringent standard of proof to establish the nondutiability of quota payments.

The introduction of this bill necessarily implies the assumption that all quota payments are considered nondutiable. Although Court decision and Customs rulings have indeed held that quota payments are not part of the intrinsic value of the merchandise, the nondutiability of quota charges is by no means of universal application. The Customs Service has set a stringent standard of proof to establish the nondutiability of quota payments. A statement contained in the Journal of Commerce of October 31, 1977 clearly points out the real situation:

"The cost of quota is not an intrinsic cost and the U.S. Customs Service will not charge duty on it, if its exact cost can be broken out. In practice this hardly ever happens."

Where the exporter has his own freely assigned quota and, therefore, no purchase of quota is necessary, Customs will rarely allow the importer to deduct an amount for the value of the quota. The Customs Service contends that the charge for quota is an integral part of the price of the merchandise and should, therefore, be considered as part of the value. Only if the importer presents proof of sales not including the quota charge, will the quota charge be considered nondutiable.

Where quota is purchased by the manufacturer or by an agent of the importer or by the importer himself from independent sources, the costs incurred are not considered by Customs to be part of the value or expenses incident to placing the merchandise ready for shipment. In *United States* v. *Getz Bros. & Co.*, 55 C.C.P.A. 11, C.A.D. 927 (1967), the leading case in this area, the Court stated that: "on some occasions, the export quota had to be paid for, and in other circumstances, it did not. Thus, such charges for a quota, which sometimes occurred, formed no part of the purchase price of the plywood for export, nor did it in our view, within the statute, form any part of the costs, charges and expenses incident to placing the merchandise in condition packed ready for shipment to the United States. Such quota charges, or premiums, clearly occurred after the goods have achieved this status."

This principle was re-affirmed by the Customs Service in Customs Ruling C.I.E. 17/72, APP-6-04-0 7/18/74 and ORR 74-0337.

In order to obtain a favorable determination from Customs with regard to the nondutiability of quota charges, evidence must be offered supporting this contention. Customs requires proof regarding how the quota rights were acquired, and from whom such rights were acquired, as well as proof of payment.

Invariably demand is made by Customs, under the principle of "proof of payment", for copies of the remittances to the quota holders or brokers or receipts of the same, as the only acceptable evidence of the "exact quota cost". Absent this type of evidence no part of the quota payment is granted exemption from duty even where it is conceded that some part of the combined cost of the merchandise and quota cost constitutes a nondutiable quota charge. This is so even where other evidence clearly establishing the nature of the transaction is provided and where the going market prices for the various quota categories for the periods in question are available.

Mr. E. W. Weant, Managing Director International Operations Blue Bell, Inc., testifying on behalf of the American Apparel Manufacturers Association in support of S. 3246, stated that the sale of quota "actually results in a lowering of the F.O.B. price." He is totally incorrect in his "understanding" that "the quota premium can be deducted from the value of the export by attaching proof of purchase of the quota." In his example, the importer deducts a quota charge from the cost of the goods which does not include a quota charge. Such an action would be a clear violation of the Customs laws and would unquestionably subject an importer to severe penalties. It is highly unlikely that this has ever occurred. In fact, just the opposite is more likely. Where two quota owners sell their respective quotas to each other, the quota premium would be added above the cost of the merchandise. In addition, Customs consistently demands proof of the inclusion of quota costs in the invoice price, further eliminating any possibility of deduction for quota where not included in the price.

The Customs import specialists who appraise merchandise are highly knowledgeable people wth considerable understanding of the merchandise and trade lines which they handle. Mr. Wean's fears are groundless, for the import specialist would certainly pick up such an obvious situation.

The stringent standards of proof required by Customs to prove non-dutiability of quota ensure that non-dutiability will be allowed only where appropriate. The present law gives Customs the authority to make this determination, while S. 3246 would eliminate any such discretion. We believe that the Customs Service is competent to handle this responsibility and should retain this authority.

In any event, it does not follow that the possibility, at present, of deducting quota where none was paid, is best corrected by making all quota dutiable.

Point IV.—the inflationary impact of S. 3246 would render the American consumer the real victim.

Any additional duties which will result from enactment of S. 3246 will ultimately fall on the American consumer. The American consumer is already paying heavily for the enormous protection presently being given to the textile industry. This industry is probably our most highly protected domestic industry. The existence of quotas themselves as well as extremely high rates of duty on textile merchandise already serve as a protection for the domestic industry and an added cost for the consumer. Further protection in the form of changing our valuation statute, is totally unwarranted.

It should be noted that the importer is, in a sense, the party caught in the middle, with respect to quotas. Although the quota agreements are designed to limit the quantities exported and not inflate prices, the latter situation has also resulted from these agreements. The quota market is a reality to all parties concerned. The Journal of Commerce, in an article on October 31, 1977, stated:

Essentially, the system allows a quota holder to sit back and reap a premium for his quota without manufacturing anything, and at any given moment the trade knows bid and ask prices for the quota in demand.

The article points out that the party profiting from this situation is the *quota holder*, and not the importer, or in most instances, the manufacturer.

Importers have learned to live with the "quota market" as they call it. "It's a fact of life," one major apparel merchandiser says glumly. Everyone in the trade agrees on two other things: it's "making millionaires" in the Far East and these millions are coming out of the American consumer's pockets. (Emphasis supplied.)

The passage of S. 3246 would add to the profiteering incentive of the quota holder and increase this inflationary impact.

CONCLUSION

Any possible advantage gained by the domestic textile industry (apparently the sole supporter of this Bill) from passage of this Bill is clearly outweighed by the enormous disadvantages. This country's commitment to uniformity of ap-

praisement would be disturbed. Our commitment to our GATT trading partners and to international rules of law would be called into question. Our sincerity in seeking to break down trade barriers, rather than erect them, would be drawn into question, and our commitment to combat inflation at home would be doubted.

