THE TRADE REFORM ACT OF 1973

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 10710

AN ACT TO PROMOTE THE DEVELOPMENT OF AN OPEN, NONDISCRIMINATORY, AND FAIR WORLD ECONOMIC SYSTEM, TO STIMULATE THE ECONOMIC GROWTH OF THE UNITED STATES, AND FOR OTHER PURPOSES

MARCH 4, 5, 6, 7, 21, 22, 25, 26, 27, 28, 29, APRIL 1, 2, 3, 4, 5, 8, 9, AND 10, 1974

PART 4

Public Witnesses

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TRADE REFORM ACT OF 1973

TUESDAY, MARCH 26, 1974

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

The committee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, the Hon. Wallace F. Bennett presiding.

Present: Senators Bennett, Hartke, Byrd, Jr., of Virginia, Fannin, and Hansen.

Senator BENNETT. Ladies and gentlemen, this morning we will continue our hearings on H.R. 10710, the Trade Reform Act.

Today we will hear from various groups representing the steel producers and importers. All witnesses have been instructed to confine their remarks to a 10-minute summary of the principal points in their written briefs, and the written testimony will be accepted for the record and printed in the record in full.

During the interrogation, a 5-minute rule will be in effect during the first round, and any Senator who wishes to interrogate a witness for a longer period of time may utilize the Executive Room, which is through the door behind me, after the witnesses have left the stand.

Our first panel this morning will consist of Mr. Stewart S. Cort, chairman of Bethlehem Steel; Mr. R. Heath Larry, vice chairman of United States Steel; Mr. Roger S. Ahlbrandt, chairman of Allegheny Ludlum Industries; and Mr. Mark T. Anthony, vice president and general manager of Kaiser Steel Corp.; all of whom are representing the American Iron and Steel Institute.

Gentlemen, we welcome you this morning and we will be very happy to proceed with the summary of your statements.

As I have explained to these gentlemen, I am a fugitive from another committee meeting, and if and when another member of the committee enters the room, he will take over for me at that time. But I will be here, I hope, until I hear the statements from all of the members of the panel before me.

We will begin with Mr. Cort.

30-229—74—pt. 4——2

STATEMENTS OF STEWART S. CORT, CHAIRMAN, BETHLEHEM STEEL, AND CHAIRMAN, AMERICAN IRON & STEEL INSTITUTE; R. HEATH LARRY, VICE CHAIRMAN, UNITED STATES STEEL, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL TRADE, AMERICAN IRON & STEEL INSTITUTE; ROGER S. AHLBRANDT, CHAIRMAN, ALLEGHENY LUDLUM INDUSTRIES; AND MARK T. ANTHONY, VICE PRESIDENT AND GENERAL MANAGER, KAISER STEEL CORP.

Statement of Stewart S. Cort

Mr. Cort. Thank you, Mr. Chairman.

My name is Stewart Cort; I am appearing today as chairman of the American Iron & Steel Institute. Our domestic member companies account for about 95 percent of the steel produced in this country, and employ over 500,000 workers.

As you said, the gentlemen with me are R. Heath Larry, chairman of the institute's committee on international trade and vice chairman of United States Steel Corp.; Roger S. Ahlbrandt, chairman of Allegheny Ludlum Industries; and Mark T. Anthony, vice president, general manager of steel division, Kaiser Steel Corp.

Mr. Chairman, we are fully aware of the heavy schedule of this committee, so we will be very brief. What I would like to do is call your attention to particularly important points in our formal statement which you have copies of. And then Mr. Ahlbrandt will have some remarks relating to the particular problems of the specialty steel producers. Mr. Anthony will address himself to regional distortions.

The bottom line is that in our view, the trade bill before you is not attuned to the world of today and, even less, to the world of tomorrow. In fact, if passed in its present form, it will leave us even worse off than we are now.

The three basic provisions that are needed in comprehensive trade legislation are described in our statement.

First, it must provide for sector negotiations for steel and other basic commodities that are essential to the proper functioning of the economy. These sector negotiations would encompass all tariff and nontariff distortions affecting international trade flows in those commodities.

Second, it must provide authority to enter into orderly marketing agreements on a sector basis similar to the recently negotiated GATT Multi-Fiber Textile Arrangement; that is, arrangements aimed at preventing market disruption while moving nations ahead on a course of liberalized trade.

And third, it must include provisions covering dumping, subsidies, and other unfair trade practices in such a way as to forcefully convey the intention of the United States to counteract such practices.

Mr. Chairman, unless the bill is rewritten to incorporate the foregoing elements, its enactment will leave us worse off than we are today, with the inadequate statutes and administrative procedures now in effect.

I will skip over our analysis of the current world market situation and the continuing substantial impact of steel imports. But because

of those realities, we must strongly endorse the principle of international negotiations.

As stated in our preferred statement, international negotiations are necessary to the steel industry. They can serve the economy in three ways that will encourage the continuing development of adequate and reliable sources of steel.

First, we need access to vital raw materials through trade with any country that can provide such resources, except where overriding national defense or national economic security issues are involved.

Second, we have to reach a maximum degree of understanding as to what constitutes fair terms of trade in steel.

And third, we have to achieve a well-designed, orderly marketing and safeguard system that, in the event of actual or threatened disruption from imports, will permit prompt, adequate limitation on imports for a temporary period until the disruption has abated.

International negotiations are essential in order to reach these three goals, and the shortcomings of the trade bill in this regard are brought into sharp focus by the current energy situation.

Our Government has shown concern, and rightly so, about what could happen to forms of domestic energy production that have become economically viable in recent months because of the higher prices imposed by foreign oil-producing nations.

What would happen to domestic supply sources if those same foreign producers used their leverage to reduce prices to uneconomically low levels just as abruptly as they have raised them? We should be asking the same kind of question about steel for reasons that we have set forth on pages 5 and 6.

This is a matter that ought to be fully understood and carefully considered.

Now, I would like to call your particular attention to several sections of the bill.

First, the section on negotiating authority. Our comments appear in our written statement. And I will only touch on a few of the more crucial points. I want to emphasize, that for the steel sector, only negotiations covering all types of nontariff distortions of trade and not only tariffs, have a chance of producing meaningful results.

As we point out, in our statement more than 70 percent of the world's steel output is produced by facilities that are government-owned or government-controlled. Their output and sales are heavily influenced by political and economic policies of those governments—policies designed to attain high levels of employment, to improve their international balance of payments and to provide adequate supplies of essential materials.

As I noted earlier, the only practical way to deal with the trade distortions and disruptions that emanate from those policies is by international negotiation. Therefore, we urge that title I be amended.

First, to require sector negotiations for essential basic commodities such as steel, covering tariffs and all other factors influencing international trade in those commodities.

And second, to define the terms "barriers to" and "disruptions of" international trade so as to include the effect on trade arising from conditions that in fact have a very profound effect on trade. They include national balance-of-payments problems, export controls, ma-

terials policies, tax policies, pollution abatement programs, Government ownership or control of industries, subsidies and other nontariff distortions.

Now I would like to turn to the subject of safeguards. The observations in our statement lead very forcefully to two recommendations.

First, we recommend that the legislation clearly recognize that orderly marketing arrangements are legitimate instruments of trade policy, and that this applies particularly to commodities that are essential to the operation of the economy and that require heavy, long-term capital investments in productive facilities. They should certainly not be last on the list of preferred methods of dealing with trade problems, as the House bill now has it.

Second, we urge that the bill incorporate the definition of "market disruption," the import restraint formula, the consultative procedures, and other essential features of the safeguard measures embodied in the recently negotiated Multi-Fiber Textile Arrangement.

Finally, we come to the provisions of the trade bill covering unfair trade practices. Although we note several improvements in title III, we object to other provisions that are inadequate, if not totally incomprehensible. For example, there is a procedural bias against injured domestic manufacturers. We believe that judicial review of antidumping proceedings would be a hollow proceeding for an American company that was denied the right to full participation in making the record which then becomes the sole basis for the judicial review.

Other specific objections are noted in our statement.

To summarize, we urge that the antidumping and countervailing duty provision be amended.

First, to permit all parties to an antidumping case to have equal rights to be heard.

Second, to eliminate the moratorium on application of countervailing duties.

Third, to define the terms "industry" and "injury."

And fourth, to require that the Secretary of the Treasury publish a notice within 30 days after receipt of a complaint in order to fix the triggering mechanism on the running of time limitations.

Mr. Chairman, the changes we are recommending would make a difference between an acceptable bill and an unacceptable one. We cannot support a trade bill that, in our judgment and in spite of its favorable changes, weakens or destroys effective enforcement of the fair trade laws, perpetrates ineffective safeguard procedures, and provides unconstrained negotiating authority.

Thank you.

Senator BENNETT. Thank you very much, Mr. Cort.

We will hear all four witnesses before any questions will be asked.

The next witness is Mr. R. Heath Larry, vice chairman of United States Steep Corp. Mr. Larry, you have 10 minutes.

Mr. LARRY. Senator, I have no prepared statement at this point. The other prepared statements are from Mr. Ahlbrandt and Mr. Anthony. But I am available for questioning afterward.

Senator BENNETT. In what order, then, would you prefer——

Mr. CORT. Mr. Ahlbrandt.

Senator BENNETT. Mr. Ahlbrandt, then, we will be happy to hear yours.

Statement of Roger S. Ahlbrandt

Mr. AHLBRANDT. Thank you, Mr. Chairman.

I represent American Iron and Steel Institute, and also the Tool and Stainless Steel Industry Committee.

The specialty metals industry of the United States, a vital part of the American steel industry and essential to the key growth industries of our country, also cannot support H.R. 10710 in its present form.

Trade legislation in America must be realistically expansive yet adequately supportive of the best interests of the American people. Such trade legislation, in our view, must include these essential elements: (1) an early warning provision that will enable our economy to quickly perceive danger and alert the responsible agencies of Government; (2) flexibility that will enable our economy to respond quickly and move fast, including a mandatory triggering mechanism that activates immediate programs; and (3) coordinated economic policy that recognizes the fact that bloc and cash-flow economies in other parts of the world differ greatly from the U.S. profit-oriented economy and that capital formation and the availability of capital investment funds are also provided differently by these various economies.

We do not find H.R. 10717 in its present form thus responsive to the new world economic situation in which our companies and our Nation find themselves. We do not find in this bill now the kind of economic realism that will permit the American Nation to compete effectively throughout the world. We do not find in this bill an adequate recognition of the fundamental fact that the American market must not be wide open for the kind of economic invasion that marked much of the 1960's and early 1970's, to the serious detriment of American industries and workers. And we oppose in this bill, or any other trade bill, economic decisions that are based on noneconomic, that is, political, views and positions.

When the specialty steel and metals industry is severely impacted, either by unrestricted imports, unwise Government controls, including discriminatory administration of such controls, unrealistic policies and attitudes on critical raw material procurement—largely from foreign sources—or similar factors, many key industries in the American society are also affected.

The specialty steel and metals industry of America is a case history of what happens to a vital economic sector when America lowers its guard. Important product lines of the specialty steel industry were almost wiped out by unrestricted imports during the late 1960's and early 1970's, with as much as 70 percent of the markets for certain specialty steel products going to foreign producers under unfair conditions of international trade.

That invasion not only weakened specialty steel companies by bringing chaos to the American marketplace and eroding profit margins, it also left a legacy which may cost our society dearly. I refer to the lasting effects of the severely depressed prices of specialty steels which led to distortions under the economic controls program and to the adverse impact on the formation of capital investment fund resources for more American productive capacity and more jobs in specialty steels.

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Relief from the disaster of the late 1960's and early 1970's was too little and too late, and that is why we strongly recommend both an early warning provision and a triggering mechanism for automatic action in a new trade bill. As the world steel capacity nears a billion tons a year, with more than a million tons of largely exportable stainless steel capacity alone in each of several individual nations, we in specialty steel fear a repeat of the invasion of our markets, as in the late 1960's and early 1970's, should there be abatement of demand for specialty steels abroad or should the economic policies of foreign governments dictate a change.

Therefore, a trade bill which will determine our country's economic future for decades to come requires at the very minimum the realism of sector negotiations, orderly marketing agreements on a sector basis in international negotiations, and strong antidumping, subsidy and unfair trade practice provisions which the American Iron and Steel Institute here has requested and which we in the stainless and tool steel industry also strongly favor.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you very much.

And we will now hear Mr. Anthony, vice president and general manager of Kaiser Steel Corp.

Statement of Mark T. Anthony

Mr. ANTHONY. Thank you, Mr. Chairman.

My name is Mark Anthony, and I am vice president and general manager of the Steel Division of the Kaiser Steel Corp., with headquarters in Oakland, Calif.

I appreciate the opportunity to appear before the committee and to testify on H.R. 10710. My testimony will be brief and specific. I will forego any general discussion of the Trade Reform Act of 1973 of the larger issues of international trade policy as they affect the U.S. economy or the steel industry domestically and internationally. These matters and others are of interest to us, but they are covered by other spokesmen for the American Iron and Steel Institute.

I have been authorized by the chief executive officers of five other steel companies in the western United States to say that they associate themselves with my testimony here today. My statement will be confined to a specific recommendation for improvement of H.R. 10710. I would like to emphasize that our recommendation to you for amendment of the bill does not represent special interest pleading. To be sure, this proposed amendment grows out of Kaiser Steel's experience in the steel industry, but it is of general application to all industry and thus constitutes an improvement in the bill of broad application and interest.

The facts on which these requests for improvements are based are indisputable. Imports of foreign steel into the western United States are and have been twice as severe as for the United States as a whole. Thus, as a regional company we feel we must speak for the special and specific problems of the industry on a regional basis. And we believe that similar regional considerations are important for other industries as well.

For years western steel producers have been decrying the disproportionate burden they have faced from cut-priced foreign competition, pointing out that the flood of imports was stifling growth of the domestic steel industry, and thereby causing an increasing dependence upon foreign sources for this material which is so vital to a modern industrial economy. Unless some modicum of orderly marketing entered into the picture, we said, the time would come when imported steel would command a premium price, and steel in some product areas would not be available at any price. Gentlemen, that time has come. Some foreign steel is now selling at a premium price in the West.

When, over the period from about 1959 to 1972, foreign steel producers wanted to establish a particular product position in the western market, they carved out any portion they wanted—25 percent, 35 percent, 45 percent, 55 percent—by undercutting domestic prices by the amount it took the achieve the penetration. The American steel producer, and particularly the American steel producer located in the western United States, had no practical weapons with which to turn back this penetration of his markets. Under such a condition, the domestic steel industry could not possibly attract the investment capital necessary for expansion.

As a consequence, western manufacturers and other users of steel mill products have come to rely upon foreign steel production for a significant portion of their requirements. We should never have allowed the situation to arise where 30 percent of the American steel market is supplied by interruptible foreign sources. It is not good for the American economy; it is devastating to the western economy. It is not good for the domestic steel producer, or the steel consumer.

I can assure you, gentlemen, that from the letters and phone calls I have received from our customers, our customers are not happy with this situation either.

The capacity for production of domestic steel in the western United States right now is woefully inadequate to meet the demand. Before the tremendous amounts of capital required to expand this capacity can be marshalled, there must be some assurance that this flood of foreign imports will not be allowed at some future time to again disrupt this market.

In our view, this situation can be greatly alleviated in the future by more specifically defining the determination of injury on a regional or geographic basis and by certain technical changes in the language. I refer to chapter 1 of title II of the bill, relating to import relief and more specifically to section 201, which relates to the Tariff Commission's investigations under the so-called escape clause provision.

Section 201(b) sets for the various criteria and standards which the Tariff Commission must take into account in making a determination of injury to a domestic industry. In section 201(b)(3), on page 51 of the bill, the concept of domestic industry is further defined. Two such definitions are offered in subparagraphs (A) and (B). I would submit for your consideration an additional definition which would form a new subparagraph (c) to read as follows: (C) May, in the case of a domestic producer located in a major geographic area of the United States and serving a market in that area, treat as part of such domestic industry only that segment of the producer located in such geographic area.

This additional language would make it possible for the Tariff Commission, where the circumstances and the facts warranted, to make a finding that imports are causing or threatening serious injury to a domestic industry located in a major geographic area of the United States and serving an identifiable market within that area. Upon such a finding and recommendation by the Tariff Commission, the President would be free to provide import relief when he determines such relief to be appropriate as provided for in sections 202 and 203 of the bill.

We believe that such an amendment is both appropriate and desirable. Chapter 1 of title II of the bill contains provisions designed to protect a domestic industry from injurious imports. Such protection has been established national policy for many years. The provisions of that chapter, however, are inadequate. They do not explicitly make provision, in defining a domestic industry, for cases of serious injury to a domestic industry when the import problem is confined to a major geographic area of the United States. This is an actual and not a theoretical situation. It has happened in the case of the west coast steel industry and can no doubt happen again, both for steel as well as for other industries in major geographic areas within this huge continental economy of ours.

I understand that their have been at least eight cases under the Antidumping Act in which the Tariff Commission found injury to geographic segments of the industry in the United States assessed dumping duties against the imports. Citations from the Tariff Commission's reports in these cases are attached as annex C.*

Certainly, when production facilities are underutilized, when wage earners are unemployed in layoffs, and when returns from economic activity are depressed, the injury is just as real when confined to an industry in a specific geographic area as when it is general injury throughout the United States. Indeed, one can conceive realistically of the following situation arising: a geographic segment of an industry is injured by imports causing 10,000 people to be unemployed, but access to relief under the escape clause is doubtful. By contrast, an industry in the United States as a whole is injured, resulting in only 2,000 people or one-fifth the number unemployed, and access to the escape clause is assured. I cannot believe that the Congress intended to permit such an anomalous situation to exist.

Would our proposed amendment do violence to the policy of the bill before you? It would not. On the contrary, it would give full effect to a policy as presently stated in the bill. In the trade bill as submitted by the administration, and as passed by the House, the special problem of geographic impact of imports was recognized. Thus, in section 202(c)(7), the President, in making his determinations under the escape clause, is instructed to take into account "the geographic concentration of imported products marketed in the United States." The President, however, cannot take this into account unless the Tariff Commission can make a finding of geographic injury which then goes to the President for action. This situation was brought out in a colloquy between Congressman Pettis of the Ways and Means Committee and Acting Chairman Ullman during the House debate on the trade bill. The text of this colloquy is attached as annex B.**

*See p. 1079.
**See p. 1078.

The amendment which we have proposed to section 201 (b) (3) would simply make it explicit that the Tariff Commission may make a finding under the escape clause with respect to a geographic segment of an industry when the facts warrant such a finding and would, therefore, make it possible for the President to act in such a case.

I recommend this proposed amendment for your serious and sympathetic consideration.

I have also affixed to this statement a memorandum (annex A) covering two related amendments which I shall not read at this time, but which my associates and I would be glad to discuss with members of the committee and its staff.*

Thank you very much, Mr. Chairman.

Senator BENNETT. Thank you very much. You have done excellent jobs of keeping within the 10 minutes, and we appreciate that because we have a number of other witnesses.

There are two or three questions here that I would like to raise for the record.

Mr. Larry, you did not get a chance to say anything. Your chance comes now. The United States Steel annual report for 1973 shows that the number of employees of United States Steel has declined from 271,000 in 1957 to 184,000 in 1973. It also shows that income declined steadily over this period, both absolutely and as a percentage of sales. Although 1973 was a recovery year, you are still earning far below what you earned 17 years ago.