Congressman Stephen L. Neal analyzed protectionism in a recent article, "The Unhappy History of Trade Protection", in the Washington Post, July 19, 1978. Congressman Neal cautioned against enacting protectionist legislation "frighteningly similar to the Smoot-Hawley Tariff Act of 1930".

He points out the interrelated nature of the world economy and of our great reliance on exporting merchandise as well as importing it. He notes that the "protectionist game" is a "game always played by more than one".

Indiscriminate protectionism would have other serious consequences. It would deprive consumers of the wide choices and lower prices made available by imports. It would accelerate inflation by eliminating import competition. It would jeopardize our foreign relations and undermine a generation of efforts to build a peaceful and productive world. In particular, it would poison our relationships with the emerging countries of the Third World, who need trade to survive, to pay debts, to modernize and—significantly—to continue to be able to buy our products.

The quick solution proposed by S. 3246 will do little to benefit the domestic textile industry. The Bill should be rejected as an inappropriate piece of protectionist legislation.

FMC CORPORATION,
Philadelphia, Pa., July 21, 1978.

Hon. CLIFFORD HANSEN,
U.S. Senate, Washington, D.C.

DEAR SENATOR HANSEN: H.R. 5044, a bill introduced by Reps. Bauman, Findley and Hillis, has recently been reported out by the House Ways and Means Committee and awaits floor action.

This bill suspends the duty on imports of strontium nitrate—a chemical manufactured by FMC and others for the pyrotechnic signal industry; and if enacted, will significantly harm FMC's strontium nitrate business and the operations of our Modesto, California, plant.

As currently written, H.R. 5044 proposes suspension of the column one, six percent ad valorem duty—the duty imposed on most favored Nation countries. Specifically, it would permit the duty-free importation from West Germany—a major producer of strontium nitrate.

The proponent of the bill, the Pyrotechnic Signal Manufacturers Association—in hearings before the Trade Subcommittee of House Ways and Means (April 26, 27, and 28, 1977. Serial 95-38) stated as its objective the encouragement of "non-domestic producers to supply needs of the pyrotechnic signal industry and to keep the costs of these supplies at a competitive and reasonable level." The Association also expresses concern for the "reliability of FMC as a producer and supplier of strontium nitrate" in the United States.

FMC contends that it has been—and will continue supplying strontium nitrate on a reliable and reasonably priced basis to domestic pyrotechnic manufacturers.

First, as to supply. FMC is the major supplier of strontium nitrate in the United States, and we estimate that our Modesto plant now has sufficient capacity to supply 150 percent of the current demand for this product. We have invested substantial capital in our plant to ensure the capability to supply the domestic market—an investment that would be considerably imperiled by the duty-free importation of strontium nitrate from foreign sources.

Further, we believe that other United States chemical manufacturers would consider producing strontium nitrate if they could be assured that foreign imports would not be allowed to enter the United States duty-free.

With respect to price. The charge has been made that because of its position, FMC has unreasonably raised the product price to the pyrotechnic industry. The proponents of the bill claim that duty suspension would end an escalating price situation.

The actual facts reflect a quite different situation. FMC's price for strontium nitrate on January 1, 1975 (not 1976 as shown in the record) was 25 cents per pound.

On July 1, 1976, FMC increased the price of strontium nitrate to 28 cents per pound. In the following January of 1977, FMC announced to the industry a two-

step increase price to 33 cents per pound. Therefore, over the period of 3½ years (since January, 1975), FMC has only raised its price of strontium nitrate 8 cents per pound, or at an annualized rate of only 8.26%.

Senator, the legislative history of H.R. 5044 also reflects the complete opposition of the Administration to the enactment of this bill. The Department of Commerce opposes the bill. The Department of State recommends against enactment of the bill. And the Department of Treasury opposes reduction or elimination of the tariffs.

In summary, H.R. 5044, if enacted would: Harm U.S. manufacturers, including FMC, now supplying strontium nitrate. Deter other domestic suppliers from entering the market, and add to the United States' ever-increasing trade deficit.

We ask your assistance in this important matter, and are ready to furnish any additional information you or your staff might require.

Sincerely,

WILLIAM A. MCMINN,
Vice President.

FMC CORPORATION,
Philadelphia, Pa., August 2, 1978.

HON. ABRAHAM A. RIBICOFF,
Chairman, Subcommittee on International Trade, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN RIBICOFF: The Senate Finance Committee and its Subcommittee on International Trade are considering H.R. 5044, a bill introduced by Representatives Bauman, Findley and Hillis. This bill suspends the duty on imports of strontium nitrate—a chemical manufactured by FMC and others for the pyrotechnic signal industry; and if enacted, will significantly harm FMC's strontium nitrate business and the operations of our Modesto, California, plant.

On behalf of FMC, I submit the following information for your consideration and respectfully request that this letter be made a part of the record.

As currently written, H.R. 5044 proposes a suspension of the column one, six percent ad valorem duty—the duty imposed on most favored Nation countries. Specifically, it would permit the duty-free importation from West Germany—a major producer of strontium nitrate.

The proponent of the bill, the Pyrotechnic Signal Manufacturers Association—in hearings before the Trade Subcommittee of House Ways and Means (April 26, 27, and 28, 1977, Serial 95-38) stated as its objective the encouragement of "nondomestic producers to supply the needs of the pyrotechnic signal industry and to keep the costs of these supplies at a competitive and reasonable level." The Association also expresses concern for the "reliability of FMC as a producer and supplier of strontium nitrate" in the United States.

FMC contends that it has been—and will continue supplying strontium nitrate on a reliable and reasonably priced basis to domestic pyrotechnic manufacturers.

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Commerce opposes the bill. The Department of State recommends against enactment of the bill, and the Department of the Treasury opposes reduction or elimination of the tariffs.

In summary, H.R. 5044, if enacted, would: Harm U.S. manufacturers, including FMC, now supplying strontium nitrate. Deter other domestic suppliers from entering the market, and add to the United States' ever-increasing trade deficit.