Does this matter of foreign competition enter into this trend?

Mr. LARRY. Senator, it enters into it most markedly. It was certainly a large part of the reason for the decline in the 1960's, and as you say, we have partially recovered from the decline of the 1960's, but really only about halfway. We and the rest of the industry, I think, made a herculean effort in the latter part of the 1960's to bring our facilities up to topmark in the hope of being able to compete more viably in the world market. We still have a way to go. We have improved our quality, but at the moment, as you are aware, we are certainly short of capacity for this economy. Unfortunately, the rate of return is really not a competitive rate compared to many things, including the prime rate of interest. I think there is little question that the combination, if you will, of former trade policies, the import threat, and more recently the Cost of Living Council rules and regulations—these factors have contributed to our inability really to do a job for the Nation, which ought to be done.

Senator BENNETT. Your company is a corporate citizen—a constituent of mine.

Mr. LARRY. We are very proud to be so.

Senator BENNETT. Also, Mr. Anthony's company, at least so far as coal is concerned.

Do you agree with his comments about the necessity to handle this thing on a regional basis?

Mr. LARRY. I think it is very appropriate to give attention to the regional problems because they have varied so markedly as the years have gone by. We have seen vast penetrations in the west coast, almost to, at one point, near destruction of the industry in the West. We saw it begin to happen down on the gulf coast. It has varied from time to time, depending upon the origin of foreign exports.

*See p. 1078.

The Japanese, of course, have been a major threat in the West. Then some of the South American countries began to, if you will, unload their unemployment into our Southern markets for a period of time. It was a very special and a particular threat, a very isolated situation and one that certainly deserves consideration, even if it occurs at a point when the industry as a whole might be lacking in what you would call a definition of injury. But injury can be very important to the employees, the governmental bodies concerned, the tax base, and everything else, in particular areas such as the west coast.

Senator BENNETT. The voluntary steel import program has a provision intended to avoid rapid shifts in geographic imports or shifts in the product mix.

I would like any of you to comment, if you like, particularly Mr. Ahlbrandt, and Mr. Anthony.

Has this voluntary program failed?

Mr. AHLBRANDT. Well, if I may be first, Mr. Chairman, I would say that so far as the voluntary restraint arrangements were concerned, the first one was a complete failure so far as the specialty steel industry was concerned, in that the product mix was not really adhered to and the foreign imports more or less tended toward the high-priced, supposedly more profitable material. But during the second voluntary restraint arrangement which will be terminated at the end of 1974, Japan very definitely stayed with her commitment, or at least commitment of the arrangements itself except for tool steel—based on our data. Whereas, I think, the commitment was totally neglected so far as France was concerned. However, the other EEC countries, more or less due to the very high demand of worldwide steel, certainly helped considerably during the last couple of years to hold down the imports. I think probably Mr. Anthony though could be better served to answer for himself.

Mr. ANTHONY. Well, I would like to comment, Mr. Chairman, that the voluntary restraint arrangements, No. 1, certainly gave recognition to the type of problem of which we are speaking. In the case of the west coast, I think the voluntary arrangements did not fully do the job. During periods of world oversupply, the percentage of steel into the Western United States increased rather dramatically under the first part of the voluntary arrangements, and did not decrease to the agreed upon portion during the second phase of the voluntary arrangements.

I think the problem we have with the VRA is that No. 1, it is due to expire at the end of 1974. No. 2, there is somewhat of a cloud over its legality, and we are looking really for an alternative solution to the problem.

Senator BENNETT. Do you want to make any comment, Mr. Cort?

Mr. CORT. The signatory countries—in other words, Japan and Europe, the Common Market—have in the last several years, possibly due largely to market conditions, stayed within the limits of the agreement. But we have seen a very dramatic increase from nonsignatory countries, and that is one of the weaknesses of the voluntary arrangement: it only affects the steel economics of Japan and the Common Market.

Senator BENNETT. Mr. Cort, while you are talking, can you comment on the fact that steel is still in tight supply in face of the fact that automobile production seems to be slowing down?

Mr. CORT. Well, so far the industry has enough flexibility; the tightness is caused by basic steel capacity, in other words, our ingot capacity, and our finishing capacities. In most, product demand exceeds the raw steel supply. As flat rolled demand from Detroit has diminished, the ingot capacity has been applied to other products such as carbon bars, plates, and, to a certain extent, structurals.

Senator BENNETT. I know we in the Congress have put pressure on you for reinforcing bars and baling wire and a few other things.

Mr. CORT. Well, a lot of the steel, basic steel that was going into Detroit has been diverted to carbon bars and reinforcing bars and the whole gamut of finished products.

Senator BENNETT. Thank you. I have used more than my 5 minutes, and as I said in the beginning, I am supposed to be somewhere else, and now that I have two potential replacements, Senator Fannin, I will turn the Chair over to you, and also the questions.

Senator FANNIN (presiding). Thank you, Mr. Chairman.

Gentlemen, it's a pleasure to have you with us today. To follow up on what Senator Bennett was inquiring about, there has been considerable problems for independent oil producers to acquire the pipe and drilling equipment, casing and so forth, that they need to expand domestic energy supply.

Is your industry putting a high priority on energy-related equipment?

I will give that to the panel, anyone on the panel.

Mr. LARRY. I believe the industry is indeed putting a high priority on energy-related supplies. But there is a limit beyond which one can go, averting to what you were talking about and to what Senator Bennett was talking about a moment ago, the rod area and the barbed wire. Unfortunately, there was a period of time with respect to both those examples—and they are good ones because the penetration became so great, so enormous—when nearly 40 or 50 percent of the domestic market was being supplied from abroad at prices, if you will remember which were really distressed prices. As a result, a great many of the facilities to make certain types of wires, certain types of rods, certain types of pipe, began to fall into disuse. Suddenly those who used to supply them at distressed prices now command premium prices and are shipping them elsewhere in the world, therefore withdrawing from our market. Customers are inclined to look askance at the domestic supply and wonder where it is.

Well, I am glad they are wondering now and I hope that they will continue to wonder, because it simply emphasizes the need to have a sounder American steel industry than we have had in the past, and to enable the industry to find the capital to do the kind of a job that will support the economy.

Senator FANNIN. I do wholeheartedly agree that we do need to take a very good look at what has happened in the past and try to avert it happening again because I know that we are getting some questions about GATT, and maybe we can cover some of it at that time. But it has been alleged that the voluntary steel arrangement is the primary cause of our current steel shortage.

Would you care to comment on that?

Mr. CORT. Mr. Chairman, I do not agree with that statement. The cause of our current shortage in capacity started some 10 or 12 years

ago when imports began to swell and take more and more of the market growth in the U.S. steel industry.

In the face of this and the ruinous pricing policies on foreign steel, there was no domestic producer that could consider investing in additional capacity. The average $1.7 billion the industry spent over the last 10 years went completely to modernization and also to environmental controls. It added—that $17 billion—added not an additional pound of basic steel capacity, and it was a matter of survival to spend what money was available to the industry in modernization and improvement in techniques for survival.

Senator FANNIN. Well, I realize that it has been a very difficult situation, especially with Japan in the position that they were in, and certainly the way, as I understand it, to a certain extent subsidizing the industry and getting away with the environmental problems, that is, by not doing anything about the pollution control. But now, of course, this has caught up with them, and I do not know just what is going to be the effect.

But being from a western State, and I know our State has been vitally affected by steel imports, and I do feel that our committee should go very thoroughly into this matter, as you gentlemen have suggested, because it is a very serious problem and it could arise again.

And here in the statement by Mr. Anthony; "The situation arises where 55 percent of an important product line, or 37 percent of the entire regional market, as in the case of western steel market is supplied from interruptable foreign sources should never have been allowed to happen. It is not good for the American economy; it is devastating to the western economy." I agree and hope that we can avert that. I do not know exactly where it stands today, but I am concerned.

Where would you think we stand today in this respect?

Mr. ANTHONY. In relation to the 37-percent penetration in 1972, Mr. Chairman, our preliminary estimates for 1973—and they are not final—would indicate that the penetration has dropped to about 29 percent of the total western market. I do not have that for individual products, but the 55-percent products to which we are referring happened to be galvanized sheets in 1972. We had products such as ½- to 4-inch pipe in which 70 percent of the western market was taken up by foreign imports. In fact, that and the combination of Cost of Living Council controls caused us to discontinue the production of ½- to 4-inch galvanized pipe, for example. There was no way we could continue in production.

Senator FANNIN. Thank you, sir. My time is up.

Senator Hansen?

Senator HANSEN. One of the concerns that we have had expressed over and over in the West has been the extremely short supply of baling wire. The Secretary of Agriculture in conjunction with the administration has been calling for increased farm output this year, and a number of farmers that I know of are saying—

> We are willing to do our part, but there are two shortages that are critical to us. No. 1 is the relatively scarce supply of certain types of farm machinery, and No. 2, the extremely short supply of baling wire.

I think you have spelled out some of the reasons why baling wire is in short supply. I gather that the Price Stabilization Act in its implementation has been a factor.

I would invite any of you to respond if you agree.

Mr. CORT. Well, actually, Senator, it started some years ago. Baling wire was one of the first products that went offshore in a major way, and the producers of baling wire in the United States had their equipment standing there for 4 or 5 years without any utilization because the prices were ridiculous.

Senator HANSEN. This was before the Price Stabilization Act.

Mr. CORT. Oh, yes. This started in the early 1960's, and so many wire producers went out of the baling wire business because they just could not afford to stay in it. They scrapped their wire machines and diverted their wire rods to other wire products, and so it is not something that you can turn on like a spigot. We just do not have the capability.

As far as the farm equipment people are concerned, I think that is more a shortage in their manufacturing capabilities because they have had such a rush of business. The demand is recordbreaking for them and it takes time for them to gear up their factories and add new capacity, and I understand most of them are doing that.

Senator HANSEN. Mr. Cort, you spoke about the industry's inability to do some of the things that it might have chosen to do because, as I understood you, it found itself obliged primarily to invest the moneys available in modernizing plants and meeting environmental requirements.

Did I understand you correctly on that point?

Mr. CORT. That is correct.

Senator HANSEN. There has been a lot said about the environment, but I do not find too much of a followthrough among the environmentalist groups in this country, and I think basically we are all environmentalists. There is no one who does not subscribe to their goals, but until a few years ago, about the only thing we asked of industry was to expect that it would produce a quality product, and that the price would be competitive. And we did not ask how much the air was fouled up or what the working conditions were of people who may have manufactured it. We just asked how how good is your product and what does it sell for?

I should think that we ought to extend our interest in the environment. If we expect American industry to provide the contribution that it is capable of in improving the environment, we ought to accord it consideration that would be reflected by our saying to importers into this country, "You meet the same standards." I understand that Tokyo is the most polluted city in the world; the air is terrible and the water is even worse. And yet a lot of the environmentalists I know drive European cars around. They seem to find a lot of fault with American manufacturers, but they sure seem to express no obvious similar concern for products coming from abroad.

Do you think that the steel industry can compete with foreign industries if you are going to be saddled with standards—and I am not complaining about your having to meet the environmental standards. Do you think as a matter of fact that you can compete when manufacturers in foreign countries do not have similar restraints imposed upon them?

Mr. CORT. No, I do not think we can over the long pull. Right now the American steel industry is spending somewhere between 15 and

20 percent of their capital outlay on environmental control, and instead of yielding a return, it has a minus return of about 12 percent a year because of the cost of operating and maintaining these facilities. The rest of the world has not come close to trying to meet the standards that have been set for the American industry. They are getting a lot of flak now about trying to clean up their operations, but so far it has not translated into their costs as it has in our case.

Senator HANSEN. It occurs to me that we must, and I would add very quickly, impose some similar standard on imports or we are just going to drive the American producer right out of business. I do not see how else we can avoid that situation, and I do not think it is one that can be delayed.

I am deeply impressed with what you say about the voluntary restraint agreement. Was it you who mentioned that? Mr. Anthony or Mr. Ahlbrandt?

Mr. ANTHONY. Well, all three of us did.

Senator HANSEN. I have a couple of questioins; Mr. Cort. I have asked you several. I just toss these out to anyone on the panel who would be interested.

Could you supply for the record the per unit cost of a ton of steel produced in the United States compared with Japan and European steel?

I will hand these to you so you will not have to respond now.

Could you also supply us with the price information over the period 1955 through 1973 for basic steel products, both in current and constant dollars?

[The questions and answers follow. Hearing continues on p. 1074.]

Question. **What were prices for basic steel products, both in current and constant dollars, from 1955 through 1973?**

Answer. The attached table of steel Product Prices shows the U.S. Bureau of Labor Statistics Index of wholesale prices of steel mill products and average sales realization per ton of steel mill products calculated from Bureau of the Census reports. These series have been deflated to constant 1967 dollars, using the GNP private sector deflator and also the USBLS Wholesale Price Index of Industrial Commodities.

STEEL PRODUCT PRICES, 1955-73

	USBLS index of wholesale prices of steel mill products, 1967=100	Average sales realization, per ton of steel mill products[1]	GNP implicit price deflator, private sector, 1967=100	Constant 1967 dollars based on GNP deflator		Wholesale Price index industrial commodities	Constant 1967 dollars based on WPI, industrial commodities	
				USBLS index, 1967=100	Average sales realization, per ton		USBLS index	Average sales realization, per ton
1955	77.2	$141.98	79.8	96.7	$177.92	86.9	88.8	$163.38
1956	83.8	155.20	82.4	101.7	188.35	90.8	92.3	170.93
1957	91.8	165.36	85.3	107.6	193.86	93.3	98.4	177.23
1958	95.0	172.87	87.1	109.1	198.47	93.6	101.5	184.69
1959	96.5	177.77	88.3	109.3	201.33	95.3	101.3	186.54
1960	96.4	173.22	89.5	107.7	193.54	95.3	101.2	181.76
1961	96.0	172.73	90.4	106.2	191.07	94.8	101.3	182.20
1962	95.8	171.67	91.2	105.0	188.23	94.8	101.1	181.09
1963	96.3	169.79	92.2	104.4	184.15	94.7	101.7	179.29
1964	97.1	170.11	93.3	104.1	182.33	95.2	102.0	178.69
1965	97.5	174.93	94.8	102.8	184.53	96.4	101.1	181.46
1966	98.9	180.30	97.2	101.7	185.50	98.5	100.4	183.05
1967	100.0	182.87	100.0	100.0	182.87	100.0	100.0	182.87
1968	102.5	181.68	103.6	98.9	175.37	102.5	100.0	177.25
1969	107.4	184.61	108.3	99.2	170.46	106.0	101.3	174.16
1970	114.3	188.94	113.5	100.7	166.47	110.0	103.9	171.76
1971	123.0	202.94	118.4	103.9	171.40	113.9	108.0	178.17
1972	130.4	215.14	121.8	107.1	176.63	117.9	110.6	182.47
1973	134.1	NA	[2]128.3	[2]104.5	NA	127.0	105.6	NA

[1] Calculated from U.S. Bureau of the Census M33-B Reports.
[2] Preliminary.

Question. What is the unit cost of a ton of steel produced in the United States compared with Japan and Europe?

Answer. We have not developed such figures since 1971. At that time unit costs for carbon steel in the United States wereabout $12 per ton higher than in the EEC countries and about $50 per ton higher than in Japan. Most of the difference was in employment costs.

Since that time there have been numerous changes in employment and material costs, as well as in foreign exchange rates. It appears that at present our steel costs are competitive with those in Europe but still $30–40 a ton higher than in Japan.

We hope to have updated figures in a month or six weeks and will make them available when completed.

TABLE 1.—Foreign Trade in Steel Products
TABLE 2.—Steel Mill Products Trade Balance
TABLE 3.—Imports of Steel Mill Products by Countries of Origin
TABLE 4.—Imports of Steel Mill Products from Countries Other than EEC, United Kingdom, Japan and Canada
TABLE 5.—Imports by Grades in Tons and Percentages of Total
TABLE 6.—Imports of Steel Mill Products by Regions of Entry in Tons and Percentages of Total Imports
TABLE 7.—Steel Industry Manhours Per Ton Shipped in Selected Countries
TABLE 8.—Steel Industry Employment Costs Per Manhour in Selected Countries
TABLE 9.—Estimated Raw Steel Production Under Direct Government Ownership in 1972
TABLE 10.—World Apparent Steel Consumption by Major Areas
TABLE 11.—World Raw Steel Production by Major Areas
TABLE 12.—World Steel Exports by Areas
TABLE 13.—World Steel Imports by Areas
TABLE 14.—Steel Consumption, Production, Exports and Imports—Percentages of Total
TABLE 15.—Selected Steel Prices and Price Indexes United States and Foreign
TABLE 16.—Steel Industry Capital Expenditures in Major Steel Producing Countries

TABLE 1.—U.S. FOREIGN TRADE IN STEEL MILL PRODUCTS

[In thousands of net tons]

Year	Net shipments by U.S. steel producers	Imports	Exports	Apparent consumption [1]	Imports as a percent of apparent consumption	Exports as a percent of net shipments
1973	111,430	15,150	4,052	122,528	12.4	3.6
1972	91,805	17,681	2,872	106,614	16.6	3.1
1971 [2]	87,038	18,304	2,827	102,515	17.9	3.2
1970	90,798	13,364	7,053	97,109	13.8	7.8
1969	93,877	14,034	5,229	102,682	13.7	5.6
1968 [2]	91,856	17,960	2,170	107,646	16.7	2.4
1967	83,897	11,455	1,685	93,667	12.2	2.0
1956	89,995	10,753	1,724	99,024	10.9	1.9
1965 [2]	92,666	10,383	2,496	100,553	10.3	2.7
1964	84,945	6,440	3,442	87,943	7.3	4.1
1963	75,555	5,446	2,224	78,777	6.9	2.9
1962 [2]	70,552	4,100	2,013	72,639	5.6	2.9
1961	66,126	3,163	1,990	67,299	4.7	3.0
1960	71,149	3,359	2,977	71,531	4.7	4.2
1959 [2]	69,377	4,396	1,677	72,096	6.1	2.4
1958	59,914	1,707	2,823	58,798	2.9	4.7
1957	79,895	1,155	5,348	75,702	1.5	6.7
1956 [2]	83,251	1,341	4,348	80,244	1.7	5.2
1955 [2]	84,717	973	4,061	81,629	1.2	4.8

[1] Apparent consumption equals net shipments plus imports less exports.
[2] Year of labor negotiations.

Source: AISI and U.S. Department of Commerce.

TABLE 2.—STEEL MILL PRODUCTS TRADE BALANCE

[Weight in thousands of tons; dollar amounts in millions]

	Imports		Exports		Trade balance	
	Weight	Amount	Weight	Amount	Weight	Amount
1973	15,150	$2,821	4,052	$1,004	−11,098	−$1,817
1972	17,681	2,794	2,873	604	−14,808	−2,190
1971	18,304	2,636	2,827	576	−15,477	−2,060
1970	13,364	1,967	7,053	1,019	−6,311	−948
1969	14,034	1,742	5,229	796	−8,805	−946
1968	17,960	1,976	2,170	444	−15,790	−1,532
1967	11,455	1,292	1,685	415	−9,770	−877
1966	10,753	1,208	1,724	420	−9,029	−788
1965	10,383	1,177	2,489	507	−7,894	−670
1964	6,440	749	3,435	622	−3,005	−127
1963	5,446	633	2,224	470	−3,222	−163
1962	4,100	484	2,013	424	−2,087	−60
1961	3,163	382	1,990	423	−1,173	+41
1960	3,359	449	2,977	601	−382	+152
1959	4,396	515	1,677	365	−2,719	−150
1958	1,707	192	2,823	564	+1,116	+372
1957	1,155	173	5,348	750	+4,193	+577

Note: Imports f.o.b. foreign port, which understates landed import value by amount of freight and insurance. Exports include substantial amounts of AID financed exports.