We ask your assisttance in this important matter, and are ready to furnish any additional information you or your staff might require.

Sincerely,

WILLIAM A. MCMINN,
Vice President.

STATEMENT OF THOMAS D. WILLIAMSON, ASSISTANT VICE PRESIDENT, CORPORATE TRANSPORTATION, CONTINENTAL GRAIN CO.

I am Thomas D. Williamson, Assistant Vice President, Corporate Transportation, Continental Grain Company, 277 Park Avenue, New York, New York. Today, I represent both Continental and National Grain & Feed Association.

Continental is one of the world's major grain and feed companies. Within the United States, we operate both small country elevators and major export facilities, soybean processing plants and feed manufacturing plants, poultry and cattle operations and bakeries. We currently operate a leased fleet of approximately 1,500 railroad covered hopper cars.

The National Grain and Feed Association is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex, and includes merchandisers, warehousemen, processors and exporters of a wide spectrum of grain and feeds. Its members include 1,200 direct memberships by individual firms and 48 state or regional grain and feed associations affiliated with the National, including some 10,000 grain and feed firms.

Both Continental and National Grain and Feed Association strongly support Senate Bill S. 3326.

There is currently a critical shortage of railroad cars of all types. United States manufacturers are unable to meet current demand and have extended production backlogs on their books. Deliveries for orders placed now have a 9–15 month lead time.

The railroads have reportedly been over 30,000 covered hopper cars per day short this past spring and last week were still 13,000 covered hopper cars per day short. Both National Grain and Feed members and Continental have been unable to meet contractual deliveries of products due to this acute shortage. Negotiations for additional covered hopper cars for our private fleets from United States manufacturers have been fruitless since they are all "booked" until mid 1979. We urgently need cars now and for the new crop year starting September/October 1978. Passage of Senate Bill S. 3326 repealing import duty would make foreign supplies of railroad cars more economically competitive and thereby permit imports.

We recommend passage of this Bill.

HERCULES, INC.,
Wilmington, Del., July 26, 1978.

Senator ABRAHAM RIBICOFF,
Chairman, International Trade Subcommittee, Senate Committee on Finance, Washington, D.C.

DEAR SENATOR RIBICOFF: Your sub-committee will soon be considering H.R. 9628, a bill to temporarily suspend the duty on nitrocellulose.

Hercules Incorporated is the only remaining domestic producer of nitrocellulose supplying this product for sale. We have no objection to this temporary suspension and urge enactment of the bill. While we are endeavoring to supply the domestic demand for nitrocellulose in an equitable manner, we feel that those we are unable to supply should not have to pay a duty on imported material which may make their products less attractive in a very competitive industry.

Sincerely,

JEROME D. TOWE,
Market Manager, Nitrocellulose.

STATEMENT BY KAISER ALUMINUM & CHEMICAL CORP. IN SUPPORT OF H.R. 5265

Kaiser Aluminum & Chemical Corporation, a Delaware corporation having its principal place of business at 300 Lakeside Drive, Oakland, California, strongly supports and urges the enactment of H.R. 5265, to provide for the temporary suspension of duties on the importation of fluorspar.

Acid grade fluorspar is used for the production of various fluorine-containing chemicals such as hydrofluoric acid, fluorinated hydrocarbons, and aluminum fluoride. The principal businesses of Kaiser Aluminum in which these chemicals are used are:

(a) production of primary aluminum in which aluminum fluoride is an indispensable electrolytic bath chemical; and

(2) production of a class of specialty chemicals, fluorinated hydrocarbons, which are used for cellular foam production, refrigerants, and for other purposes.

Kaiser Aluminum is the third largest producer of primary aluminum in the United States with an annual capacity of 724 thousand short tons. Its fluorochemical business is a significant part of that industry which includes numerous other chemical producers.

As a major user of fluorspar, the corporation is concerned about the tariff duty on fluorspar and recommends the elimination of this undesirable tax on a raw material important to the United States economy.

The concerned material is acid grade fluorspar, defined in the Tariff Schedules of the United States as fluorspar containing over 97% by weight of calcium fluoride. Such material is dutiable under Item 522.21 at the column 1 rate of $2.10 a long ton. A related material, metallurgical grade fluorspar, defined as containing not over 97% by weight of calcium fluoride, is dutiable under Item 522.24 of the Tariff Schedules at the column 1 rate of $8.40 per long ton. This related product is mentioned for the purposes of this statement, since the various grades of fluorspar are frequently produced in common facilities and sometimes intermingled in production or shipment statistics although the rates of duty are different.

For the United States, consumption of all grades of fluorspar was estimated to be 1.4 million short tons in 1977, with imports supplying 976,000 short tons or over 70 percent of requirements.[1]

Most of the imports (61 percent) were acid grade fluorspar. About 36 percent of the imported acid grade fluorspar (214,000 short tons) came from Mexico.

With regard to imports from Mexico, which is the major source of United States supply, there has been a tendency in recent years for integration forward into the production of hydrofluoric (HF) acid in Mexico. One large HF plant has been completed and interest in building others has been reported. Most of the output of the completed HF plant is being consumed in the United States, substituting for acid grade fluorspar imports. Since there is no import duty on HF acid, the duty on fluorspar encourages the location of additional plants to convert fluorspar to HF outside the United States. It seems inconsistent to add the penalty of the duty to the costs for domestic producers of HF.

The present import duty on acid grade fluorspar could be eliminated without significant effect on the domestic producing industry, but with a desirable effect on the costs and competitiveness of consuming aluminum and chemicals industries, since 90 percent of acid grade fluorspar consumed in the United States is imported. We urge the enactment of H.R. 5265, since we believe the suspension of fluorspar duties will result in lower prices to United States consumers and will discourage further exportation of U.S. jobs.

THE FERTILIZER INSTITUTE,
Washington, D.C., July 26, 1978.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade,
Washington, D.C.

DEAR MR. CHAIRMAN: Due to the very short notice of the hearing to be held on S. 3326 and also to the fact that I have a commitment to make a speech outside of the City on July 31, 1978, I respectfully ask you to place this letter into and made a part of the record on this measure. If there are any questions that arise during the hearings, I would be pleased to either answer them by mail or appear at any subsequent hearings the Subcommittee might hold.

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[1] Fluorspar in first quarter, 1978, Mineral Industry Survey, June 13, 1978, U.S. Bureau of Mines.

That there is a critical shortage of hopper cars can be little doubted. Indeed, this fact is unchallengable. Congressional concern is evidenced by recent hearings held by the Senate Committee on Agriculture, the Senate Committee on Commerce, the House Committee on Agriculture, the current hearings being conducted by the House Committee on Commerce, the Washington and field hearings by the Interstate Commerce Commission, all have focused on the problem. Yet, little has been accomplished. Quick enactment of S. 3326 can give us a small measure of instant help as it is the only piece of legislation now pending, which at this late hour, the 95th Congress could be expected to be enacted.

The fertilized industry, ending this year (June 30, 1978), shipped to the American farmer about 47–48 *million* tons of material. We also exported 18–19 *million* tons to our overseas customers. Our payments to the nation's railroads exceeded $1 billion. Our industry owns or leases over 8,000 hopper cars and 15,000 rail tankers. Because much of the material moves several times prior to ultimate farmer usage, we easily transported better than 100 million tons.

We "compete" with the grain industry for the use of the 75 and 100-ton closed hopper cars because they are the most efficient ideal vehicle to move large volumes of bulk materials. This is the precise description of both grain and fertilizer, i.e., bulky, heavy and free-flowing. Unfortunately, both grain and fertilizer are seasonally transported products. Fertilizer movements are very heavy in the spring (prior to planting) and grain immediately following harvest(s). 1978 proved to be a surprise because of the tremendous demand for grain exports which evidenced itself in very early January. Between frozen rivers (over which large volumes of grain ordinarily move) and severe snow storms which damaged the electrical machinery of the locomotive fleet and the aforesaid exports, the railroads just couldn't handle the traffic.

Our industry was hit very hard by the rail car shortage with both our domestic and foreign customers feeling the worst transport bottleneck ever experienced. Looking ahead, we do not see demand slackening. Indeed, our nation must re-double its grain/fiber exports in the face of a near collapse of our dollar internationally. Therefore, one can readily see an almost never ending pressure on the key to this growth—transportation. A quick glance at the two tables below clearly show the current trends.

First, let us look at fertilizer or the progenitor of U.S. farm output.

TABLE I.—*U.S. fertilizer*[1] *consumption*

Fiscal year:	*Million short tons*
1968	37.0
1973	43.3
1974	47.1
1975	42.5
1976	49.2
1977	51.6
1978 (est.)	47–49.0
1979 (est.)	53.0

[1] Source: Fertilizer Institute Data.

I purposely picked 1968 as the starting point for Table I because that was my first year as a member of The Fertilizer Institute's staff. U.S. domestic fertilizer consumption, just in this ten year span, has risen from a base of 35 million tons to what we now believe to be a new base of 50 million tons. Exports of phosphates show similar growth, for example, in the year ending June 30, 1978, our phosphate rock overseas movement will be about 14.5 million tons and finished material (Triple Super Phosphate, Diammonium Phosphate and Monoammonium Phosphate) will approach 5,200,000 tons or a new record. These phosphate exports will bring well in excess of $500 million in hard currenvy. This export traffic is almost all dependent upon rail deliveries. Like grain, ships being delayed for arrival of rail bound cargoes have been frustrating, expensive and gives our nation a black eye for undependability. We simply don't meet our shipping schedules due to lack of rail equipment.

Therefore, if one follows the "trend line", as indicated, it is clear that U.S. fertilizer consumption is quietly inexorably rising at about 3–5 percent per year on a compounded basis. True, we swing slightly above the line one year and slightly below the line in others, but, the trend is always up. We are not only a growth ndustry but will always be a larger user of rail transportation.

Let us look at another indicator—farm exports—or U.S. farm surplus production, if you will.

TABLE II.—U.S. AGRICULTURAL PRODUCTS

Calendar year	Millions[1]	1,000 metric tons[2]
1968	$6,228	56,312
1973	17,680	108,156
1974	21,999	92,635
1975	21,884	98,512
1976	22,997	110,857
1977	23,671	106,057
1978 (estimate)[3]	25,500	116,000

[1] Source: Table 1, page 1, "U.S. Foreign Ag Trade Statistical Report," calendar year 1977.
[2] Source: Table 36, page 343, "U.S. Foreign Ag Trade Statistical Report," clendar year 1977.
[3] "U.S.D.A. News Release," June 1978.

Again the trend lines point steadily sharply upward—true, a few dips below, an occasional soar up, but the export "line" is up. It must continue to climb or the nation is in serious trouble.

We are in urgent need of the Mexico-produced cars now. We certainly will need additional hopper cars into the foreseeable future of 1982. Our American car builders are back ordered and this legislation can hardly harm them for the numbers of cars coming from Mexico are not that large. Lastly, the heavy retirement of plain boxcars is continually reducing the nation's railroads carrying capacity for they are not consistently adding enough net capacity to stay even with the proferred traffic. This factor, plus the growth ahead, fully warrants prompt favorable Committee and Senate action on S. 3326.

Respectfully submitted.

EDWIN M. WHEELER,
President.

The Fertilizer Institute (TFI) is a nonprofit corporation commonly known as a trade association. TFI represents a broad segment of the industry from producers, manufacturers, retailers, broker/traders, and equipment manufacturers. TFI's membership represents in excess of 90 percent of all U.S. fertilizer production and includes both investor-owned as well as cooperative organizations.

UNITED STATES-MEXICO CHAMBER OF COMMERCE,
Washington, D.C.