Source: U.S. Department of Commerce.

TABLE 3.—IMPORTS OF STEEL MILL PRODUCTS BY COUNTRIES OF ORIGIN

	EEC countries	United Kingdom	Japan	Canada	Other countries	Total
Thousands of net tons:						
1973	6,510	(1)	5,637	1,098	1,907	15,150
1972	6,552	1,257	6,440	1,184	2,278	17,681
1971	7,156	1,357	6,908	1,273	1,609	18,304
1970	4,573	824	5,935	1,105	927	13,364
1969	5,200	894	6,253	805	882	14,034
1968	7,097	1,302	7,294	1,243	1,024	17,960
1967	4,842	818	4,468	630	697	11,455
1966	3,841	748	4,851	692	621	10,753
1965	4,191	720	4,418	644	410	10,383
1964	2,585	285	2,446	692	432	6,440
1963	2,245	349	1,803	583	466	5,446
1962	2,086	250	1,071	367	326	4,100
1961	1,951	166	596	304	146	3,163
1960	2,097	212	601	211	238	3,359
1959	2,898	215	626	377	280	4,396
1958	1,203	86	250	48	120	1,707
1957	891	58	31	52	123	1,155
Percentages of total:						
1973	43.0	(1)	37.2	7.2	12.6	100
1972	36.9	7.1	36.4	6.7	12.9	100
1971	39.1	7.4	37.7	7.0	8.8	100
1970	34.2	6.2	44.4	8.3	6.9	100
1969	37.1	6.4	44.5	5.8	6.3	100
1968	39.5	7.2	40.6	6.9	5.8	100
1967	42.3	7.1	39.0	5.5	6.1	100
1966	35.7	7.0	45.1	6.4	5.8	100
1965	40.4	6.9	42.6	6.2	3.9	100
1964	40.1	4.4	38.0	10.8	6.7	100
1963	41.2	6.4	33.1	10.7	8.6	100
1962	50.9	6.1	26.1	9.0	7.9	100
1961	61.7	5.2	18.9	9.6	4.6	100
1960	62.4	6.3	17.9	6.3	7.1	100
1959	65.9	4.9	14.2	8.6	6.4	100
1958	70.5	5.0	14.6	2.8	7.1	100
1957	77.2	5.0	2.7	4.5	10.6	100

[1] Included in EEC.

Source: U.S. Department of Commerce.

TABLE 4.—IMPORTS OF STEEL MILL PRODUCTS FROM COUNTRIES OTHER THAN EEC UNITED KINGDOM JAPAN AND CANADA

[Thousands of net tons]

	1973	1972	1971	1970	1969	1968	1967	1966	1965
Argentina	233.9	142.0	147.3	118.6	99.5	177.9	45.5	27.3	18.1
Brazil	153.8	229.4	71.8	19.6	37.9	165.6	164.0	41.2	6.8
Mexico	123.3	378.8	349.3	190.3	182.6	152.7	93.8	118.1	123.6
Other Latin American	6.7	8.1	2.4	.2	11.7	1.1	12.4	10.1	10.0
Austria	23.7	43.6	18.3	20.5	26.1	27.2	16.4	11.2	12.3
Czechoslovakia	26.1	42.8	41.8	20.8	21.0	13.8	1.0	2.0	4.6
Greece	41.3	70.0	37.1						
Poland	128.5	203.5	232.0	89.8	147.7	159.8	146.0	86.5	83.7
Spain	95.4	111.7	197.7	42.4	10.3	15.4	.1	6.3	.6
Sweden	148.9	128.9	79.0	73.4	80.3	84.0	84.7	75.2	65.1
Yugoslavia	42.4	36.9	8.4	10.9	9.5	12.5	14.3	10.4	16.2
Other Europe	31.7	40.5	53.3	16.7	26.9	63.6	35.2	36.8	52.5
Australia [1]	62.9	132.3	53.9	66.0	103.6	154.4	68.7	147.0	28.6
India	28.4	16.5	9.6	106.1	90.4	13.0	10.2	22.7	1.1
Philippines			91.9	9.3	.1			.1	
South Korea	516.3	465.4	133.1	26.6	8.6	3.0	.6	1.5	1.8
Taiwan	102.6	129.4	44.6	33.8	24.6	11.6	6.5	.5	.4
Republic of South Africa	73.4	40.4	17.4	74.5	42.0	2.6	13.0	36.5	
Other Asia and Africa	4.3	37.8	20.8	37.5	16.6	5.6	1.8	.7	1.0
Total	1,906.5	2,278.0	1,609.7	926.9	882.4	1,022.8	696.8	620.9	409.5

[1] Includes New Zealand.

Source: U.S. Department of Commerce.

TABLE 5.—IMPORTS, BY GRADES, IN TONS AND PERCENTAGES OF TOTAL

	Carbon steel	Stainless steel	Tool steel	Other alloy steel	Total
Thousands of net tons:					
1973	14,587.5	128.3	21.7	412.2	15,149.7
1972	17,083.9	149.1	15.0	432.8	17,681.0
1971	17,697.0	192.0	12.8	402.2	18,303.9
1970	12,838.5	177.2	17.6	331.1	13,364.4
1969	13,498.6	182.2	15.3	338.1	14,034.2
1968	17,471.2	172.2	13.1	302.8	17,959.3
Percentages of total:					
1973	96.29	.85	.14	2.72	100.0
1972	96.62	.84	.08	2.45	100.0
1971	96.68	1.05	.07	2.20	100.0
1970	96.06	1.33	.13	2.48	100.0
1969	96.18	1.30	.11	2.41	100.0
1968	97.28	.96	.07	1.69	100.0

Source: U.S. Department of Commerce.

TABLE 6.—IMPORTS OF STEEL MILL PRODUCTS BY REGIONS OF ENTRY IN TONS AND PERCENTAGES OF TOTAL IMPORTS

	North Atlantic	South Atlantic	Gulf	Great Lakes	Pacific	Offshore	Total
Thousands of net tons:							
1973	2,066	1,548	3,406	4,912	2,811	407	15,150
1972	2,275	1,746	3,823	6,104	3,305	428	17,681
1971	2,363	1,638	4,114	6,958	2,686	542	18,304
1970	1,907	1,167	2,577	4,598	2,478	637	13,364
1969	1,997	1,492	3,030	4,432	2,582	501	14,034
1968	2,831	1,886	3,629	6,601	2,637	376	17,960
1967	1,786	1,330	2,308	3,897	1,823	311	11,455
1966	1,574	1,281	2,145	3,563	1,890	300	10,753
1965	1,708	1,307	2,109	3,307	1,704	248	6,440
1964	981	828	1,374	1,655	1,324	278	6,440
1963	916	760	1,255	1,170	1,145	200	5,446
1962	760	586	935	745	935	139	4,100
1961	523	543	808	560	576	153	3,163
1960	658	583	901	460	594	163	3,359
1959	748	742	1,212	824	749	121	4,396
1958	324	370	489	128	320	76	1,707
1957	218	297	324	73	199	44	1,155
Percentages of total:							
1973	13.6	10.2	22.5	32.4	18.6	2.7	100
1972	12.9	9.9	21.6	34.5	18.7	2.4	100
1971	12.9	8.9	22.5	38.0	14.7	3.0	100
1970	14.3	8.7	19.3	34.4	18.5	4.8	100
1969	14.2	10.6	21.6	31.6	18.4	3.6	100
1968	15.8	10.5	20.2	36.7	14.7	2.1	100
1967	15.6	11.6	20.2	34.0	15.9	2.7	100
1966	14.8	12.0	19.4	33.3	17.6	2.9	100
1965	16.4	12.6	20.3	31.9	16.4	2.4	100
1964	15.2	12.9	21.3	25.7	20.6	4.3	100
1963	16.8	14.0	23.0	21.5	21.1	3.6	100
1962	18.5	14.3	22.8	18.2	22.8	3.4	100
1961	16.5	17.1	25.6	17.7	18.2	4.9	100
1960	19.6	17.3	26.9	13.7	17.7	4.8	100
1959	17.0	16.9	27.6	18.8	17.0	2.7	100
1958	19.0	21.7	28.7	7.5	18.7	4.4	100
1957	18.9	25.7	28.1	6.3	17.2	3.8	100

Source: U.S. Department of Commerce.

TABLE 7.—STEEL INDUSTRY MAN-HOURS PER TON SHIPPED IN SELECTED COUNTRIES, 1955-72

	United States	West Germany	France	United Kingdom	Japan
1955	14.1	33.6	33.0	32.7	62.8
1956	14.3	32.5	32.6	33.1	60.7
1957	14.6	29.9	32.3	32.8	55.3
1958	15.8	28.7	29.4	32.9	57.0
1959	14.1	26.2	27.9	30.6	49.3
1960	15.0	24.3	26.7	29.0	44.2
1961	14.6	25.1	27.6	29.3	38.6
1962	13.9	24.5	27.4	29.9	40.7
1963	13.3	24.9	27.5	29.0	34.5
1964	12.7	21.6	25.6	26.3	29.8
1965	12.2	21.7	24.4	25.0	28.5
1966	12.0	21.1	22.8	25.6	23.8
1967	12.4	19.2	21.7	25.6	19.8
1968	11.9	16.9	19.7	23.8	17.7
1969	11.8	15.3	17.6	23.3	14.5
1970	12.2	15.5	17.0	22.2	12.6
1971	11.7	15.8	17.1	24.8	12.6
1972	11.1	[1] 14.2	[1] 16.0	[1] 22.6	[1] 10.9

[1] Preliminary.

Source: Calculated from U.S. Bureau of Labor Statistics data.

TABLE 8.—STEEL INDUSTRY EMPLOYMENT COSTS PER MANHOUR IN SELECTED COUNTRIES (WAGE EMPLOYEES ONLY) 1955 TO 1972

[U.S. dollars]

	United States	West Germany	Disparity United States versus West Germany	France	Disparity United States versus France	United Kingdom	Disparity United States versus United Kingdom	Japan	Disparity United States versus Japan
1955	$2.72	$0.83	$1.89	$0.85	$1.87	NA	NA	$0.43	$2.29
1956	2.95	.90	2.05	.96	1.99	NA	NA	.48	2.47
1957	3.22	1.01	2.21	.86	2.36	NA	NA	.54	2.68
1958	3.51	1.06	2.45	.85	2.66	NA	NA	.54	2.97
1959	3.80	1.12	2.68	.91	2.89	NA	NA	.57	3.23
1960	3.82	1.21	2.61	.99	2.83	NA	NA	.62	3.20
1961	3.99	1.37	2.62	1.11	2.88	NA	NA	.68	3.31
1962	4.16	1.51	2.65	1.21	2.95	NA	NA	.74	3.42
1963	4.25	1.59	2.66	1.30	2.95	NA	NA	.80	3.45
1964	4.36	1.66	2.70	1.40	2.96	$1.53	$2.83	.88	3.48
1965	4.48	1.75	2.73	1.48	3.00	1.65	2.83	.97	3.51
1966	4.63	1.89	2.74	1.56	3.07	1.76	2.87	1.08	3.55
1967	4.76	1.95	2.81	1.66	3.10	1.73	3.03	1.22	3.54
1968	5.03	2.08	2.95	1.84	3.19	1.64	3.39	1.40	3.63
1969	5.38	2.32	3.06	1.96	3.42	1.83	3.55	1.67	3.71
1970	5.68	3.29	2.39	2.08	3.60	2.04	3.64	2.03	3.65
1971	6.26	3.72	2.54	2.41	3.85	2.32	3.94	2.36	3.90
1972	7.08	[1] 4.42	2.66	[1] 2.97	4.11	[1] 2.75	4.33	[1] 3.06	4.02

[1] Preliminary.

Sources: United States—AISI. Other countries—Calculated from USBLS data.

TABLE 9.—ESTIMATED RAW STEEL PRODUCTION UNDER DIRECT GOVERNMENT OWNERSHIP IN 1972

[Millions of net tons]

	Total raw steel production	Estimated percent under government ownership [1]	Estimated tonnage under government ownership [1]
United States	133.2	0	0
Canada	13.1	15	2.0
Argentina	2.3	63	1.4
Brazil	7.2	49	3.5
Chile	.7	100	.7
Colombia	.4	0	0
Mexico	4.8	39	1.9
Peru	.2	87	.2
Venezuela	1.2	84	1.0
Other—Latin America	.2	50	.1
Belgium-Luxembourg	22.0	0	0
France	26.6	0	0
West Germany	48.2	10	4.8
Italy	21.7	60	13.0
Netherlands	6.1	91	5.6
Austria	4.5	100	4.5
Denmark	.6	0	0
Finland	1.6	62	1.0
Greece	.6	0	0
Ireland	.1	100	.1
Norway	1.0	71	.7
Portugal	.4	100	.4
Spain	10.5	45	4.7
Sweden	5.8	11	.6
Switzerland	.6	0	0
Turkey	1.6	72	1.2
United Kingdom	27.9	90	25.1
Yugoslavia	2.8	100	2.8
Rhodesia	.2	100	.2
Republic of South Africa	5.8	72	4.3
Other—Africa	.2	100	.2
Egypt	.3	100	.3
Israel	.1	100	.1
India	7.3	100	7.3
Japan	106.8	0	0
Pakistan	.2	100	.2
South Korea	.5	100	.5
Taiwan	.3	100	.3
Other—Asia	.4	100	.4
Australia	7.5	0	0
New Zealand	.1	0	0
Philippines	.1	100	.1
Total, free world	475.6	19	89.5
Free world, excluding United States	(342.4)	(26)	(88.3)
Red bloc	215.5	100	215.5
Total, World	691.1	44	303.8

[1] Estimated by determining percentage of government-owned companies to national totals for 1972, if available; otherwise for latest available year.

TABLE 10.—WORLD APPARENT STEEL CONSUMPTION, BY MAJOR AREAS

	United States	Canada	United Kingdom	EEC	Japan	Come-Con	Other	Total
Millions of net tons:[1]								
1973[2]	165.0	15.0	(3)	144.0	98.0	222.0	118.0	762.0
1972	154.8	13.7	24.6	104.4	75.7	209.9	110.3	693.4
1971	138.6	13.2	22.2	95.2	64.5	204.2	103.7	641.5
1970	139.4	12.4	27.9	106.3	77.8	192.4	100.1	656.3
1969	150.9	12.3	27.1	101.5	68.5	180.4	92.3	633.0
1968	150.3	11.1	25.7	87.2	55.6	173.0	81.1	583.8
1967	139.2	10.2	23.4	78.4	56.5	165.1	75.2	548.0
1966	145.1	10.9	23.4	75.8	39.1	154.2	72.5	521.0
1965	141.5	11.6	25.6	73.7	31.5	145.4	74.4	503.7
1964	130.6	9.6	25.9	77.1	34.6	134.5	66.5	478.6
1963	112.9	7.8	21.8	68.5	27.2	127.3	58.8	424.0
1962	100.7	7.1	19.3	65.6	25.3	122.2	54.3	395.4
1961	99.1	6.5	20.8	64.6	28.4	118.3	52.9	390.6
1960	99.0	6.1	24.7	64.0	21.5	117.0	48.9	380.9
Percentages of total:								
1973[2]	21.7	2.0	(3)	18.9	12.9	29.1	15.5	100.0
1972	22.3	2.0	3.5	15.1	10.9	30.3	15.9	100.0
1971	21.6	2.1	3.5	14.8	10.1	31.8	16.2	100.0
1970	21.2	1.9	4.3	16.2	11.8	29.3	15.3	100.0
1969	23.8	1.9	4.3	16.0	10.9	28.5	14.6	100.0
1968	25.8	1.9	4.4	14.9	9.5	29.6	13.9	100.0
1967	25.4	1.9	4.3	14.3	10.3	30.1	13.7	100.0
1966	27.8	2.1	4.5	14.5	7.5	29.6	13.9	100.0
1965	28.1	2.3	5.1	14.6	6.3	28.9	14.8	100.0
1964	27.3	2.0	5.4	16.1	7.2	28.1	13.9	100.0
1963	26.6	1.8	5.1	16.2	6.4	30.0	13.9	100.0
1962	25.5	1.8	4.9	16.6	6.4	31.0	13.7	100.0
1961	25.4	1.7	5.3	16.5	7.3	30.3	13.5	100.0
1960	26.0	1.6	6.5	16.8	5.6	30.7	12.8	100.0

[1] Raw steel equivalent with 1.3 conversion factor.
[2] Preliminary.
[3] Included in EEC.

Source: Calculated from IISI production data and ECE trade data.

TABLE 11.—WORLD RAW STEEL PRODUCTION BY MAJOR AREAS

	United States	Canada	United Kingdom	EEC	Japan	Comecon	Other	Total
Millions of net tons:								
1973[1]	150.0	15.0	(2)	164.0	132.0	221.0	86.0	768.0
1972	133.2	13.1	27.9	124.6	106.8	215.5	70.0	691.1
1971	120.4	12.2	26.7	114.0	97.6	204.8	65.8	641.5
1970	131.5	12.4	30.7	120.4	102.9	194.2	64.3	656.3
1969	141.3	10.3	29.7	118.3	90.6	182.1	60.8	633.0
1968	131.5	11.3	29.1	108.7	73.7	174.1	55.3	583.8
1967	127.2	9.7	26.8	99.1	68.5	166.3	50.5	548.0
1966	134.1	10.0	27.3	93.8	52.7	155.1	48.0	521.0
1965	131.5	10.1	30.3	94.8	45.4	146.4	45.2	503.7
1964	127.1	9.1	29.0	91.3	43.9	135.9	42.3	478.6
1963	109.3	8.2	25.3	80.7	34.7	127.3	38.5	424.0
1962	98.3	7.2	23.0	80.5	30.4	121.2	34.8	395.4
1961	98.0	6.5	24.8	81.0	31.2	117.1	32.0	390.6
1960	99.3	5.8	27.4	80.5	24.4	114.6	28.9	380.9
Percentages of total:								
1973[1]	19.5	2.0	(2)	21.4	17.2	28.8	11.2	100.0
1972	19.3	1.9	4.0	18.0	15.5	31.2	10.1	100.0
1971	18.8	1.9	4.2	17.8	15.2	31.9	10.3	100.0
1970	20.0	1.9	4.7	18.3	15.7	29.6	9.8	100.0
1969	22.3	1.6	4.5	18.7	14.3	28.8	9.6	100.0
1968	22.5	1.9	5.0	18.6	12.6	29.8	9.5	100.0
1967	23.2	1.8	4.9	18.1	12.5	30.3	9.2	100.0
1966	25.7	1.9	5.2	18.0	10.1	29.8	9.2	100.0
1965	26.1	2.0	6.0	18.8	9.0	29.1	9.0	100.0
1964	26.6	1.9	6.1	19.0	9.2	28.4	8.8	100.0
1963	25.8	1.9	6.0	19.0	8.2	30.0	9.1	100.0
1962	24.9	1.8	5.8	20.4	7.7	30.7	8.8	100.0
1961	25.0	1.7	6.3	20.7	8.0	30.0	8.2	100.0
1960	26.0	1.5	7.2	21.1	6.4	30.1	7.6	100.0

[1] Preliminary.
[2] Intra-EEC movements excluded.