STATEMENT OF GERARD J. VAN HEUVEN, EXECUTIVE VICE PRESIDENT, UNITED STATES-MEXICO CHAMBER OF COMMERCE

The U.S.-Mexico Chamber of Commerce is a non-profit, free enterprise organization working for a good understanding of business issues and for fostering mutually beneficial trade and investment between the two countries. Our membership is composed of about half U.S. and half Mexican companies. Representing them on our Board are twelve U.S. and twelve Mexican Directors. It should be of interest to this committee that most of the larger U.S. companies doing business in Mexico are members of this Chamber. Our Mexican Directors represent over 144,000 Mexican companies engaged in trade with the U.S.

Effective March 3, 1978, U.S. Tariff Schedule item number 69015 ("Railway cars, passenger, baggage, etc., not self-propelled") was removed from the Generalized System of Preferences (GSP) list of items to receive duty free treatment and 18% duty was imposed on Mexican rail cars, in accordance with the rules set up for the application of the GSP, Section 504 of the Trade Act of 1974. As the committee is well aware, Section 504 states that an item must be removed from the GSP list for a country if that country's exports to the U.S. exceed 50% of total U.S. imports. With that kind of restriction, Mexico exceeded imposed limitations by exporting any number over 43 rail cars in 1977 to the U.S. In 1977, U.S. railroads purchased 51,639 cars from domestic producers, 784 cars from Mexico, and 43 from others countries. In 1976, 111 cars were imported from

Canada, and 13 from France. It should be noted that in previous years Canada exported rail cars to the U.S. but in 1977 did not export the same volume as in previous years—thus leaving Mexico as the only major exporter to the U.S. and easily surpassing its quota.

Prior to the enactment of the 18% duty, U.S. railroad companies signed agreements with Mexico to purchase about 1,300 cars. The largest orders being made by Missouri Pacific and North American Car, these orders were placed with Constructora Nacional de Carros de Ferrocarri (CNCF) of Mexico. The CNCF was to deliver, in 1978, 31.7 million dollars worth of rail cars. These prepurchase agreements were made without any knowledge that prior to delivery an 18% duty would be imposed.

The 18% duty, which went into effect on March 3, has harmed not only Mexican producers of rail cars, but, more importantly, U.S. companies throughout the U.S. that supply components to Mexico to build the cars, and more significantly, and of major concern to this committee, the removal of GSP treatment on these cars has directly affected the U.S. agricultural sector at a time when farmers are fighting desperately to get adequate transportation to ship their grain to market. Estimates are that U.S. railroads are presently 25,000 cars a day short of customers' needs to ship wheat, corn, soy beans and other commodities. In all likelihood the shortages will increase. It is the recommendation of the U.S.–Mexico Chamber of Commerce that this committee approve a temporary duty suspension of four years for Mexican railroad cars. This would help to alleviate the immediate shortage problems and provide the U.S. agricultural sector of this country with its needed transportation in the shortest period of time. After the four-year grace period, if a shortage no longer persists, the duty could be reinstated. Senate bill 3326, sponsored by Senators Bentsen, Curtis and Dole, best exemplifies this stand. We strongly recommend that the committee support bill S. 3326 as the most viable means of solving our present dilemma.

In conclusion, let me say that we are all aware of the common 2,000 mile border shared by Mexico and the U.S. One can readily see as one travels throughout the border states that indeed our families are intermingled. To say that we share a special interest in Mexico's future would be an understatement since what affects our neighbors to the south directly or indirectly impacts on citizens in the U.S., and, as Mexico becomes a major energy source, we are increasingly made aware of this relationship. I appreciate the opportunity to present the Chamber's views before this committee.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., July 27, 1978.

HON. LLOYD BENTSEN,
Senate Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BENTSEN: The National Association of Wheat Growers wishes to indicate its support for legislation you have introduced together with Senators Dole and Curtis to exempt from duty railroad cars imported into this country until the close of June 30, 1982.

As you know, shortages of rail grain cars have been a recurring problem for the nation's wheat producers, and the current lack of rail equipment has plagued producers and country shippers since the fall of 1977. Unfortunately, there is already strong evidence that the current shortage will extend through this season's grain harvest and probably through the winter.

A review of the total grain carrying capacity of the railroads, i.e., box car and covered hopper car capacities, indicates that the retirement of box cars is occurring faster than the replenishment of capacity through covered hopper acquisitions. The result has been a reduction in the railroads' capacity to transport grain which was aggravated by a prolonged strike at one of the largest manufacturers of covered hopper cars.

The lack of rail equipment for the timely movement of grain from country positions to domestic and export outlets has a disasterous effect on prices received by producers, and the absence of rail transportation essentially locks them out of the market regardless of the demand for their product. It is the producer who ultimately bears the cost of a grain car shortage.

The NAWG commends you on the introduction of S. 3326, and we are pleased to add our support for the adoption of this legislation. We would appreciate your including this letter in the official record of the Finance Committee's hearings on S. 3326.

Sincerely,

JERRY REES,
Executive Vice President.

STATEMENT OF MICHAEL J. DUFF, LEGISLATIVE COUNSEL, NATIONAL PAINT AND COATINGS ASSOCIATION

The National Paint and Coatings Association,[1] as the trade association representing the U.S. Paint and Coatings Manufacturing Industry, appreciates this opportunity to testify in support of H.R. 9628, a bill to temporarily suspend the duty on certain nitrocellulose imported into the United States. Before discussing the current legislation, however, I would like to provide some background information.

Nitrocellulose is the oldest of the synthetic resins. It is prepared by the reaction of cellulose, from cotton linters or wood pulp, with an aqueous mixture of nitric acid and sulfuric acid. Normally, nitrocellulose is shipped wet down with 30 percent alcohol. As shipped, it appears like damp cotton lint. In the coatings plant nitrocellulose is dissolved in compatible solvent mixtures. Large closed mixers or dispersers are used in this process. Finished lacquer products are made by adding resins, pigments and plasticizers to the nitrocellulose solutions.