Source: IISI production data.

TABLE 12.—WORLD STEEL EXPORTS BY AREAS

	United States	Canada	EEC[1]	United Kingdom	Japan	Comecon[2]	Other	Total
Millions of net tons raw steel equivalent:								
1972[3]	3.90	2.10	31.60	6.80	30.80	20.90	9.60	105.60
1971[4]	3.76	2.13	28.02	7.11	33.09	19.90	7.52	101.52
1970	9.31	2.29	24.22	5.88	25.22	18.92	7.68	93.52
1969	6.85	1.36	25.12	5.70	22.28	17.86	7.69	86.85
1968	2.85	1.86	26.38	6.25	18.30	15.37	7.23	78.25
1967	2.22	1.26	24.70	5.61	12.48	13.77	6.17	66.20
1966	2.27	1.17	21.54	5.11	13.58	12.06	4.35	60.09
1965	3.26	1.19	24.42	5.62	13.68	10.64	3.47	62.28
1964	4.46	1.53	18.21	5.32	9.37	9.08	3.55	51.53
1963	2.80	1.49	16.29	4.84	7.57	7.69	3.38	44.07
1962	2.60	1.12	17.30	4.46	5.48	7.40	3.78	42.14
1961	2.60	1.11	18.73	4.61	3.22	5.84	2.69	38.80
1960	3.88	1.09	19.28	4.44	3.22	5.63	2.80	40.34
Percentages of total:								
1972	3.7	2.0	29.9	6.4	29.2	19.8	9.0	100.0
1971	3.7	2.1	27.6	7.0	32.6	19.6	7.4	100.0
1970	10.0	2.4	25.9	6.3	27.0	20.2	8.2	100.0
1969	7.9	1.6	29.0	6.6	25.7	20.6	9.0	100.0
1968	3.6	2.4	33.7	8.0	23.4	19.6	9.3	100.0
1967	3.3	1.9	37.4	8.5	18.8	20.8	9.3	100.0
1966	3.8	1.9	35.9	8.5	22.6	20.1	7.2	100.0
1965	5.2	1.9	39.2	9.0	22.0	17.1	5.6	100.0
1964	8.7	3.0	35.3	10.3	18.2	17.6	6.9	100.0
1963	6.3	3.4	37.0	11.0	17.2	17.5	7.6	100.0
1962	6.2	2.7	41.0	10.6	13.0	17.5	9.0	100.0
1961	6.7	2.9	48.3	11.9	8.3	15.1	6.9	100.0
1960	9.6	2.7	47.8	11.0	8.0	14.1	6.9	100.0

[1] Intra-EEC movements excluded.
[2] Movements among Eastern European nations other than U.S.S.R. excluded.
[3] Estimated.
[4] Preliminary.

Source: IISI.

TABLE 13.—WORLD STEEL IMPORTS BY AREAS

	United States	Canada	EEC [1]	United Kingdom	Japan	Comecon [2]	Other	Total
Millions of net tons raw steel equivalent:								
1972 [3]	22.60	3.40	5.90	3.90	0.30	20.10	49.40	105.60
1971 [4]	23.36	3.15	5.30	3.01	.22	18.30	48.18	101.52
1970	17.43	2.15	10.46	3.30	.14	17.20	42.84	93.52
1969	16.80	2.87	8.33	3.12	.23	15.94	39.56	86.85
1968	21.68	1.73	4.87	2.87	.11	14.03	32.95	78.25
1967	14.22	1.74	4.08	2.25	.43	12.63	30.85	66.80
1966	13.28	2.01	3.58	1.21	.04	11.09	28.87	60.09
1965	13.33	2.71	3.27	.93	.07	9.67	32.31	62.28
1964	7.96	2.01	3.98	2.19	.04	7.62	27.73	51.53
1963	6.42	1.14	4.03	1.37	.06	7.74	23.32	44.07
1962	4.98	1.01	3.41	.78	.37	8.36	23.23	42.14
1961	3.68	1.10	2.34	.56	.46	7.03	23.64	38.80
1960	3.56	1.34	2.57	1.77	.26	8.07	22.76	40.34
Percent of total:								
1972 [3]	21.4	3.2	5.6	3.7	.3	19.0	46.8	100.0
1971 [4]	23.0	3.1	5.2	3.0	.2	18.0	47.5	100.0
1970	18.6	2.3	11.2	3.5	.2	18.4	55.8	100.0
1969	19.3	3.3	9.6	3.6	.3	18.4	55.6	100.0
1968	27.7	2.2	6.2	3.7	.1	7.9	52.1	100.0
1967	21.5	2.6	6.2	3.4	.6	9.1	56.6	100.0
1966	22.1	3.3	6.0	2.0	.1	8.5	58.0	100.0
1965	21.4	4.4	5.3	1.5	.1	15.5	51.9	100.0
1964	15.4	3.9	7.7	4.3	.1	14.9	53.8	100.0
1963	14.6	2.6	9.2	3.1	.1	17.5	52.9	100.0
1962	11.8	2.4	8.1	1.9	.9	19.8	55.1	100.0
1961	9.5	2.8	6.0	1.4	1.2	18.1	60.9	100.0
1960	8.8	3.3	6.4	4.4	.6	20.0	56.4	100.0

[1] Intra-EEC movements excluded.
[2] Movements among Eastern European nations other than U.S.S.R. excluded.
[3] Estimated.
[4] Preliminary.

Source: IISI.

TABLE 14.—STEEL CONSUMPTION, PRODUCTION, EXPORTS AND IMPORTS, PERCENTAGES OF TOTAL

	Consumption	Production	Exports	Imports
United States:				
1960	26.0	26.0	9.6	8.8
1971	21.6	18.8	3.7	23.0
1972	22.3	19.3	3.7	21.4
Canada:				
1960	1.6	1.5	2.7	3.3
1971	2.1	1.9	2.1	3.1
1972	2.0	1.9	2.0	3.2
EEC:				
1960	16.8	21.1	47.8	6.4
1971	14.8	17.8	27.6	5.2
1972	15.1	18.0	29.9	5.6
United Kingdom:				
1960	6.5	7.2	11.0	4.4
1971	3.5	4.2	7.0	3.0
1972	3.5	4.0	6.4	3.7
Japan:				
1960	5.6	6.4	8.0	.6
1971	10.1	15.2	32.6	.2
1972	10.9	15.5	29.2	.3
Comecon:				
1960	30.7	30.1	14.1	20.0
1971	31.8	31.9	19.6	18.0
1972	30.3	31.2	19.8	19.0
Other:				
1960	12.8	7.6	6.9	56.4
1971	16.2	10.3	7.4	47.5
1972	15.9	10.1	9.0	46.8

Source: IISI.

TABLE 15.—SELECTED STEEL PRICES AND PRICE INDEXES, UNITED STATES AND FOREIGN

	USBLS[1] U.S. Steel Price Index	U.S. average realized prices[2]		EEC average realized prices[3]	Japan realized prices[4]	U.S. average import values[5]		Continental Europe export prices[6]
		All grades	Carbon only			From EEC	From Japan	
Dollars per net ton:								
1973		NA	NA	NA	NA	198	228	209
1972		215	193	NA	NA	170	200	137
1971		203	182	151	115	154	186	129
1970		189	168	150	119	159	182	142
1969		185	161	139	115	133	146	136
1968		182	161	128	113	122	139	103
1967		183	161	130	115	121	149	103
1966		180	160	135	119	124	139	103
1965		175	156	132	117	127	141	104
1964		170	153	NA	NA	128	145	106
1963		170	153	NA	NA	127	149	114
1962		172	154	NA	NA	127	150	108
1961		173	155	NA	NA	135	165	117
1960		173	155	NA	NA	142	167	133
Index numbers (1967 equals 100):								
1973	134.1	NA	NA	NA	NA	163.6	153.0	209.9
1972	130.4	117.5	119.9	NA	NA	140.5	134.2	133.0
1971	123.0	110.9	113.0	116.2	100.0	127.3	124.8	125.2
1970	114.3	103.3	104.3	115.4	103.5	131.4	122.1	137.9
1969	107.4	101.1	100.0	106.9	100.0	109.9	98.0	132.0
1968	102.5	99.5	100.0	98.5	98.3	100.8	93.3	100.0
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1966	98.9	98.4	99.4	103.8	103.5	102.5	93.3	100.0
1965	97.5	95.6	96.9	101.5	101.7	105.0	94.6	101.0
1964	97.1	92.9	95.0	NA	NA	105.8	97.3	102.9
1963	96.3	92.9	95.0	NA	NA	105.0	100.0	110.7
1962	95.8	94.0	95.7	NA	NA	105.0	100.7	104.9
1961	96.0	94.5	96.3	NA	NA	111.6	110.7	113.6
1960	96.4	94.5	96.3	NA	NA	117.4	112.1	129.1

[1] U.S. Bureau of Labor Statistics Wholesale Price Index, Steel Mill Products.
[2] Calculated from U.S. Department of Commerce MA 33 (B) reports.
[3] Calculated from financial reports of major EEC steel producers.
[4] Calculated from financial reports of major Japanese steel producers.
[5] Calculated from U.S. Bureau of Census data. Allowance for freight to United States, insurance and tariff added.
[6] Composite price (eighted average) computed from base prices published by the Metal Bulletin, London. Allowance for freight to United States, insurance and tariff added.

TABLE 16.—STEEL INDUSTRY CAPITAL EXPENDITURES IN MAJOR STEEL PRODUCNIG COUNTRIES

[Millions of U.S. dollars]

	United States	Canada	European Economic Community	United Kingdom	Japan
1972	1,164	186	2,676	411	2,223
1971	1,425	236	2,300	590	2,267
1970	1,736	193	1,706	370	1,902
1969	2,047	95	1,039	194	1,513
1968	2,307	61	802	149	1,167
1967	2,146	114	746	136	972
1966	1,953	195	865	117	648
1965	1,823	141	958	139	508
1964	1,600	191	1,339	154	463
1963	1,040	103	1,508	215	463
1962	911	106	1,277	476	615
1961	960	67	1,175	556	767
1960	1,521	111	818	409	598

Source: AISI, Economic Commission for Europe, and Organization for Economic Cooperation and Developmen·

Senator HANSEN. Mr. Cort, you indicated that the Japanese may be gearing up to expand steel exports to pay for their oil.

Is the Japanese steel industry owned or controlled by the government?

Maybe you would like to respond to that now if you will.

Mr. CORT. It is not owned by the Government, but it indirectly is controlled and financed by the Government. The Japanese steel industry has a financial ratio of 80-percent debt to 20-percent equity.

Senator HANSEN. Just about the reverse of ours.

Mr. CORT. The reverse of ours.

And the Government, if they decide that it is in the best interest of Japan to expand their steel capacity, they make the funds available regardless of whether it is going to be profit making or not. They guarantee the loans and at a preferentially low interest rate. The various agencies of the Government that deal with their economy really control the amount of steel that the Japanese industry will produce in a year, and whether it will go domestic, what percentage is going export, and so it is a virtually controlled situation.

Senator HANSEN. As you compare your operations, all of you, those who represent the steel industry in its entirety in the United States with those, say, in Japan, do the antitrust, antimonopoly laws in this country militate against your being able to penetrate foreign markets as effectively as the Japanese can?

Mr. CORT. I would have to say yes, very definitely.

Senator HANSEN. Isn't it true that Japan sort of takes industry by the hand over there and looks the world over and decides where one company will be encouraged to go in, they will not have competition from other like manufacturers?

Mr. CORT. That is correct.

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

Senator FANNIN. Thank you, Senator Hansen.

Just a few more questions.

Mr. Court, I appreciate your comments with regard to the antidumping statute and the countervailing duty provision. I introduced legislation in 1970 that would parallel your recommendations, and I would certainly continue in my efforts in this regard because I feel we must give domestic industry the same opportunities that we certainly give the foreign importer. I feel that in every way possible we should give the preference to domestic industry.

Instead of that, we are doing just the opposite, as you well know. In addition, there are many other concerns.

Do you believe we can get fair play and fair treatment under GATT?

I will tell you why I am concerned about that. It is because of the voting being alined against us to such a great extent.

Mr. LARRY. I think you raise a very legitimate point. It is almost the same kind of problem we have in the United Nations. Nevertheless, there is the authority under the GATT provisions to work apparently in some of the directions toward sectoral negotiations which we have recommended. One can conclude that given the right kind of attitude on the part of the U.S. negotiations to determine that the interests of the United States are important, it might be possible to get a little bit of a fairer shake than we have had.

Senator FANNIN. If we are ready to fight fire with fire. But to date that has not been the case.

Mr. LARRY. To date we have not seen much of it.

Senator FANNIN. We have seen some of the negotiations just run over us, and we have been fair play, and I certainly hope that we will

always be willing to be fair where others are fair to us, but do you gentlemen not feel that with the situation as it is today, and realizing that we will get back to a highly competitive market, not that we are not now a highly competitive market, we are in a shortage market today, and so things might look a little different, but I think it would be a false illusion to think that this is going to last beyond a certain period of time, and we would be back where we were before with the Japanese flooding our markets with different products just like they are flooding our markets today with the motor vehicle equipment. And I am very concerned about the number of cars coming into this country and of course, this does affect the steel industry, but they are coming in on a 3-percent tariff, not that we can compete in some of the other markets with our cars, but when we could have competed, the restrictions were so great and are today that we do not have the opportunity.

What do you recommend that we do, or do you feel that this must be an administration decision in regard to fighting for the rights of these countries with relationship to GATT?

Mr. LARRY. I just might observe before Mr. Ahlbrandt does, that there are a number of places in the testimony here which really go to the point you are making, Senator, in trying to bring about the situation that when a fact is found which calls for action, as for example, when the Tariff Commission finds injury, then executive movement is required instead of something which can just sit there. And the same thing with respect to the countervailing duty. There ought to be something which goes on the record to start the timeclock working so that you are sure somewhere down the way somebody is going to do something if they find the facts are as alleged.

Senator FANNIN. That was the idea of the legislation I introduced, was to bring it to a conclusion by a certain time.

Do you feel that that is the most essential action that we can take?

Mr. LARRY. We do.

Mr. CORT. Well, there are a number of industries that have absolutely disappeared and died while they are trying to prove injury.

Senator FANNIN. While they are trying to settle the cases that they have against a foreign competitor?

Mr. CORT. That is right, and I see a return of that with more competitive world situations.

Mr. AHLBRANDT. If I may, Mr. Chairman, I think your bill is a very realistic bill. I am not complimenting you because we are here today, but I mentioned that when I was in front of the Finance Committee before. But I would say this: I think that your bill recognizes the problem as well as I think the United States must recognize that we have to settle some of our import, our industry problems on an economic basis rather than on a foreign policy basis. We must recognize that we are competing against cash flow or bloc economies, where cost is no object and profitability is certainly, if it is there, is only there as a word. We have to form our capital in order to get our investment resources, in order to build our economy; we have to do that on a profitmaking basis. And unless we change our way over here to a cash flow economy, we are never going to be competitive worldwide, even though costwise we are competitive. I know we are competitive in the specialty steel industry, but when they want to come over and

utilize our market to build their industries and capacities, they do it on a loss basis, generally speaking.

Senator FANNIN. I have heard the arguments, and they say the second phase of their production would lower the cost this amount so they can sell it this much cheaper in the United States, but they still retain the same price in Japan. I have noticed they use that argument second 100,000, I would say, of some particular product that is being made. And it certainly is not consistent with the intent of GATT nor is it consistent with a fair policy between our two countries.

Now, we are speaking about the money market. We recently received testimony in our Financial Market Subcommittee hearings on the difficulty of raising equity capital to expand investment and production in basic industries in the United States, and an example was given and pointed out by Mr. Lyn Townsend, chairman of the Chrysler Corp., that McDonald's Hamburger Corp. has an aggregate market value of stock equal to the stock of the United Steel. McDonald's had a book value at the end of 1972 of $200 million, and recent stock-market value of $2.1 billion. On the other hand, United Steel had a book value of $3.6 billion and recent market value of $2.2 billion. In other words, the market value of stocks on the exchanges do not reflect the real value of the assets, but only the institutional investors' assessment of the growth value of the stock.

Now, we were looking for suggestions, and one suggestion that I would like to place before you is a plan developed by Mr. Louis Kelso which would distribute widely the shares of the stock to the employees under employees stock benefit plan.

I know that many of you have stock ownership plans, but I wish you would, if you have not already looked at this plan—and I do not know what your thoughts are—but I would like for you to submit for the record your comments as to whether you feel it might help your corporation raise capital, to expand capacity, or if you have any other plans that you think might be appropriate that would be involved in our Finance Committee activities.

I feel that it is certainly incumbent upon us to try to work on programs that will be of assistance. We are all vitally concerned with what has happened today. We desire to make it more profitable for you to do business in order that you can be more competitive and produce more jobs, and we certainly realize that if the trend continues and they say, well, we can be a service nation, that it is in sight for us to maintain the economy that we have today, maintain the living standards that we have today.

So I think that the Congress of the United States is vitally concerned as to just what can be done in regard to placing you in a more competitive position and placing you in a position where you can raise the capital needed which would make it possible to do exactly that.

I want to express the appreciation of the committee for your appearance here today. It has been very helpful. We will review the recommendations you have made very carefully because it has been brought out, some of these recommendations are in line with legislation we have previously considered, and that we will be considering in the future.

So thank you gentlemen very much.

Mr. CORT. Thank you very much.

[The prepared statement of Mr. Cort follows:]

PREPARED STATEMENT OF STEWART S. CORT, CHAIRMAN, AMERICAN IRON AND STEEL INSTITUTE

My name is Stewart Cort. I am appearing today as Chairman of the American Iron and Steel Institute. Our domestic member companies account for about 95 percent of the steel produced in this country and employ over 500,000 workers. I have with me R. Heath Larry, Chairman of the Institute's Committee on International Trade and Vice Chairman of United States Steel Corporation, Roger S. Ahlbrandt, Chairman of Allegheny Ludlum Industries, and Mark T. Anthony, Vice President and General Manager, Steel Division, Kaiser Steel Corporation.

Mr. Chairman, in our appearance before the House Ways and Means Committee on this same subject, we indicated the minimal improvements needed to make the trade bill responsive to international conditions besetting American industry and labor. These proposed improvements were largely absent from the bill as it emerged from the House.

Today, less than a year since the House began consideration of the trade bill, the U.S. has moved into vastly different economic and political circumstances. These changed conditions confirm our view that the trade bill is not attuned to the world of today and, even less, to the world of tomorrow. Therefore, we cannot support H.R. 10710, the Trade Reform Act in its present form.

ANNEX A

Subject: Additional Amendments to H.R. 10710.