Nitrocellulose can be divided into two classes depending upon its nitrogen content. The "smokeless" type of nitrocellulose contains a minimum of 12.6 percent nitrogen by weight and is used primarily as an explosive or propellant. This type of nitrocellulose is of no concern to us and is not affected by H.R. 9628. The "soluble" type of nitrocellulose contains between 8 and 12 percent nitrogen and is used principally in the manufacture of a large number of fast drying, durable lacquer coatings. Nitrocellulose lacquers are the principal coating systems used for finishing wood furniture. Nitrocellulose is also used in manufacturing automotive refinishes, primers, and for a great variety of fast drying coatings for metal and plastics. Nitrocellulose supplies the luster or lacquer-like shine to these coatings products. Nitrocellulose also is used in the manufacture of other products including printing inks and fingernail polishes.

Since there have been two major domestic suppliers of nitrocellulose to the U.S. paint and coatings industry, precise published data on past U.S. production of "soluble" nitrocellulose is unavailable. A conservative estimate from one industry source gives some idea of cellulosic resins consumed by the paint and coatings industry. The following figures are given in terms of millions of pounds:

Nitrocellulose*:	
1967	36
1973	48
1974	43
1975	40
1976**	43

*This declining trend reflects a disruption in the furniture industry caused by the 1974–1975 economic recession. Estimated 1976 figures indicate a return to growth in consumption.

**Preliminary estimate. Source: Chemical Information Services, Stanford Research Institute, *Chemical Economics Handbook*, (Menlo Park, Calif., March 1977; P.K.

The "soluble" type of nitrocellulose is classified in the tariff schedules of the United States under the "basket" category for cellulosic plastics, item number 445.25, part 4A, schedule 4 of the Tariff schedules of the United States with a column 1 duty rate of 9.7 cents per pound and a column 2 duty rate of 40 cents per pound. The legislation addresses and we are interested only in the column 1 rate. The 9.7 cents per pound duty represents approximately a 10 percent surcharge over the prevailing price for domestically produced nitrocellulose.

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[1] The National Paint and Coatings Association, Inc. is a voluntary, nonprofit industry association originally organized in 1888 and comprising today approximately 1,000 members who are engaged in the manufacture and distribution of paint, varnish, lacquer and allied products, or the materials used in such manufacture. The vast majority of these members are small manufacturers. The membership of NPCA collectively produces about 90 percent of the total dollar volume of paint, varnish, lacquer and allied products produced in the United States.

Last year one of the two major producers of nitrocellulose resins to the paint industry, E. I du Pont de Nemours & Co., Inc., announced its intention to phase out production of the material. Du Pont indicated that it would accept orders only until September 1977, and deliver nitrocellulose on order until the end of 1977.[2]

The remaining domestic producer of nitrocellulose is Hercules, Inc. Although once again there are no specific industry figures due to their obvious proprietary nature, rough estimates of past nitrocellulose production attribute approximately 60 percent to Hercules with the remaining 40 percent to du Pont. Although Hercules has indicated it will do as much as possible to make up for the market shortfall caused by du Pont's exit from the market, we anticipate a shortfall of nitrocellulose to American coatings manufacturers of at least 20 percent or more than 8 million pounds during 1978.

Hercules, Inc., supports passage of H.R. 9628. Further, to the best of our knowledge no objection to this legislation has been heard from any source.

If enacted, H.R. 9628 would amend the tariff schedules of the United States to provide for the temporary suspension of the column I rate of duty on "soluble" nitrocellulose until the close of June 30, 1980. If enacted, the column I rate of duty would be changed to free from the current rate of 9.7 cents per pound. It is noted that neither the column II rate of duty, which applies to designated Communist-dominated countries, nor the duty on "smokeless" nitrocellulose would be affected by H.R. 9628.[3]

Enactment of H.R. 9628 will permit the removal of the entire duty on "soluble" nitrocellulose imported into the United States on a temporary basis through June 30, 1980. Technically, the material would be allowed to enter the United States "at free" for that period.

Enactment of H.R. 9628 will decrease the adverse economic impact on U.S. coatings manufacturers who, due to no fault of their own, will be forced to purchase nitrocellulose supplies from foreign producers. If legislative relief is not afforded these domestic coatings manufacturers, they will be forced either to permanently absorb the increased cost attributable to the duty or to pass it on to their customers, and ultimately the consumer, in the form of higher prices. H.R. 9628 also has appeal insofar as it would allow Hercules time to decide whether to expand production and permit time for other domestic manufacturers to enter the market.

Therefore, on behalf of domestic coatings manufacturers, the National Paint and Coatings Association strongly supports passage of H.R. 9628.

We thank you for allowing us this opportunity to present our views and hope you will give our remarks your careful consideration.

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION,
Washington, D.C., July 28, 1978.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR SENATOR RIBICOFF: The Amalgamated Clothing and Textile Workers Union, AFL–CIO, wants to register its opposition to S. 3171, a bill to provide duty-free treatment for certain gloves and trousers.

The apparel industry has long been recognized as one of the most import sensitive of all domestic industries. It has been both Executive and Legislative policy, under both parties, for two decades now to control apparel imports—including all gloves and trousers produced from man-made fibers. This policy of import control to preserve domestic employment includes as a basic component relatively high tariff rates on these products. Man-made fiber gloves and trousers are likewise specifically exempted from possible GSP consideration by the Trade Act of 1974.

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[2] For various reasons associated with their termination of production, du Pont did not complete shipment of its 1977 orders until March 1978.

[3] The "smokeless" type of nitrocellulose appears in part 12 of schedule 4 of the tariff schedules under tariff item No. 485.30, smokeless powders.

To broach this general policy for the items requested under this bill could undermine the consistancy and stability of the entire apparel import control program. This is particularly true in this instance since we have been advised that the requested items can be manufactured in the United States. To now provide special ease of entry for these items directly competitive with potential domestic production would open the door to every other item under import control becoming cause for a special pleading removal.