Certain additional amendments are recommended by Kaiser Steel Corporation in order to facilitate the provision by the President of import relief under Section 203 of the bill:

1. Section 203(h)(2) which relates to the negotiation of orderly marketing agreements with foreign countries should be changed. The sentence beginning on line 18 of page 61 ("In addition . . .") should be struck and the following substituted:

"In addition, in order to carry out any agreement concluded under subsection (b)(4) with one or more countries accounting for a significant part of United States imports, including imports into a major geographic area of the United States, of the articles covered by such agreements, the President is authorized to issue regulations governing the entry or withdrawal from warehouse of the like articles which are the product of any country not party to such agreement."

2. In order to provide the President with more flexible authority, section 203(b) should be amended to provide that the various measures of relief can be applied without regard to section 127 of the bill, which section sets forth the most-favored-nation principle.

The purpose of this amendment is to make it possible for the President to apply higher import duties only to those imports which are causing the injury to the industry in the major geographic area without the necessity for imposing higher duties on all imports irrespective of their country of origin. Thus, as can be expected, if specific imports from one identifiable country are causing the injury to the industry in the major geographic area, only those imports from that country would be subject to the provision of import relief by the President without the necessity of affecting all other imports. Countries whose exports to the United States would not be affected would certainly not have any basis for complaint. Moreover, although the GATT appears to require that escape clause actions should be subject to the MFN provision, there is now serious discussion in the GATT of the need to negotiate a multilateral safeguard code as part of the proposed trade negotiations. Virtually all the discussions to date have indicated the desirability of permitting the non-MFN application of import relief under such a code. This proposed amendment would conform United States law to this approach and make it possible for the President, at his discretion, to apply import relief on a non-MFN basis as the multilateral safeguard code is expected to provide.

ANNEX B

[House of Representatives, Dec. 10, 1973]

Mr. PETTIS. Mr. Chairman, I would like to draw the distinguished acting chairman's attention to a provision of title II of the bill. I refer to the so-called escape clause provision under which the President is authorized to provide import relief after the Tariff Commission has made a finding of injury to a domestic industry.

In section 202(c) certain considerations are set out which the President shall take into account in deciding whether to provide import relief. Included among these is "geographic concentration of imported products marketed in the United States." The fact that this consideration is explicitly set out in the legislation as a guide to the President indicates that the Congress is instructing the President to be mindful of the geographic concentration of imported products and their impact on domestic industry in that geographic area. Is my understanding correct in this regard?

Mr. ULLMAN. Mr. Chairman, if the gentleman will yield, the understanding of the gentleman from California is correct. The language which the gentleman has referred to in section 202 defines a congressional policy to guide the President in the exercise of his authority under title II.

Mr. PETTIS. Is not my further understanding correct that the Tariff Commission, in making its findings under the escape clause, would take into account and report to the President on considerations which apply to the exercise of Presidential authority? Thus, in the case I cited, the Tariff Commission, under section 201, would consider and report on the effects of the geographic concentration of imports on the affected industry in the particular geographic area.

Mr. ULLMAN. That is correct, and that information would be considered by the President.

ANNEX C

In the following determinations of injury under the Antidumping Act, the United States Tariff Commission defined "an industry in the United States" as being the industry in a geographic area of the United States. The relevant passage from the Commission's reports in these cases are listed below.

1. Cast iron soil pipe from the United Kingdom, Investigation No. 5, 1955

"The domestic industry to which the Commission's determination of injury relates was held to consist of the producers of cast iron soil pipe in the State of California".

2. Portland cement from Sweden, Investigation No. 16, 1961

"The imports of Swedish portland cement which are injuring the domestic industry concerned are entering at the ports of Fall River, Mass., and Providence, R.I., and are being sold in a limited geographic area that is supplied with domestic portland cement by plants adjacent to the same area. This area, consisting of Rhode Island, eastern Massachusetts, and eastern Connecticut, is referred to herein as the 'competitive market area'. The domestic portland cement plants that have historically supplied such cement in that area and that have in recent years sold substantial quantities of such cement there, are considered to constitute 'an industry' for the purposes of the Antidumping Act."

3. Portland gray cement from Portugal, Investigation No. 22, 1961

Language similar to the above case.

4. Chromic acid from Australia, Investigation No. 32, 1964

"For approximately one year (August 1962 to mid-July 1963) chromic acid from Australia was imported into the United States at less than fair value. Virtually all the chromic acid was sold on the West Coast, a market which accounts for about ten percent of the total domestic consumption. During this period, imports amounted to 14 percent of the chromic acid consumed on the West Coast and came in at an accelerated rate."

5. Steel reinforcing bars from Canada, Investigation No. 33, 1964

"However, in 1962 the importer concentrated most of his sales in the Northwest area of the United States (principally Oregon and Washington) which now constitutes the only major competitive market area in which the imported re-bars are sold. This area, except for imports, is served almost exclusively by three domestic mills located within that area. In recent years there have been only rare instances in which special circumstances have made it feasible for other domestic mills to ship re-bars into that competitive market area. This is principally because of the peculiar location of the market area and the higher shipping costs applicable to shipments of the other more distant mills."

6. Carbon steel bars and shapes from Canada, Investigation No. 39, 1964

"The bars and shapes involved in this case are heavy, elongated, low-value products subject to high transportation costs. Consequently, they are commonly

sold only within a comparatively restricted geographical area. Thus, it is not surprising that the three domestic producers in the Pacific Northwest—Oregon Steel Mills, Northwest Steel Rolling Mills, Inc., and the Bethlehem Steel Company—typically sell over 95 percent of their production of the relevant items in the Pacific Northwest. Furthermore, approximately 95 percent of the domestic steel bars and shapes of this type which are consumed in the area come from these three mills, and the bulk of their raw material originates in the same States. Their sales are made primarily in small lots. This factor, together with the high freight costs, isolates this group of producers."

7. Cast iron soil pipe from Poland, Investigation No. 50, 1967

"It is apparent that some of the imports have been sold in various sectors of the United States but that virtually all of the sales have been concentrated in two large competitive market areas of the United States, namely, the Los Angeles area and the northeastern area of the United States which consists of the territory situated around and between Philadelphia and New York City. These two markets constitute approximately one-fifth of the total United States market for cast iron soil pipe; the northeastern market is by far the greater of the two. Due to the bulk and relatively low unit value of cast iron soil pipe, transportation costs tend to limit the competitive market areas of producers."

8. Steel bars, reinforcing bars and shapes from Australia, Investigation No. 62, 1970

"Sales and offers of sales of the LTFV imports were concentrated in two separate competitive market areas: California and the northwestern states." A footnote at this point reads as follows:

"Both California and the northwestern states (Oregon and Washington) constitute separate competitive market areas because freight differentials limit sales of domestic steel products in such areas principally to the plants operating within the areas."

Comprehensive legislation dealing with trade under present conditions and those likely to exist in the future must contain the following basic provisions:

1. Sector negotiations for steel and other basic commodities essential to the proper functioning of the economy that would encompass all tariff and nontariff distortions affecting international trade flows in those commodities.

2. Authority to enter into orderly marketing agreements on a sector basis similar to the recently negotiated GATT multi-fiber textile arrangement which is aimed at preventing market disruption while moving nations ahead on a course of liberalized trade.

3. Provisions as to dumping, subsidies and other unfair trade practices that forcefully convey the intention of the United States to counteract such practices.

Unless the bill is substantially rewritten to incorporate the foregoing elements, its enactment will leave us worse off than we are today with the inadequate statutes and administrative procedures now in effect.

We are in a period of strong worldwide demand for steel, with foreign steel selling at prices well above the prices the Cost of Living Council allows us to charge in this country. It would be easy to conclude that the steel industry has no trade problems. Such a conclusion would be totally wrong. Even in 1973—a record year for the domestic industry and one of worldwide steel shortages—steel imports totaled an astonishing 15 million tons, creating a negative trade balance of $1.8 billion. Import penetration for many products remains at a very high level, especially for some of the specialty steels, such as certain stainless steel products and tool steel.

Over 70 percent of the world's steel output is produced in facilities either government owned or controlled. Our foreign competitors still pursue a practice of exporting to our markets at prices below full cost whenever they have a capacity in any product line which exceeds the local demand. Despite general shortages of steel, this is still going on in certain product lines where potential supply exceeds current demand. Our current statutory safeguards as presently administered are incapable of preventing this practice.

We are in an unparalleled period of economic confusion. Yet H.R. 10710 would permit expansive but ill-defined negotiating initiatives along lines more suited to trade conditions existing in the past than to those we now face, and without coextensive safeguards against market disruption. In today's and tomorrow's world, market disruption is an ever-present danger. As just one example, the Japanese have announced their intention to expand steel exports even if that

means reducing domestic supply to help them pay the rising bill for Middle Eastern oil. There is little doubt that a substantial part of that increase will be sent to the most accessible and largest market—the United States.

Finally, and most important, in order to justify the massive long-term investments needed to expand capacity in step with increased demand, we must have adequate safeguards against floods of imports coming in at very low prices supported by other governments to further their own political and economic policies.

We support the concept of multi-lateral trade negotiations for the purpose of stimulating healthy and beneficial international trade. But we contend there must be a clear indication of national objectives and not merely negotiations for the sake of negotiating. International negotiations are necessary to the steel industry and can serve the economy in three ways that will encourage the continuing development of adequate and reliable supplies of steel:

1. To achieve access to vital raw materials through trade with any country that can provide such resources except where overriding national defense of national economic security issues are involved;

2. To achieve a maximum degree of understanding as to what constitutes fair terms of trade in steel; and

3. To achieve a well-designed orderly marketing and safeguard system that, in the event of actual or threatened disruption from imports, will permit prompt, adequate limitation on imports for a temporary period until the disruption has abated.

Viewed in terms of what we consider essential elements of a trade bill and in terms of negotiating objectives for our industry, H.R. 10710 is seriously deficient legislation. It is quite inadequate as a policy for the trade challenges that will confront us during the decade ahead.

Our government has recently exhibited concern as to what might happen to forms of domestic energy production which have become economically viable in recent months because of the higher prices imposed by foreign oil-producing nations—if those producers use their leverage at a later date to reduce prices as they have recently raised them.

It should ask the same kind of question in connection with steel. Under conditions of less than capacity demand for steel, foreign producers have repeatedly shifted their pricing policies dramatically, quoting prices below their full costs of production and rapidly increasing their exports. This has had the effect of sustaining operations and employment in foreign countries at the expense of domestic production in this country. Obviously, this destroys the ability of domestic producers to finance new steel producing capacity.

On the other hand, during the current period of strong steel demand, producers of other nations have withdrawn many of their products from our markets. And when they have stayed in the market, they have raised their prices far above those domestic manufacturers have been permitted to charge under price controls.

Thus, the price advantages inherent in the present strong market have been going in the main to encourage expansion abroad rather than in this country where it is clearly needed. The American steel industry has been faced with the worst of all possible worlds in every phase of the steel demand cycle. The country is now suffering the results of having permitted this to occur in the past.

I will now turn to specific sections of the bill.

Negotiating authority: sector negotiations

Conditions have changed dramatically since the legislative proposals for H.R. 10710 were first formulated.

There have been major realignments of exchange rates that are still going on. The U.S. balance of payments has improved, at least for the time being. Monetary negotiations are stalled. Energy issues are emerging as possibly one of the most significant trade-influencing factors of the decade. Agricultural shortages, inflation and serious concern about a world recession are all part of the changed environment.

It is these, and not simply tariffs or traditionally discussed non-tariff barriers, which affect international competition and, therefore, international trade flows in steel today. Yet there is scant indication in H.R. 10710 that U.S. negotiators would be able to consider these issues as coming within the scope of non-tariff trade barriers.

Clearly the old across-the-board or linear negotiating formula, now in title I of H.R. 10710, needs to be reexamined. For a few important industries, in-depth sector negotiations are absolutely essential.

For the steel sector, only negotiations covering all types of non-tariff distortions of trade, as well as tariffs, have a chance to produce meaningful results. As Ambassador Eberle noted in his testimony before this Committee on March 4th, "We need to ensure that the overall problems of certain key industries and agricultural sectors be covered in an internal manner, relating tariffs, NTB's, government policies, future world supply, and pace of adjustment considerations." We operate in a world market where over 70 percent of the output is produced in facilities which are government owned or controlled. Their output and sales are heavily influenced by political and economic policies of those governments designed to attain high levels of employment, improved international payments balances and adequate supplies of essential materials. As a consequence, foreign steel industries generally benefit from special aids under national planning and industrial development schemes in which they are important integral factors. And these aids have a marked influence on their trade policies. The practical way to deal with the trade distortions and disruptions which emanate from those policies is international negotiation. Accordingly, we urge that negotiating authorities in title I be amended:

To require sector negotiations for essential basic commodities covering tariffs and all other factors influencing international trade in those commodities; and

To define the terms "barriers to" and "disruptions of" international trade to include—as within the scope of such negotiations—the effect on trade arising from national balance of payments problems, export controls, material policies, tax policies, pollution abatement programs, government ownership or control of industries, subsidies and other non-tariff distortions.

Safeguards

The import relief provisions of title II are a serious disappointment. Lessons of the 1960's have gone unheeded. The prospect of heavy market penetration by imports at uneconomically low prices continues to be a serious deterrent to new domestic steel investment, just as it was during the 1960's. Government controlled or subsidized steel industries in both developed and developing countries are rapidly expanding capacity and targeting a major portion of output for export markets. Export drives in steel will be further stimulated by payment imbalances confronting most nations as a result of increased energy costs and by the strong desire of developing countries to increase foreign exchange earnings by exporting more finished and semi-finished products rather than basic raw materials.

Current political and economic uncertainties, therefore, impel creation of escape clause and unfair trade practice mechanisms that enjoy governmental backing, inspire confidence, and can be put in motion promptly whenever needed. Title II fails on all counts.

We frankly doubt that adoption of "subsantial cause" and other revisions will amount to much more than a change in semantics. We have only to look to the disposition of escape clause cases since 1962. Additionally, section 202 of the bill still empowers the President to disregard Tariff Commission findings and recommendations if he chooses to do so.

Section 203 of H.R. 1010 lists in order of preference four types of import relief for application once there is affirmative finding of injury by the Tariff Commission. Orderly marketing agreements are at the bottom of the list, after even unilateral imposition of tariffs and quotas. Thus, it appears to encourage unilateral action, rather than international negotiation and cooperation.

The recently negotiated multi-fiber textile arrangement, to which the United States is a party, stresses "orderly and equitable" development of textile trade as being a basic objective of the arrangement. The House-passed bill would adopt directly contrary policies as to all other commodities. This is not the way to encourage more equitable trade.

We recommended that the legislation clearly recognize that orderly marketing arrangements are legitimate instruments of trade policy, particularly as to commodities essential to the operation of the economy and requiring heavy, long-term capital investment in productive facilities.

We urge that the bill incorporate the definition of "market disruption," the import restraint formulae, the consultative procedures, and other essential features of the safeguard measures embodied in the recently negotiated GATT multi-fiber textile arrangement.

Despite some improvements in title III, the bill still falls far short of minimally acceptable changes. The provisions in section 301 relating to foreign subsidies provide the President with a greater redressive capability and should be retained. But, there are other provisions which are totally incomprehensible or inadequate.

To cite one, under the antidumping provisions of section 321, a domestic manufacturer who has been hurt by dumped goods and has brought a complaint would have to prove his right to appear at any hearing conducted by the Secretary of the Treasury or the Tariff Commission while the party accused of dumping would have the right to take full part in the proceedings.

Indeed judicial review of antidumping proceedings would be a hollow proceeding for an American company which was denied the right of full participation in making the record before Treasury or the Tariff Commission, when the record is the exclusive basis for the judicial review.

Industry experience with enforcement of the antidumping statute reflects a serious need for the statute to contain adequate definitions of "industry" and "injury" so that there can be more precisely mandated standards to assure that the intent of Congress is being carried out in the administration of the antidumping statute. We have specific proposals on these definitional points which will be submitted for the record.

In the countervailing duty provisions of the bill in section 331, there are worthwhile amendments dealing with time limitations for decisions, judicial review of countervailing duty decisions, and expansion of the statute to cover duty-free merchandise. In each of those areas there is some need for further clarification and expansion. The trigger of time limits should be made more certain, and the same definition for "industry" and "injury" that we are proposing in the antidumping provisions should apply to duty-free items where an injury determination is required. Imposition of countervailing duties on goods entering the country should be analogous to the withholding of appraisement provisions of the antidumping statute.

The 4-year moratorium on imposition of countervailing duties defies logical explanation. To us it simply confirms long-standing reluctance to confront the issue of foreign subsidies. It also evidences unwillingness or reluctance to tackle tough questions of foreign government ownership or control insofar as this issue affects competition with American goods. Far from hampering international trade negotiations, the imposition of countervailing duties where justified is more likely to accelerate them and make their results more meaningful.

We urge that the antidumping and countervailing duty provision be amended:

To permit all parties to an antidumping case to have equal rights to be heard;

To eliminate the moratorium on application of countervailing duties;

To define the terms "industry" and "injury"; and

To require that the Secretary of the Treasury publish a notice within 30 days after receipt of a complaint so that the triggering mechanisms on the running of time limitations become fixed.

The changes we are recommending would make the difference between realistic and unrealistic legislation. They are minimal changes. Yet, they are of such critical importance to us and, I am sure, to many other segments of our economy as to make the difference between an acceptable bill and an unacceptable one. We cannot support a trade bill which in our judgment, despite some of its favorable changes, weakens or destroys effective enforcement of the fair trade laws, continues ineffective safeguard procedures, and provides unconstrained negotiating authority.

Mr. Chairman, thank you for affording us this opportunity to appear before this distinguished committee.

Senator FANNIN. The next witnesses will be Mr. Seymour Graubard and Alfred R. McCauley, the American Institute for Imported Steel, Inc., and Prof. Walter Adams and Prof. Joel Dirlam.

The ones now are Mr. Seymour Graubard and Mr. Alfred R. McCauley, and if you would identify the gentlemen with you. We appreciate having you with us here today. You may handle your testimony as you see best. If you have prepared statements, if you

could either review them or give them in full, the limitation is as you heard, 10 minutes, and I do not know how many of you have prepared statements, but if you could at this time identify the members of your panel that will be speaking and the members that are present with you.

STATEMENT OF SEYMOUR GRAUBARD AND ALFRED R. McCAULEY, GRAUBARD, MOSKOVITZ & McCAULEY, COUNSEL, AMERICAN INSTITUTE FOR IMPORTED STEEL, INC., ACCOMPANIED BY ERNEST WIMPFHEIMER, PAST PRESIDENT AND DIRECTOR, AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.

Mr. GRAUBARD. Thank you, Mr. Chairman.

My name is Seymour Graubard, and I appear here today as counsel to the American Institute for Imported Steel. This is a trade association which consists of the leading importers of steel in the United States.

With me, on my left is Mr. Ernest Wimpheimer, a past president and director of the institute, a man who has been engaged in the steel trade for more than a quarter of a century, and who is particularly able to answer questions concerning the steel trade that you may care to direct to him.

On my right is my partner, Mr. Alfred R. McCauley of Washington, D.C., who is likewise skilled in international steel trade, but largely from the point of view of the legal aspects as they are brought out by the various laws concerning trade.

I will take the privilege of introducing at this time Prof. Walter Adams of Michigan State University and Prof. Joel Dirlam of Rhode Island State University. It is my understanding that Professors Adam and Dirlam have a written statement which has been submitted for the institute. We have also submitted a written statement which I understand will be a matter of record, and I will therefore devote my remarks just to certain aspects of that statement.