Secondly, all industrial manufactured product tariffs (except those exempted by law) are currently on the table of the Multinational Trade Negotiations in Geneva. There is before this very committee a bill, S. 2920, to exempt all textile and apparel products from tariff cuts during these MTN negotiations. This bill will be the subject of a Subcommittee hearing in the very near future. To provide duty-free entry to the gloves and trousers under S. 3171 would be unwise, untimely, and inconsistent with the requirement of S. 2920 should the latter be enacted.

The final point we wish to bring to the Committee's attention is the fact that the textile/apparel import control program is designed to be all-encompassing on imported products of man-made fibers. This is to prevent slight changes in design or construction in an attempt to evade both quota restraints and proper duties. By creating a duty-free line in the Tariff Schedules, especially one where the product definition is somewhat vague, you create an incentive for importers to either change glove and trouser construction to attempt entry under this particular TSUSA number, or possibly to cheat in an obvious effort to bypass quotas and duties. Customs inspectors have a hard enough job right now and this bill would make their work even more difficult.

We urge the Subcommittee to reject passage of S. 3171.

Sincerely,

ART GUNDERSHEIM,
Director, International Trade Affairs.

RAILWAY PROGRESS INSTITUTE,
August 4, 1978.

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

DEAR MR. CHAIRMAN: The Railway Progress Institute is filing the attached statement for the Senate Finance Committee hearing record in opposition to S. 3326, a bill to suspend the 18 percent tariff on railcars imported into the U.S. before June 1, 1978.

This bill would encourage foreign competition in the U.S. railcar market and is of critical importance because of its impact on the cyclical nature of the U.S. freight car and component manufacturing industries. By changing current law by exempting foreign railcar builders from the current 18 percent tariff you will: a. Export further U.S. jobs to foreign countries, and, b. Create a future capacity shortfall in an industry just now on the upswing from a depression.

The Railway Progress Institute appreciates your consideration of these views and requests you to vote against S. 3326 in the Finance Committee markup scheduled for August 9, 1978.

Sincerely,

ROBERT WM. SMITH.

Attachment.

STATEMENT OF THE RAILWAY PROGRESS INSTITUTE

The Railway Progress Institute, the national association of the rail and transit equipment industry, is comprised of almost 175 companies which manufacture rolling stock, components, signals, rails, and track accessories for rail and transit systems in this country. This statement is in opposition to S. 3326, a bill to suspend the 18 percent tariff on rail cars imported into the United States before June 1, 1982.

There is no question that the United States is currently experiencing a shortage of railroad freight cars. It has also been suggested the U.S. freight car and component manufacturing industries do not have the capacity to provide cars at a fast enough pace to alleviate this critical shortage and through enactment of S. 3326, foreign car builders could fill this current shortfall.

Through Congressional hearings on this matter, it has become evident that car shortages are not the result of an actual shortage in the supply of cars, but are due to abnormal demand situations. Let us look at the grain car shortage in particular. With the spurt in grain prices late in 1977, farmers were suddenly eager to move last year's grain crop, which had been held in storage because of low prices. This sudden demand plus the need to move this year's crop created a situation where the grain transportation system, mainly the railroads, was called upon to move a two-year supply of grain in a relatively short time frame, thus, creating abnormal demand.

An increased demand for coal compounded the transportation burden. Following a prolonged coal strike earlier this year, public utilities and other coal users were eager to rebuild stockpiles seriously depleted during the strike. Railroads were again called upon to provide more cars than would normally be needed.

These two abnormal-demand situations were further compounded by the "worst winter on record" in the Northeast creating an excessive demand for freight cars. The railroads have long insisted, and most all agree, that it is simply not reasonable to argue that the railroads, the federal government, or anyone else should invest large sums of money in new car acquisition to handle peak demands if these care are going to sit idle for six to eighteen months when demand is low.

This is not to say the railroads are not purchasing new freight cars. Orders for 48,033 new cars were placed in the first five months of 1978, more than twice the number placed during the same period in 1977. The U.S. freight car manufacturing industry has more than adequate capacity to meet the requirements of the railroads. Most recent estimates indicate the annual domestic, private railcar building capacity to be about 77,000 units while railroad shop capacity accounts for an additional 10,000 cars. That this is ample capacity is highlighted by the fact that only once in the last ten years have there been as many as 70,000 new freight cars purchased. This excess capacity in our industry suggests that existing law should not be changed to encourage entry of foreign builders into the market by waiving the tariff on imported railcars as proposed in S. 3326.

It is our understanding that S. 3326 is aimed primarily at providing tariff relief for Mexico which was exempt from the 18 percent duty under the Generalized System of Preferences. This exemption was revoked in March of 1978. While imports from Mexico, in previous years, have represented a relatively small percentage of total car deliveries, the legislation will invite other countries to enter our market place and worsen the export of American jobs. The most serious competition could come from Canada. It has been reported that freight car manufacturing industry in Canada is currently operating at about 40 percent capacity. It seems to RPI that suspending the duty on freight cars would be a big incentive for the Canadians to use that excess capacity in the U.S. market. With manufacturers in Mexico and Canada taking advantage of the duty suspension to claim a share of the U.S. railcar market, the adverse impact on a domestic industry already producing at less than full capacity in nine of the last ten years is obvious: it will cripple the U.S. carbuilders trying now to recover, and insure another shortfall in the future.

Earlier we mentioned that 48,000 cars were ordered in the first five months of 1978. Most has been said about our order books being full and lead time for most manufacturers extending into the third quarter of 1979. This is true, but we must look beyond this near term time frame. Our industry has been notoriously cyclical, with deliveries in the last dozen years ranging as high as 90,000 in 1966 and as low as 47,000 in 1972. So while we now seem to be at the peak of our cycle, we may well be starting a downward swing by the time the full impact of S. 3326 is felt in late 1979 and early 1980.