Senator FANNIN. The full statements will be made a part of the record, and your 10 minutes will start now so that you will have the full advantage of the time after introducing your colleagues. I feel you should have the full time.

Mr. GRAUBARD. Thank you, sir. I have a prepared statement which has been submitted to the committee which I would like to have inserted in the record.

Mr. Wimpfheimer and Mr. McCauley will not make any formal statements to this Committee. They may desire to comment in regard to certain statements concerning imported steel that were the subject of discussion with the previous witnesses.

Senator FANNIN. The committee will appreciate their comments.

Mr. GRAUBARD. May I state with regard to the previous testimony, sir, that there is one surprising bit of news that came out of that testimony: The domestic steel industry and the importers agree that the present bill before this committee requires substantial revision. There is a stale bit of news that accompanies this, however, and that is as in the past, we disagree fundamentally in regard to the objectives and the means of preparing suitable legislation which is good for the welfare of our nation.

I think that this will become apparent in the course of our testimony. The members of this committee have pointed out that future developments in international trade will be markedly affected by the oil shortage, by higher prices for all types of energy, and by the changing balance of payments. We believe that these considerations are not adequately reflected in the pending legislation which was largely drafted before the current energy crisis was upon us. With its wealth of energy resources, our Nation will be less affected by the OPEC oil demands than will be other industrial nations.

The comparatively small percentage of oil imports required by the United States inevitably means that U.S. production costs, both for industry and agriculture, will rise less steeply than will those for western Europe and for Japan. Thus, the prices charged for foreign manufactured goods will be comparatively higher in the future than our own.

Additionally, we have all noted that in most countries the cost of living curve, largely reflecting higher wages, is rising at a much higher rate than in the United States. Such higher costs are putting the sales prices of foreign manufacturers at the higher levels and are inching above our own domestic prices. And in saying this, I acknowledge the existence of our somewhat more modest inflation and the rise in the cost of living.

Based upon such costs and prices, a free international market would gain for United States products a higher portion of exports than would be the case of any of our foreign competitors.

Looking forward, Congress and the executive branch of Government should take the initiative in advocating the fewest amount of trade barriers that is possible. We should set the example of making it more difficult to stop the free interchange of goods on the international markets. Yet we note that the revisions to the antidumping act, the escape clause and the countervailing duty provisions of the statute proposed by H.R. 10710 are more restrictive, rather than less restrictive, than the existing legislation.

An example of the effect of looking at past history rather than looking forward to the future is found in the case of steel. As your constituents have undoubtedly told you, many types of steel are difficult to buy, and steel prices have soared in the United States and elsewhere in the world during the past 15 months. Yet we still have in effect an import quota for steel which discourages foreign mills from seeking markets in the United States, despite the great need for such imports by our steel consumers.

Let us remember that the example set by the United States in forcing such import quotas upon the world may be emulated next year or thereafter by other nations, particularly in view of the economic changes that we can now confidently predict in the world international markets. We should now take the lead to make certain that such quotas are eliminated. Yet, this pending legislation ignores the wisdom of eliminating quotas.

We recognize the fact that every segment of our electorate has the right to ask its representatives to obtain special benefits for particular manufacturers or agricultural regions or products. Yet for every person benefited by such restrictive trade practices, there are many, many more who are injured. Where the elimination of restrictions on free

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trade causes particular injury, we advocate that provision be made for compensation to the industry and aid to the employees of such industry. This would be a far less expensive cost to our Nation than the granting of special privileges by way of trade restrictions on favored elements of our Nation.

We urge, therefore, a further review of pending legislation to aim toward the ultimate greater benefits to be received by all of our Nation through the freeing of international trade to the greatest extent possible from current governmental impediments.

I thank you.

Senator FANNIN. Thank you, Mr. Graubard.

The next witness—we will hear all the witnesses and then we will go to questions.

Mr. MCCAULEY. Senator, that is the end of Mr. Graubard's statement. There are no other prepared comments.

I would just like to add a commentary on the previous testimony, particularly the allegation that imports were the problem of the independent wire drawers of the United States in years past. Indeed, I think the record before the Tariff Commission in the 1963 wire rod dumping investigation will show that imports were the salvation of the independent wire drawers. At the time of the proceeding before the Commission, the independent U.S. wire drawers were in a price squeeze. Domestic steel mills were offering wire rods to the independent wire drawers at prices which did not permit the independent wire drawers to draw the wire and make a profit, and I think without exception the wire drawers opposed any restrictions on imported wire rod. I do not believe that situation has changed at all since those days.

Second, I note one of the statements having to do with the west coast steel producers and the alleged problems with imports, I call attention to the current issue of Business Week. In a small article on page 86, it is pointed out that there are serious shortages of steel on the west coast because of a strong demand, because nine mills are exporting nearly all of their production, and last, that eastern mills, saddled with shortages all over the country, and I quote, "are quietly abandoning the western market."

I would hope that the users of steel on the west coast who need steel would continue to have access to foreign supplies of steel; or else I do not know where they are going to get them.

Thank you, sir.

Senator FANNIN. Thank you, gentlemen.

Does anyone else have any comments?

The next witnesses are Dr. Walter Adams and Dr. Joel B. Dirlam.

Dr. ADAMS. Mr. Chairman, I am Walter Adams. We have a prepared statement drafted in conjunction with Professor Joel B. Dirlam of the University of Rhode Island. We would like to submit that for the record at this point.

Senator FANNIN. The complete statement will be made a part of the record.

Dr. DIRLAM. Could we have our 10 minutes now?

Senator FANNIN. Yes. The basis upon which I understood we were going to handle the panel was, first of all, I thought you were going to be separate, and if you do want to testify together, then we will have you testify now.

Otherwise, we could put the questions to the other panelists.

Which would you desire?

Dr. ADAMS. Whichever you prefer, Senator. We just want to make it clear that Dirlam and I speak only for ourselves, but our position might be examined by the committee in conjunction with the gentlemen who have preceded us.

Senator FANNIN. Do you feel, in giving your testimony at this time, that you may answer some of the questions that could arise as a result of the testimony that has been given?

Dr. ADAMS. Right.

Senator FANNIN. Then, if you will proceed, I think it would be helpful.

STATEMENT OF DR. WALTER ADAMS, MICHIGAN STATE UNIVERSITY, AND DR. JOEL B. DIRLAM, UNIVERSITY OF RHODE ISLAND

Dr. ADAMS. Mr. Chairman, we oppose the bill before this committee, and most especially title II, chapter 1, and section 601. We oppose this bill because we are basically opposed to Government protectionism, pampering, and permissiveness. We believe that such a policy is neither in the best interests of the American steel industry, nor the best interest of American steel labor, nor the best interests of the American economy.

Our point of departure is an essentially radical position. We believe in the efficacy of free enterprise, competitive free enterprise, as the cornerstone of Government policy toward industry. We note that the steel industry demands what it calls an orderly marketing system.

Now, stripped of its euphemisms, Senator, this means a worldwide cartel in which markets are shared among producers, in which prices reflect full costs, and in which technology is anesthetized. The industry wants a cartel, not only on an industrywide basis, but on a product-by-product basis. In other words, it wants total regulation and control by this private group over the world market in steel.

Now, it is interesting to us, Mr. Chairman, the flexible footwork that the industry does in coming to the same conclusion regardless of the state of the economy. We respectfully invite your attention to the fact that in October of 1967 before this selfsame committee, Mr. John P. Roche, the president of the American Iron and Steel Institute, defended quotas as necessary because of the alleged chronic excess capacity in the world steel industry.

At that time, he said:

> It has been estimated that steelmaking capacity abroad now exceeds demand by more than 55 million tons. Countries which formerly relied on imports for their steel requirements have tended more and more to develop their own steel industries and to protect them against imported steel. Home markets of some long-established steel producers have grown less rapidly than expected. These producers have, therefore, taken increasingly to invading the markets of other producers, especially that of the United States.

Mr. John P. Moloney of the United Steel Workers, incidentally, presented parallel testimony o this Finance Committee. The justification for import restrictions at that time was a chronic excess supply in world steel markets.

Now, contrast that position with the industry's current rationale for protectionism. By 1980, says Father William Hogan, a sympathetic

observer of the industry and a consistent advocate of import quotas, the annual steel demand will require worldwide capacity of 1.1 billion raw tons as compared with today's capacity of only 780 million tons. "Blazes, that is a shortfall, with new and replacement needs of 600 million tons."

Thus, what was considered only a few short years ago chronic world steel surplus has suddenly become an endemic world steel shortage, and the way to cure it, so runs the argument, is by higher prices and higher profits, which would make additional investment in steel capacity attractive. This, in turn, would require—almost as a sine qua non—a so-called normalization of world trade in steel, an orderly marketing system, meaning strict regulation of steel imports and the sterilization of their impact on domestic steel prices.

In short, the steel industry has shown a fascinating talent for using contradictory arguments in support of its inflexible position, in boom and bust alike, it persists in its demands for governmental protection from import competition.

Now, Mr. Chairman, as we read the history of the steel industry, Professor Dirlam and I find that the industry's pricing is a classic textbook illustration of monopoly and oligopoly. The only breath of competition in this industry has come from abroad. It has been import competition. Import competition has been the main control mechanism at our disposal for limiting the oligopolistic tendency for constant price escalation in the domestic steel industry.

Moreover, import competition has had an additional beneficial effect on the American economy, and that is, it has stimulated a somnolent, lethargic, technologically unprogressive industry like steel to make the innovations that are necessary to bring the industry into a more competitive position.

We note that managements of monopolies or closely-knit oligopolies do not search for ways of reducing costs with continuing, dedicated, unwavering intensity. One of the advantages of being a monopolist, to a monopolist, is that he can lead a more agreeable life, in which tensions can be relaxed, bureaucracies become entrenched, and promotions are given as the reward for long service.

The big steel companies would be the first to insist that at an accelerated pace during the last 15 years, they have overhauled their organization, eliminated some fat, and prepared to compete on a more equal basis with their foreign rivals.

Now, Mr. Chairman, if you think that this is just an academic diagnosis, may I respectfully invite your attention to an article which appeared in Business Week on March 9, 1974. It is on page 155. And there it is noted, with respect to the reorganization plan currently introduced by President Speer of United States Steel, and I quote:

> All of Speer's moves were designed to attack problems that critics both in and out of the company had been citing for year. United States Steel was too slow to make decisions, too slow to respond to changing conditions, and too slow to make thrusts into profitable new markets. The company, which several years ago lost its dominant pricing leadership in the industry, rarely was among the first to modernize plants, to respond to imports, or to attack its pollution problems.

I skip now. The article continues:

> Some competitors and even some managers inside the company wonder how much of a dent Speer's tactics can really make in USS traditions. The company is so big that its executives have tended to think of United States Steel as a special

kind of institution, rather than just another corporation. Thinking has become institutionalized, and United States Steel has wallowed in needless redtape and empire-building that will be hard to eradicate.

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In short, Mr. Chairman, we respectfully submit that what this industry needs is not a Government-legitimized cartel. It does not need governmentally imposed protection from competition. What it needs is more competition rather than less competition in its own interests and the interests of the national economy.

Thank you very much, Mr. Chairman.

Senator FANNIN. Thank you, gentlemen.

Are there any other—does Dr. Dirlam have anything to say?

Dr. DIRLAM. This is a joint statement.

Dr. ADAMS. The joint statement of Adams and Dirlam, which should be distinguished from the joint statement which Mr. Graubard submitted.

Senator FANNIN. I thank you very much, gentlemen.

I do think we should favor the free enterprise system, and I certainly am a firm believer in expanded foreign trade. However, if we adopt the recommendations prior to a multinational agreement, multilateral agreement, which will take several years, this country will see a flow of imports from our foreign partners to pay for their energy requirements. We have talked about that earlier this morning.

Why should we not have any protection against unfair trade practices, since you are aware that the antidumping and countervailing duties taxes have, by and large, been ineffective?

We have talked about that earlier, too, and I have been very concerned about the ineffectiveness of the antidumping and countervailing duty provisions.

Mr. MCCAULEY. Sir, I would like to comment on the ineffectiveness of the antidumping statute. I think that the record will bear me out. I do not believe there has been, in the 50 years or more of antidumping legislation on the U.S. books, more activity and more relief, if that is the word you want to use, under that statute than has occurred in the last 5 years. It has to exceed all of what occurred in the previous 45 years.

Now, maybe it is like popcorn, the more you eat the more you want to eat. But it certainly is working, sir.

Senator FANNIN. Well, there has been more activity, but has it been working, and what has been accomplished?

Mr. MCCAULEY. I have been a participant in several dumping proceedings before the Tariff Commission. I do not have the scorecard in front of me, but I know that there are outstanding dumping orders today that number in the dozens. And I believe the specialty steel people have been recipients of at least two dumping orders.

Dr. DIRLAM. Could I comment?

Senator FANNIN. Yes, please.

Dr. DIRLAM. As an economist, in reading the decisions of the Tariff Commission, and in looking at their definitions of injury and industry, it seems to me they are designed or interpreted in such a fashion as to make it very difficult to show that an industry has not been injured in terms of the Tariff Commission's definition.

In other words, the way in which the statute is being interpreted now seems to me very much to favor the domestic producers rather than the importers, so that it is not easy for an importer to show that an import has not affected in some way or other the domestic producers.

The difficulty with the bill as we see it is that it seems to move against fair competition, not merely dumping, but import competition which is sold here at fair prices and not at discriminatory prices.

Senator FANNIN. The prices that I have had illustrated to me from the standpoint of the consumer have been fair, because they have been below the prices that are being sold in Japan, for instance. I have had it brought to my attention very forcefully by one of the electronic companies whereby they cannot get their products into Japan. They have just absolutely been fighting and fighting for years.

Now, this is another subject. So they are complaining, though, very bitterly, because they have been suffering from the vast imports of the Japanese products that are in competition with what they are trying to import in Japan, so they are looking at it from the standpoint of, well, let us have fair play.

But you state that foreign steel competition breathes life into a noncompetitive situation. I am sure you are familiar with the cooperation between business and government in Japan, why do you want to substitute one monopoly for another?

In other words, in Japan they say Japan, Incorporated. Apparently you do not feel it is that way. Or do you?

Dr. ADAMS. Mr. Chairman, we do not comment on the industrial organization of Japan. Japan can survive only by being competitive in the world markets, so no matter how much Japanese home markets are rigged, they can survive only if they compete effectively in the markets of the world. In other words, there is not——

Senator FANNIN. They are an exporter. That is right.

Dr. ADAMS. There is a discipline imposed, an export discipline imposed on the cartelization tendencies that may exist within the Japanese economy.

We also remind you very respectfully, Senator, we do not want to make a special plea for the Japanese by any means, because they have had a deplorable restrictionist policy with regard to our exports to Japan. But please note that the Japanese steel industry suffers from very serious competitive disadvantages. Japan has no coal; Japan has no iron ore. All of these things have to be imported over great distances, and after this steel is produced it then, again, at great cost, has to be exported to the markets of the world. So there is a built-in protectionism right there for the American steel producers.

Senator FANNIN. From what I have observed, there are not any tears in my eyes as far as the Japanese are concerned in the steel industry or any other industry. When we realize that we take about 35 percent of all of their exports and the European Economic Community takes about, what, 5 percent of their exports, and, so something is wrong

some place. When we are willing to let their exports come in, the European Economic Community closes them out.

Now, yes, it has changed some, but it certainly is not changing very rapidly.

Dr. ADAMS. Well, Senator, we ought not to pursue a policy of permitting these imports for the sake of some foreign country. In other words, we ought not to be gentlemanly toward Japan or, indeed, any other country in the world. We ought to permit unfettered steel imports because they are in our self-interest.

And, as far as Dirlam and I are concerned, the only limitation on the pricing discretion of the American steel industry has been this import competition. There is no domestic competition in our steel industry.

Senator FANNIN. Of course, now, we judge by our experience, and I have a sour taste in my mouth. We are trying to export lemons, you know, into other countries of the world from Arizona. And, of course, we are held back by the Japanese, we are held back by the European Economic Community.

We have a problem with tariffs here. In some instances, the European Economic Community gives 100 percent relief, some 60 percent relief, and we are stuck with trying to compete with that. And I understand we are going the other way now, and we are talking about a little different subject, but nevertheless, this all enters into our thinking when we are trying to write legislation. We cannot help being affected by the results of our experiences.

Do you have a comment?

Mr. GRAUBARD. Yes, Mr. Chairman, may I comment?

Senator FANNIN. Certainly.

Mr. GRAUBARD. Two comments, actually.

First, in regard to the time that it has taken to make antidumping decisions, I think I was the first person to ask for an expedition of determinations in antidumping proceedings, because the threat of penalties overhanging in a long proceeding prevented imports from coming in. I certainly espouse any kind of effort which can arrive quickly at a fair, reasonable determination.

I believe that the regulations of the Treasury Department today assure such fast determinations. And I believe that all that the proposed legislation seeks to do is to put into statute rather than regulation what is the existing fact.

Second, at the basis of the testimony that is offered by the American Institute for Imported Steel is the changing world. We should not be looking backward to what has been the case in the past where various commodities have been in great supply, overabundance. We are facing today the reverse of that situation. As your staff has well pointed out, our problems of the future are not going to be overabundance but rather shortness of supply. In the case of steel in particular, we know that there is a likelihood of a short supply of steel for the next decade to come.

Shall we, in the face of that kind of prediction, which I must say comes from our domestic suppliers, principally—shall we take steps to impose greater hardships on the American economy by trying to limit steel in one fashion or another from coming into the American market?

This is our problem. This is why we ask this committee to consider the future. This is why we think there should be broad, extensive negotiating powers to be implemented in conjunction with Congress. But let us not write into legislation today those restrictions which may come home to haunt us in the future. Let us not set the example for the rest of the world which will be much harder hit by oil shortages and by increasing salaries on a proportionate basis by saying: "This is the way the United States has taken the lead by advancing protectionism." With that lead, other nations can follow suit.

Let us rather look to the welfare of our entire Nation. And somebody has to speak for the consumer, as I know the members of this committee well do, by saying, let us open up trade, let us put our safeguards in in the course of negotiation, and let us see that we do not lose our future advantages owing to our own energy situation to the other nations, which will be far more restrictive than we in the future.

Senator FANNIN. Well, I can say amen to what you have said, because I do feel we should open up world trade. But it should be a two-way street. I do not feel that, with the European Economic Community's closing out the Japanese and the Japanese depending on us, is opening up the world trade. When we start talking about the energy picture that we are having a very fair evaluation of what is going to be left of the world trade when we start dealing with the petroleum production around the world. We do have a different ballgame; there is not any doubt about it.

There is a very serious one, and in our monetary program, we refer to the monetary program and its tie-in with this overall picture, and that it should not be unrelated, as I understand some of the comments. I do not see how we can keep from having it interrelated.

Mr. GRAUBARD. Therefore, we respectfully urge that this committee to enable our Nation to negotiate fairly without having its hands tied by preexisting legislation of a restrictive nature. Let the Congress in conjunction with the executive body make these treaties,, and let us endeavor to the greatest extent possible to open up trade for the benefit of the entire Nation.

Senator FANNIN. I understand your statement in that regard. But when we are considering legislation and we look at what has happened, both with the GATT in trade and our inability to change the position we are in in that relationship, then do we not have to think about legislation that will counteract that to some extent?

Mr. GRAUBARD. If I may say so, sir, that is in the past. We are now looking to the future. Let us make as strong an effort as possible for the welfare of our Nation. Let us not take such steps today because of what happened in the past decade and say that now our negotiators hands are tied.

In short, if we give them discretion with the concurrence of the Congress, I think we will do a far better job for the entire national economy.

Senator FANNIN. Gentlemen, I wish we could say it was something out of the past. We are dealing with it daily.

And to get back to just a small segment, the citrus industry is not something of the past. With that industry it is not something in the past as in any other industries. So I do think we must consider what changes have come about. We must look at the present circumstances and the future circumstances.

I grant you that, and I think that you have brought to our attention some very important factors. But I just still am concerned about how we deal under GATT.

Yes, Dr. Dirlam?

Dr. DIRLAM. Senator, I just want to comment on the consequences of the steel shortage that Mr. Graubard has referred to.

According to the International Institute for Iron and Steel, which has made forecasts for 1980 and which supports this estimate that Father Hogan made that we referred to, the prospect for the future is an almost unlimited demand for steel.

Now, the attitude of most of the European steel producers is, they have a market such as they have never seen in the past, particularly because of the energy shortage. The demand for steel, for oil company goods, for drilling platforms and so on, will continue into the indefinite future. They see a tremendous market, whereas I was very much disturbed to hear the gentleman from the steel industry here speaking as though the prospects were nothing but dismal for them.

Instead of seeing a worldwide market into which they could export, their major concern seemed to be to protect the capacity and the production which they see only today here. Instead of seeing our own energy crisis as a potential market, they seemed to be backward looking and not forward looking.

Dr. ADAMS. Mr. Chairman, if the American steel industry cannot make it in today's market without governmental protectionism, without additional governmental protectionism, it is, indeed, doomed as an industry.

Senator FANNIN. Well, gentlemen, I would agree that it is not a question of whether they can make it in the world market. It is a question of whether or not we can have greater employment in this country, we can have the tax base, we can have all of these other factors that are connected with the American industry.

I think we have to take those subjects into consideration, and, at the same time, I certainly am a free trader. I feel that we must have an open market throughout the world, if possible, but we do not have it today. What I am saying is that, unless we can get some changes in GATT, then, we are going to have to write different legislation than what we have been thinking about in the past. So I think we do have to look to the future, and I certainly appreciate the splendid contribution that you gentlemen have made in bringing this to our attention. But I still say that we do have some very, very serious problems.

Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

This has been a very interesting morning.

It is my understanding that the U.S. currently is spending about 3.9 percent of its GNP on defense. I understand by comparison that Japan spends about .8 percent on national defense.

Is this a fair burden on the American steel industry, as compared with the Japanese steel industry?

Anyone who would like to answer it?

Mr. GRAUBARD. I am no expert on it, Senator, but my recollection of history is we imposed upon Japan a restriction with regard to rearming. I do not know whether that restriction has been lifted. I do not see the relevance, if I may say so, between the amount it is permitted to spend for rearmament and the steel industry.

Senator HANSEN. Well, the relevance is if you are paying the tax bill—I should say, if you are doing that, it may be more relevant than it appears to you. I should think if you were trying to make steel in this country and had to pay taxes, it would be of concern to you.

Do I make my point or not? Are taxes an important consideration in competing with foreign producers?

Mr. GRAUBARD. May I say that that is perfectly correct, sir, but then one cannot look at one element.

Senator HANSEN. No; I am not saying this is the whole ballgame. I am just asking if this is a fact.

Mr. GRAUBARD. It is a fact. There is another fact, however, which applies in Japan, as I understand it—and I have never been there to investigate this—but I understand that in Japan when a person gets a job at a steelmill plant or elsewhere, he is set for life. There is no laying off of people; there is no economy to be served by cutting down on production in order to save on salaries of employees. We do not have that system here. I guess that is a fact which has a much greater burden on industry than the amount of tax that would go for comparative areas of defense.

Senator HANSEN. Well, now, I would invite your response, Dr. Adams.

Dr. ADAMS. Senator, just a very brief comment. The fact that we have a large defense establishment that also creates a large market for American industry. These defense expenditures are a built-in market for the American steel industry.

Senator HANSEN. Well, may I point out that my information is that the Defense Department indeed buys a considerable amount of Japanese steel. Is that not a fact?

Dr. ADAMS. I do not know, but——

Senator HANSEN. I think I do.

Mr. MCCAULEY. I would like to say, sir, I am not familiar with how much foreign steel the Defense Department purchases, but I do think—and this can be checked by your staff—that the Defense Department operates under a 50-percent "Buy American" differential.

Senator HANSEN. That is true.

Mr. MCCAULEY. And I would assume, especially today, that there are very few foreign bidders that could meet that——

Senator HANSEN. Well, I assume that we have covered the GNP. I do not challenge at all the statement you made, Mr. Graubard, that this unique situation between the United States and Japan, as we contrast the burden of defense, is a result of the treaty, but it is a fact, nevertheless; and I just point out that if you are in business in this country and paying taxes, it is something to be reckoned with.

I would ask you also, while it is true that the rise in wages, percentagewise, has been greater in other parts of the world—this has been particularly in Japan, than has been the case in America—is it not still a fact that the American steel worker receives a wage expressed in real dollars substantially greater than his Japanese counterpart?

Mr. GRAUBARD. That is correct, sir. The fact is, however, that in Japan and Western Europe and the other industrialized nations of the world, the proportionate increase of wages is higher than the proportionate increase in the United States.

Senator HANSEN. I think that is what I was trying to say.

Mr. GRAUBARD. I understand.

Senator HANSEN. But the information I have before me indicates that as a result of a staff study that was printed February 26, the average hourly compensation of wageworkers in the manufacturing shows that for the United States we pay $5.05 per hour; in Japan it is $2.25 per hour.

Now I am a free trader, too, Dr. Adams, but I think there is something to be said about starting out from the same place when you start in a race; and it is my feeling that we cannot have a defense burden which at times has been more than just for our country, but extends into other parts of the world as well, to be saddled primarily on American industry. We cannot expect to have a much higher wage or labor cost imposed on American industry. We cannot expect to have environmental constraints imposed upon American industry far and away higher than in any other country in the world and expect American industry to compete with other industries.

Would you care to respond to that statement?

Dr. ADAMS. Well, Senator, two brief comments on that.

The United States since its inception has always been a high wage country. Wages in the United States have been traditionally higher than they have been abroad. But this has not meant that American labor costs, as distinct from wages, have been higher than they have been abroad. The reason for that is the genius of American technology. Unless the United States maintains its technological preeminence and superiority, we will never be able to compete. And our point, the point by Professor Dirlam and myself, is that the domestic steal industry has been a technologically backward industry, both in invention and innovation. This is well-known.

Again, I refer you respectfully, if I may, to the article in Business Week, which appeared on March 23, just 2 days ago, on page 56, which details that point. If I may quote:

> In the 1950 congressional hearings on monopoly power, Benjamin Firless, President of U.S. Steel, admitted that his company has less efficient production processes than its competitors, including much smaller foreign companies. Studies have demonstrated that American steel producers lag woefully in innovation. Between 1940 and 1955, thirteen major inventions came from abroad, yet American steel boasted the largest companies in the world.

You do not find, Senator, a company like IBM coming before this committee asking for all kinds of protectionist measures in order to be able to compete in the market. IBM can defend itself in the domestic market; IBM can defend itself in the markets of the world. It is an efficient company; it is a progressive company. It is a company that bases its existence on technological preeminence which is the unique genius that has made American industry what it is today.

Senator HANSEN. Professor Adams, I would hasten to point out that I agree with a great deal of what you say. I do think that the ability of American industry to compete around the world and to pay higher wages, as we have been able to in the past, has indeed been underscored by the excellence and the superiority of American technology. But you know, we have had a lot of testimony before this committee, and the emerging consensus that I get is that with the multinational corporations being able to pick up technology and to move information around and know-how, that the one advantage we have had in the past really is getting to be razor thin.

As a matter of fact, there are many who say it is no longer existent. We have had all sorts of testimony in that regard, and I think it is true in Japan right today, because they had an extremely tight labor market. What are they doing? The cheaper paying jobs are no longer done in Japan. They are going into Korea and into Indochina and hiring cheap labor to manufacture the textiles and the things that they used to manufacture over there. And that is exactly what is happening here.

My point is that if we are concerned about the standard of living we have here, and if we are going to continue to pass labor legislation or to permit the continuance on the books as we have, which gives unions—and I am not saying we ought to change it—but let us be realistic and look at the facts.

If we are going to say that there will be a built-in guarantee of the exclusive right to negotiate by labor with major industries, then we had better look at what our competition is doing. There is an entirely different attitude in Japan.

Senator Fannin has often pointed out that the Japanese are guilty of unfair labor practices. He says over there they like to work, and there are some in this country who are inclined at times to believe that maybe there is something right about that. The whole spirit of the workman over there—I have been in Japan—not long; I am a 14-day expert on Japan. I was there for a couple weeks with a group of Governors in the 1960's. And I know I was interested in going through one of the major steel mills over there; to see some of our friends from Pittsburgh there finding out what the Japanese were doing, as they had incorporated the latest technology in the making of steels, and I thought, well, this is a real switch, to find people from Pittsburgh, the steel capital of the world over here, in Japan watching their operations to find out how to make steel. And you know, one of the reasons that it happened is that we have probably put in between $180 billion and $250 billion—depending on what figures you want to use—of American capital and American know-how and everything else in building up the rest of the world.

So I think there are some factors that need to be considered. And I am for free trade. I just say, that if we are going to say to the American producer, you have got to compete as things are now, without any other changes taken into consideration, it is just not going to work.

A year ago, the wheat farmers in the West had a chance to export a lot of wheat. And the one breakdown in that whole operation occurred on the west coast generally, because the railroad cars were available, but they were filled full of grain. In Seattle and on west coast ports they could not get unloaded because there was a longshoreman's strike. And I do not think that those people who say—and oftentimes different segments of our society do say this—that we ought to let all of the imports in. If I were a member of a labor union, I am sure I would like higher wages here. I would like a guarantee that gave me exclusive right to bargain. That if they want to ship in anything else that is made abroad, so long as it does not compete with my job, I would say bully for you. We are short-sighted, because if we get into a situation, where we have to subsidize workers who are put out of jobs because of foreign competition, we are going to find a growing list of those workers who are in that situation.

Now, I do not think we can start off right where we are now, given the labor legislation we have in this country, given the tax situation we have in this country, given the standard of living we hope to maintain in this country, and compete effectively with other nations that have an entirely different base.

I would invite your comment.

Dr. DIRLAM. I would like to make one comment, and that is if we are to maintain our standard of living, we certainly have to export. And if we export, one of the major raw materials and imports that we use for our exports is steel. And unless we maintain a high level of efficiency in the steel industry, we are going to suffer in our standard of living. And as we said, imports certainly contribute to maintaining that efficiency.

Dr. ADAMS. Just one additional marginal comment on the point you made, Senator Hansen. The mere fact that we have a noncompetitive industry before us here, this makes it easier for management simply to play the constant game of wage escalation, because it feels that it can pass these high wages on in the form of higher prices to the consumers. Now if the industry is subjected to effective competition, it will have to stop playing that game; it will have to become more conscious of productivity; it will have to become more sensitive to the export markets that Professor Dirlam is talking about.

And with respect to the figures that you read off on Japan, please note also that the Japanese vastly increased their productivity, whereas we, certainly, did not.

Senator HANSEN. I note that Senator Hartke is here. I am certain, Mr. Chairman, he will want to participate. I would have just one further word to say, and that is that Japan is extremely vulnerable to any oil embargo as we witnessed in the past. It is my understanding that that nation has announced its intention to expand the export of steel.

I might add that these are not Japanese words, but I think I could put them in there and they would still fit. They are going to try to make up for the shortfall in their ability to purchase oil at these higher prices by exporting steel. And whatever price arrangement they have to make, I suspect they are going to make it because they are so far more vulnerable to the vagaries of oil supplies in their country than we are here.

And I simply make that observation to say that their behavior in the world markets on steel, which we were talking about here today, may not reflect so much the efficiencies or the economics in steel as it reflects their overriding concern in being certain that they have enough oil.

Thank you, Mr. Chairman.

Senator FANNIN. I just have one question, Mr. Chairman.

We were talking about the GATT agreement and what has taken place and talking about looking at the future, not the past. But we have for several months been negotiating with the European Economic Community over GATT section XXIV-6. I think you are all familiar with that. We are at an impass. This is current. If we cannot settle this issue, how can we negotiate a multilateral trade agreement.

Would you like to comment on that? If we cannot even settle this issue.

Mr. McCauley. Well, sir, obviously I only know what I read in the press about the current negotiations. I think Ambassador Eberle went to Europe this weekend to see what he could do about this.

I think that we are talking and at the same time we are suggesting to the Europeans that unless there is compensatory adjustment made by virtue of the entry into the Common Market of England and the other countries, that we are prepared to take retaliatory action which is permitted under the GATT.

I think the jury is still out on whether article XXIV will work on that point. I applaud, on the other hand, the efforts of our negotiators to get a fair deal for the United States, and I think they are working on it.

Senator Fannin. I wish them well, but I just hate to look at the past, as to what has taken place and think about the future.

I thank you, gentlemen.

Senator Hartke (presiding). I am happy to see the American Institution before me.

Just to follow up on Senator Fannin's statement; the European Community owes us about a billion dollars now, under this discrimination in taxes; and they have offered to settle for $100 million. Do you think we ought to enter into new contracts before the same people pay their old debts?

Mr. McCauley. I do not follow you, Senator. You mean they owe us $1 billion in trade?

Senator Hartke. Yes; it is $1 billion they have offered to settle for $100 million. It sounds like the Russian wheat deal to me.

Mr. McCauley. Is this a trade trade-off, or is this dollars, or trade?

Senator Hartke. This is due to the indiscrimination of the tax under GATT. Why should we enter into these types of agreements, as Senator Fannin said, if we have not been able to collect on previous agreements?

Mr. McCauley. Well, I basically say that if there is something wrong with the resolve or the ability of our negotiators, I would rather strengthen their resolve and get new negotiators, rather than enter into the area of confrontation.

Senator Hartke. Are you in favor of the voluntary steel agreement, or opposed to it?

Mr. McCauley. I am opposed to it, personally.

Senator Hartke. Why?

Mr. McCauley. Because I am opposed to any artificial restraint on trade.

Senator Hartke. Are you opposed to it from just the United States as source? Would you oppose it as strongly if it came from the Europeans and the Japanese as source?

Mr. McCauley. I am opposed to trade restrictions wherever they are.

Senator Hartke. What efforts are you making to eliminate the trade restrictions that Japan has against American——

Mr. McCauley. Sir, I am not doing anything. I am an American citizen.

Senator Hartke. But you are fighting the American Government, trying to eliminate, or trying to put us at a further disadvantage with these countries and doing nothing about making a stronger case for Americans.

Where is your heritage? Why do you not fight for America instead of fighting for the foreigners all the time?

Mr. McCauley. My American blood—and part of it has been spilled on certain foreign battlefields—but let me say this——

Senator Hartke. I share that.

Mr. McCauley. Well, in the areas that we are discussing now, first of all, we are not here representing any foreign governments or any foreign elements; we are representing——

Senator Hartke. Your pocketbooks.

Mr. McCauley. Well, of course. I pay my taxes in another month. We are representing American businessmen that are delivering products that are needed by American businessmen to sell to American consumers.

Senator Hartke. Do you believe in the exploitation of human labor?

Mr. McCauley. Absolutely not.

Senator Hartke. Why then do you not come in for standardization of wages between the United States and all of these other countries which are producing goods to be sent here. Would you support such a measure?

Mr. McCauley. Would I support a——

Senator Hartke. That you pay an international standardized wage.

Mr. McCauley. I am in favor of negotiations by the proper U.S. agencies with all governments of the world regarding the conditions under which all workers work and human beings live.

Mr. Graubard. May I supplement that?

Senator Hartke. You can supplement it all you want.

The point is simply, you are talking about procedures and I am talking about substance. We have a philosophy here in the United States which seeks to create a uniformly high standard of living. One of the ways we do this is by a minimum wage. This standard of wages limits the exploitation of human labor. You are asking for a one-sided elimination of trade barriers in the international labor market where there is no minimum wage standard. You would thus exploit cheap foreign labor. Do you agree? Unless you know what you are going to proceed to do, I am not interested at all in providing the mechanism to do something that has no basic philosophy or basic substantive understanding of where you are going.

Mr. McCauley. Well, I would think that, sir, through the various organizations, the International Labor Organization, through all organizations that exist who have charters to accomplish an objective, I would hope the United States would be in the forefront——

Senator Hartke. I would too.

Mr. McCauley. And I would hope that this committee and the Congress would push it in the forefront——

Senator Hartke. And I would hope you would help us.

Mr. McCauley. I will, sir.

Senator Hartke. You would support, then, an international standardization of the wages, right?

Mr. McCauley. No, I would not support it as a mandate from the United States. I would support it as a pillar on which the United States should enter into negotiations with all of the other nations of the world to assist the lot of all human beings. We are spending billions of dollars on defense of these people, and I think we ought to

strive, through negotiation and persuasions, to see that everyone should have a fair shake in this world.

Senator HARTKE. All right.

Now, I promised to permit your comment.

Mr. GRAUBARD. Senator Hartke, I admire your idealism in regard to elevating the standards of workers abroad.

Senator HARTKE. Thank you.

Mr. GRAUBARD. I wonder, however, if we should not look closer to home. Is there any reason why we should not have standardized wages, then, among all employees? I think, for example, of the four score unions in my city, New York City, any one of which, by calling a strike, can tie up the city. Those unions, by and large, command wages through their unionization and force that are far higher than the wages paid to unorganized workers. And yet on the basis of work done, on the basis of need of employees, if we are going to look for an elevation of wages, should we not first look toward elevation of those wages that are particularly within our control? Should we not apply our standards to the United States before we seek higher standards for the Europeans or the Japanese or the Africans?

Senator HARTKE. I am willing to do that. Do you want to help me to that end? I am sure not opposed to people who want to go out and pay taxes to Uncle Sam, educate their children, pay the food bill on Friday night, try to make ends meet in this period of high inflation. Japan and the Common Market want free access to our market. If you want to represent Japan or the Common Market, I will be glad to have you do it and I will make you a proposition. I think I am a better free trader than you are. I would go into a Common Market arrangement with these countries; I would be the protagonist, the proponent, and introduce legislation to abandon all of my provisions of the Hartke bill if you will guarantee that there will be unlimited, free access to their markets, elimination of all non-tariff barriers, elimination of monetary restraints and standardization of wages. I would be for that, and I guarantee that they will not.

Mr. GRAUBARD. I am certain, sir, that if we were to represent either the government of Japan or the Common Market we would be paying a much higher tax bill to the United States than we presently are. We have no such representation. You, on the other hand, of course, are one of 100 members of the highest legislative body of our Nation. You are in a unique position to prepare and introduce legislation along such lines concerning the United States, and I promise you that any such legislation that you introduce, I will scan with the greatest of interest and comment on it. And I hope it will be legislation of the type that I can support.