The Railway Progress Institute is in favor of existing law which requires an 18 percent tariff on imported railcars. We oppose the special treatment which would be granted in S. 3326. However we realize that the withdrawal of the duty suspension for Mexico on March 1 may have caused a problem for railcars ordered but not delivered by that date. So to avoid undue hardships on companies with contracts signed prior to the duty being waived, RPI would not oppose waiving the tariff for cars ordered prior to March 1, 1978 and delivered prior to December 31, 1978.

The Railway Progress Institute wishes to thank the Committee on Finance for considering its views on S. 3326.

STATEMENT OF JAMES G. SCHMOYER, VICE PRESIDENT, ALLEN PRODUCTS CO., INC.

This statement is submitted in support of legislation to amend the tariff schedules to provide for mixed animal feeds containing soybeans. The proposed legislation would add to the definition of mixed feeds "admixtures of soybeans or soybean products." The term "mixed feeds" presently embraces products that are admixtures of grain or grain products.

This legislation has been twice approved by this Committee, and passed by the Senate, most recently as an amendment to H.R. 3373. Unfortunately, the amendment was not accepted by the House of Representatives. It is requested that this Committee again approve this legisaltion, and it is hoped that it can be enacted this year.

For more than forty years Allen Products has been engaged exclusively in the manufacture and sale of dog food. We are headquartered in Allentown, Pennsylvania, and we have manufacturing plants in Crete, Nebraska, and St. Paul, Minnesota, as well.

One of our products—ALPO Beef Chunks Dinner in the large size can—is imported from Canada. This represents less than three percent of the dog food that we market in the United States. We are increasing our U.S. production of ALPO Beef Chunks Dinner in the large size can, but our domestic production capacity is not yet sufficient to meet U.S. needs and, for the time being, we must continue to import this size can from Canada.

The imported ALPO Beef Chunks Dinner is primarily a meat product but may contain varying amounts of soy flour. About four years ago we increased the soy flour to at least six percent. If this product had contained at least six percent grain, instead of six percent soy flour, it would have come in free of duty under item 184.70 of the Tariff Schedules of the United States, as contrasted to the seven and one-half percent rate of duty we actually paid.

When we increased to six percent the soy flour in our imported product, we did so on the basis of official information to the effect that soybeans for purposes of the Tariff Schedules would be considered a grain, and that including at least six percent soybeans or soy product would qualify the product for duty-free entry. Subsequently the Classification and Value Division of the U.S. Customs Service overruled the District Director of Customs, and concluded that soybean flour is not grain or grain product for the purpose of item 184.70 TSUS. Thus a product containing at least six percent soy flour is still dutiable at the seven and one-half percent rate.

The amendment which we are supporting would accord to mixed feeds conaining at least six percent soybeans, the same treatment as is now accorded to mixed feeds containing at least six percent grain, and we believe that this is fully justified for two reasons. First, the specially textured soy flour used in the product is exported from the United States. Secondly, a meat or meat by-product dog food containing six percent soy flour has higher quality protein (better amino acid profile) than a similar feed containing grain. It also has a higher quality protein than a similar product containing meat and meat by-products.

We are unaware of any opposition to this legislation except that some of the Executive Departments have taken the position that legislation which would change tariff classifications should not be enacted during multilateral trade negotiations, because of the possibility that any concessions made might be used in negotiations to secure reciprocal benefits. It is our firm belief, however, that that position would be misapplied to our proposal.

In the first place, the legislation would affect a relatively trivial amount of trade, the estimated maximum difference in revenues being approximately $250,000 annually, not a significant amount for trade negotiations. In the second place, the product involved is a single product of a single company without general trade implications and, therefore, without significance to the Canadian Government. In the third place, the composition of the product which determines the tariff treatment is within the control of the manufacturing company which can include more or less grain or soybeans depending upon the tariff consequences. We can and do from time to time vary the composition of our product to minimize costs.

Furthermore, to fail to enact this legislation on the grounds that the issue should be reserved for trade negotiations would deprive us of needed relief with no possibility at all that relief would occur through trade negotiations. A useful principle should not be applied to a case to which it has no applicability.

It is not right to oppose our proposal on the grounds that it should be reserved for trade negotiations when there is no reasonable possibility that it will ever become the subject of negotiation.

Finally, I should like to assure the Committee that the soybeans contained in our product are United States soybeans. They are included in the form of specially textured soy flour which is exported from the United States. I want to emphasize that no foreign processed flour is included in ALPO Beef Chunks Dinner, the only product which would be affected by the proposed legislation.

So far Allen Products is aware, no other importer or importation would be affected by this legislation. It is estimated that the probable impact on revenues could reach a maximum of between $106,000 and $250,000 per annum depending upon the precise percentage of soybeans incorporated in the product.

We respectfully request that the Committee again give sympathetic consideration to our proposal. Its enactment would enable us to provide a better product and no other person or interest would be harmed. The enactment of this legislation would have no effect on domestic production or employment and would benefit consumers by providing a better product.

A BILL

To amend the tariff schedules to provide for mixed animal feeds containing soybeans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That schedule 1, part 15, subpart C, headnote 1(b), Tariff Schedules of the United States, is amended to read as follows:

"(b) The terms 'mixed feeds' and 'mixed-feed ingredients' in item 184.70 embrace products which are admixtures of grains (or products, including byproducts, obtained in milling grains) or of soybeans (or products, including byproducts, obtained in processing soybeans) with molasses, oil cake, oil-cake meal, or other feedstuffs, *except that there shall not be included in the terms 'mixed feeds' and 'mixed feed ingredients' in item 184.70, products which are admixtures of soybeans or soybean products with other soybean products, or of soybeans or soybean products or of grain or grain products, with milk products, or with products containing milk or milk derivatives;* and which consist of not less than 6 percent by weight of said grains or grain products or of said soybeans or soybean products."

SEC. 2. This amendment shall apply to articles entered or withdrawn from warehouse for consumption after the date of the enactment of this Act.

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