Senator HARTKE. All right, I will be glad to encourage your support.

Let me ask you, what is the present production of steel in Japan?

Mr. GRAUBARD. We have no information on that, sir.

Mr. Wimpfheimer says he thinks it is about 100,000,000 tons.

Senator HARTKE. How much of that is exported?

Mr. WIMPFHEIMER. I think the total export is in the area of 25 percent.

Senator HARTKE. 25 percent. And they plan to increase it? Where do they plan to sell it?

Mr. WIMPFHEIMER. Most of it they hope to sell in the Far East and other underdeveloped countries.

Senator HARTKE. Not the United States?

Mr. WIMPFHEIMER. No sir.

Senator HARTKE. Why not just keep the restrictions on if they do not plan to increase their sales to the United States, and we will just keep it at the present level?

Mr. WIMPFHEIMER. As far as restrictions are concerned, I think we have said before that this is a two-way street.

Senator HARTKE. That is right; I agree with you.

Mr. WIMPFHEIMER. And as long as the Japanese want to voluntarily sell in other markets, why put restrictions on them?

Senator HARTKE. If they do not intend to export any more to the United States and they are perfectly content, let us just go ahead and make it mandatory at that level. If you really do not expect to import any more from them, then there should be no fear of going ahead and adopting a mandatory provision.

Mr. WIMPFHEIMER. If you want to make anything mandatory, you of course have to expect that they make things mandatory on the other side of the ocean.

Senator HARTKE. Let me say that I have no illusions that I am going to convince you to change your mind, because I know whereas and wherefore the interests lie, and I respect you for making your case.

Mr. GRAUBARD. May I point one thing out, Senator Hartke?

It was made abundantly clear to this committee that there is a worldwide shortage of steel. We should be concentrating our efforts now to feed steel to the steel-hungry consumers of our Nation. Anybody who has been the subject of as many pleas as I have for baling wire, for example, for wire rods, for other products in great shortage in our country, understands that our economy is drastically and adversely affected by the present worldwide steel shortage. I think under these circumstances for us to discuss a limitation on imports as being good for our economy is looking backward to a time when there was an oversupply of steel. Our leaders in the steel industry predict that for the next decade there will be a considerable shortage of steel. Let us concentrate, therefore, on doing a job for what our economy needs rather than trying to increase profits for a particular segment of the economy at the expense of the others.

Senator HARTKE. If you want to help the economy, you will support my bill. There is going to be a shortage of jobs in the United States of America. And who is going to provide those jobs for those people and give them those paychecks?

The jobbers will soon find themselves on welfare. We have got 16 million now. We have got 40 million Americans who are on the edge of poverty, making no contribution to a productive society. Ultimately, that conflict is going to threaten even your little household.

Mr. GRAUBARD. Senator Hartke, are you relating the job situation to the shortage of steel in this country?

Senator HARTKE. I certainly am.

Mr. GRAUBARD. I do not understand it, then, because the steel mills have had so much difficulty in recruiting sufficient labor to man their plants that they are using women in jobs that traditionally have required the strength of men.

Senator HARTKE. That is a false argument. There were 271,037 steelworkers in 1957. There are 184,794 in 1973. Now, that decline has been occasioned, not by the fact that the steel industry itself is not trying to keep up full production, but it is due to the fact that we shifted all of those jobs overseas. We built the plants overseas, we financed them overseas, we gave them special consideration, special tax breaks, and the American worker paid the bill in jobs lost.

In my own testimony, I revealed the very meager contributions a lot of people like the oil companies are really making to the American society and still taking the protection of the American flag with them abroad. There would have been an expansion of the American steel industry if they had not gone overseas and built those plants with American capital. The expansion of the American steel industry has been prevented by the sheer number of imports and the fact that that import penetration was moving at such a rapid pace.

In 1959 there was only 1 million tons of steel imported to the United States. Now it is about 18 million.

Mr. GRAUBARD. 15 million.

Senator HARTKE. The mix has changed, too. You are talking about tonnage, and they went over to the specialized steel, to the high-priced steel, and they moved on out from under the voluntary restraints. In order to change and still get their dollar return, they moved over from the so-called conventional items and moved back into the high-priced specialty items so that they could get the same dollar return or even a bigger dollar return.

The opportunity for the American steel industry to expand has been so limited by the influx of this foreign steel that the Alaskan pipeline is going to be built completely with Japanese steel. What a tragedy for the United States that we must turn to the Japanese because there is not a steel mill in the United States that could build the size pipe needed for this project. You can say that is due to the great Japanese enterprise. But I think the American worker is just as productive as anyone. But he cannot produce when you grant special tax bonanzas of $6 billion to the foreign operations of gigantic U.S.-based multinational firms.

Mr. GRAUBARD. First, Senator, I think unintentionally you are demeaning the efficiency of our steel industrialists.

Senator HARTKE. I am not demeaning the efficiency. I are demeaning the fact that they cannot compete against a special tax subsidy to produce abroad. Compounding this, the governments of these foreign countries go ahead and give special benefits to these other companies.

Mr. GRAUBARD. May I explain, sir?

Senator HARTKE. We are productive. But these foreigners cannot be productive if they do not have the capital to expand. The constant penetration of our market indicates that we are not going to need the capacity here.

Mr. GRAUBARD. May I explain, sir?

Senator HARTKE. Go ahead, sir. I am not demeaning anybody except those people who want to rape the United States of America.

Mr. GRAUBARD. The American steel mills, despite their tardiness, as

Professors Adams and Dirlam have pointed out, in adopting innovations and new techniques in the production of steel, nevertheless have increased efficiency in the steel mills to the point where one man in the steel mill now does the work that several men previously did. You have had an attrition in the labor force because of the greater efficiency and economy of operations of our steel mills. The fact is, that these economies in the utilization of labor would have been still greater if the prior generation of steel leadership—I am specifically not addressing this comment to the present executives of the steel mills—if the prior generation had been more imaginative, more courageous, if they had devoted more money to research and development.

You must be aware, Senator, of course, of the fact that among all the industries in the United States the steel industry, in research and development, traditionally has been second from the lowest in the ratio of expenditures for research and development. Now, when you talk about steel mills abroad taking away jobs from American citizens, I can merely say to you, sir, that that assumption is not borne out by the facts. I have read a number of articles in regard to the utilization of labor and the need for labor in our steel mills, and if you wish we can supply such articles to you. They will indicate, I think, conclusively that the assumption that foreign steel takes jobs away from the American steel mills is wrong.

In any event, your remarks are addressed to the past, and what has been past is not going to be true for the future. It is not true today and according to our same steel industrialists it will not be true for the decade to come.

Mr. WIMPFHEIMER. Only in connection with your remark about the Alaska pipeline. It is correct that the initial supply of pipe originated in Japan because at the time that it was required no American mill was able to furnish the diameter needed. There is reason to believe, however, that both American and Canadian mills have meanwhile built up their capabilities to furnish the large diameter pipe required to complete the project.

Senator HARTKE. I am sorry, but your time has expired. Thank you for joining us.

Senator FANNIN [presiding]. Gentlemen, we appreciate very much your being with us today.

Do you have any further questions, Senator Hansen?

Senator HANSEN. No, thank you.

Senator FANNIN. We will carefully analyze your recommendations. There certainly has been some agreement and some disagreement. That is always expected. Certainly we greatly appreciate your being with us.

Senator HANSEN. Mr. Chairman, may I add that without objection I should think any additional comments that any of you would like to make could be written and submitted to the staff and we will be happy to incorporate them in the record.

Mr. GRAUBARD. Thank you very much.

Dr. ADAMS. Thank you very much.

Senator FANNIN. Thank you.

[The prepared statements of Mr. Graubard and Drs. Adams and Dirlam follow. [Hearing continues on p. 1121.]]

PREPARED STATEMENT OF SEYMOUR GRAUBARD ON BEHALF OF THE AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.

I am Seymour Graubard of the firm of Graubard, Moskovitz & McCauley, 1629 K Street, N.W., Washington, D.C. 20006. I appear today as counsel to the American Institute for Imported Steel, Inc. ("Institute") of 420 Lexington Avenue, New York, New York. The Institute is a trade association composed of more than 40 United States companies engaged in the international trade in commodities. The Institute's primary purpose and objective is to foster mutually beneficial U.S. trade in steel products.

Our membership accounts for over 80% of U.S. imports of steel from the Common Market, and, directly or indirectly, for a substantial portion of the steel imports from other steel producing areas of the world. They also take pride in having participated in the rebirth and current expansion of the U.S. steel export trade. Moreover, an ever increasing number of Institute members handle a variety of other internationally traded commodities as well. Institute members also manufacture and distribute steel products in the U.S. market.

Thus, because of the nature of their businesses, the Institute's member companies are acutely aware of the importance of strengthening the structure of our increasingly interdependent world economic system, and of modernizing the rules which govern trade, to lay the groundwork for further liberalization and expansion of international commerce.

An international trade negotiations act for the new economic era of the 1970's

The Institute shares the view expressed by members of the Committee on Finance during the current hearings, and well stated in the introduction to the Committee staff's "Summary and Analysis of H.R. 10710—The Trade Reform Act of 1973":

> Traditional trade problems have usually been associated with rising imports and their effect on industries, firms and jobs. Such "traditional" problems often were caused by oversupply. Current trade problems are more typically due to shortages—food and fiber, energy, metals and many others. We have moved into an era of resource scarcity and accelerated inflation—an era in which producing countries are increasingly tempted to withhold supplies for economic or political reasons. It's a totally new ball game, which was not envisaged in the planning and conception of the Trade Reform Act.

Trade expansion is an essential of U.S. policy in an era of scarcity

The Institute supported the underlying thrust toward trade liberalization of the Trade Reform Act in its testimony before the Ways and Means Committee of the House of Representatives last June. Over the past twenty years, in appearances before this Committee and others, the Institute has consistently advocated the liberalization and expansion of trade. In this new era, such a policy becomes not merely a useful policy for the U.S. to pursue, but rather an imperative for this nation.

During the past three decades, international trade has been, and continues to represent, a relatively small percentage of our Gross National Product—considerably less than that of our principal trading partners, Europe and Japan. However, the current energy crisis has pointed up just how important that trade can be to our economic well being. As we all know, oil is not the only imported commodity required by our industries to function and expand. The U.S. must import other raw materials; and, according to authoritative estimates, including those of the U.S. steel industry, we can expect a scarcity of supply of semi-manufactured products, such as steel mill products, during the next decade as well. Self sufficiency or a "beggar-thy-neighbor" policy is no longer practical nor wise in this increasingly interdependent world.

In our own self interest, maintenance of orderly and normal trade relations and the expansion of international trade is literally a matter of survival of our way of life. There is an understandable temptation to strike out at real (or fancied) culprits outside our borders for causing shortages and inflation. However, negotiation—not confrontation—is the only viable policy. International cooperation, engendered by international rules of conduct, agreed to with the other members of GATT, and also eventually the socialist states as well, is the only salvation of the U.S. and its European and Far-Eastern allies.

The Trade Reform Act is trade-restrictionist oriented

This is where the conception of the bill before this Committee is out of tune with the new era of international scarcity rather than oversupply. The Administration witnesses who appeared before the Committee two weeks ago talked of trade liberalization. At the same time, they supported an omnibus package in which the immediate trade restrictive proposals come perilously close to outweighing the obvious benefits of authorizing the Executive, in cooperation with the Congress, to negotiate further reduction and elimination of tariff barriers and new and improved codes of conduct in international trade.

H.R. 10710 in large measure is a melange of piecemeal amendments to existing trade regulatory provisions, most of a protectionist nature. It constitutes unilateral trade "reform" in advance of the negotiations rather than invitation to negotiate international trade reform. These amendments might suggest to other nations that they must raise their barriers to international trade.

The concept of the bill does not take adequate account of the fact that the U.S. energy position and inflation rate relative to the other major industrialized nations have once again made this country competitively the preeminent trading power in the world. Nor does it adequately recognize that only with the expanded trade which further trade liberalization will bring can the U.S. pay for the increasingly expensive raw materials and energy resources necessary to maintain and improve our standard of living.

As in so many areas of this fast moving world, the proponents of the recently heralded New Protectionism, to which the Administration appears to have catered in order to secure basic negotiating authority, also have fallen victim to "future shock". They simply refuse to face the new facts of international economic life.

Thus, despite the already restrictionist bias of the Trade Reform Act, the AFL-CIO expresses unhappiness with it and still presses for automatic quotas. That organization fails to recognize and grasp the opportunities for American workers—new jobs and higher wages—which this new era portends if only the "unfair" foreign competition phantom is exorcised.

Equally oblivious to the new economic exigencies and to the opportunity for new and expanded markets and higher profits are a number of U.S. industrialists, many of them notables in the U.S. steel industry. Despite the domestic steel shortage and the worldwide scarcity of which this is but one symptom, the industry continues to call for quota protection, rather than putting its primary focus on expanding production and reestablishing U.S. steel abroad.

Trade reform legislation should be trade expansionist oriented

In speaking to the legislation before the Committee, the Institute is faced with a dilemma, one with which other witnesses have struggled. We strongly favor an adequate grant of negotiating authority to the Executive, adequately supervised by the Congress, to permit the U.S. to participate meaningfully in the current GATT negotiations—an International Trade Negotiations Act for the New Economic Era of the 1970s.

However, we strongly oppose the perniciously trade restrictive portions of H.R. 10710, which may well make the negotiating authority illusory by freezing positions and impeding meaningful agreements on such enormously complex subjects as escape clause or "safeguard" provisions, antidumping and countervailing duties, and the appropriate use of tariffs and other trade restrictive devices to deal with balance-of-payments and domestic inflation problems.

In sum, this Committee should streamline H.R. 10710 to its essentials, Titles I and IV. It should give careful consideration to ways of making the negotiating authority more flexible and less sector-by-sector oriented, while ensuring close oversight of the process by the Congress. It should put aside Title II—except possibly for Chapters 2 and 3 which are an improvement over present adjustment assistance—and Title III to await comprehensive negotiations on codes of fair international trade practices, and the elimination of NTBs.

The focus of the legislation which emerges from this Committee should be on negotiating expansion of U.S. trade, not restricting it.

The steel trade is a lesson in retrospect for the economic era of scarcity of the 1970s

The Institute's misgivings concerning the trade restrictive provisions of H.R. 10710 are reinforced by our membership's experience under so-called "voluntary"

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quotas, reluctantly agreed to by the European and Japanese steel industries under the threat of legislative quotas, and in effect now for more than 5 years.

The initial excuse for these quotas was the U.S. steel industry's claim of a large world oversupply of steel. Soon after the domestic industry secured its quota protection, this oversupply vanished, to be replaced by a severe domestic and world-wide shortage. We do not question the *bona fides* of the domestic industry's forecasts. But the industry badly failed to foresee the imminent change from steel surplus to steel scarcity, a characteristic of the new economic era in which the Trade Reform Act is to be effective.

Mr. Alex Greten, the President of the Institute, recently authored an article in the American Metal Market, an important and respected trade daily, entitled "The Shrinking World of Steel—Or, A Lesson In Retrospect" which well analyzes the current steel market and the prospects for a continuing shortage for the rest of this decade. Because it is germane to this Committee's deliberations, a copy is submitted herewith for the record.

As Mr. Greten notes, the energy crisis, far from reducing the present high demand for steel, is likely to further aggravate the world and domestic shortage. In these circumstances, it is apparent that steel imports are a needed supplement to inadequate domestic production, rather than competitive with the domestic industry. As Business Week observed in its March 16, 1974 issue, because of an expected further decline in imports of 3 million tons and increased exports exceeding 5 million tons, coupled with lower mill inventories, there is likely to be "10 million tons less steel than was available last year". The article, which we also provide herewith for the Committee's assistance, approvingly quotes Mr. Greten:

> It may sound pessimistic, but the time of unlimited steel availability, like unlimited fuels, is over.

Yet the domestic industry, suffering from "future shock", still chases a bugaboo of "cheap" imports and, not satisfied with the "voluntary" quotas it has secured, continues publicly to demand legislative quotas. Its spokesmen's rationale now is that continued protection from foreign competion is necessary to make needed capital investments in new and expanded facilities attractive. We submit that imports have nothing whatsoever to do with the domestic industry's ability to attract equity capital. Indeed, steel stocks are currently in vogue because of the extremely good earnings reports for 1973, and the prospect of more of the same for this year.

Steel quotas should be terminated

On the other hand, a continuation of steel quotas, be they "voluntary" or legislative, will only compound the error previously made. Steel imports are currently running as much as 25% below the "restraint levels" provided for in the Voluntary Restraint Agreement ("VRA"). This short-fall of imports, of course, can be explained in part by the extremely tight supply situation throughout the world and the higher price which steel often commands in other markets. However, a very significant element in the current shortage is the fact that Europeans and Japanese producers, since 1969 when the original Voluntary Export Restraint Program ("VERP") went into effect, have had to plan future expansion with these limitations on this major market in mind.

Thus, our trade policies discouraged foreign producers from building new, and expanding existing facilities. In view of the lead time between the decision to make new capital investments and the placing on stream of additional capacity—a period of three to five years—the current shortage of steel, which became evidence during the last quarter of 1972, bears a direct correlation to the imposition of quotas on steel.

As this Committee knows, the legality of the VRA is currently before the courts. The Institute neither was consulted nor was a party to the VRA. It has consistently opposed it in principle but our members nevertheless have had to live with VRA's strictures. Since the issue of presidential authority to conclude the agreement is *sub judice*, we respectfully refrain from commenting as to the likely outcome. However, without regard to what the decision may be, we strongly urge this Committee to embody in the trade legislation under consideration a requirement that steel quotas be terminated by no later than VRA's current expiration date, December 31, 1974.

Import duties on steel should be suspended during the current shortage

Indeed, following the precedent established with regard to other scarce commodities, this Committee should embody in the trade legislation before it, a sus-

pension of import duties on steel imports at least for the period of the current shortage. Such action would have an anti-inflationary effect on steel prices, which have been increasing at an accelerating rate even under the current price control program.

As this Committee has been informed a number of times by representatives of the Independent Wire Drawers Association, an organization of United States nonintegrated wire and wire products producers, the current supply of their essential raw material—steel wire rods—is inadequate to the demand. For many years, starting in the early 1960s, these independent wire products producers have found imports to be essential to their industries' very survival. These producers are scattered throughout the United States, but many of them are concentrated in coastal areas in the southeast and in the Great Lakes because of their dependence upon imports. The integrated steel producers of the domestic industry simply have been unable or unwilling to provide adequate supplies to these independent producers. It probably is no coincidence that the independent U.S. producers manufacture products which are competitive with those produced by various of the integrated companies in the domestic steel industry.

In sum, the effect of import restraints on the steel sector of the U.S. economy is indeed "A Lesson In Retrospect" of the severe distortions which are brought about by unneeded and improvident trade restrictive actions. It should serve as a guide to the type of trade policy the U.S. must pursue in the new era of worldwide economic scarcity—a policy dedicated to expansion of international commerce.

Changes needed in the Trade Reform Act to meet the challenge of the new economic era of the 1970s

As previously observed, negotiation and not confrontation should be the keystone of U.S. international trade policy for the 1970s. Thus, the Institute would much prefer that this Committee streamline H.R. 10710 and focus on the two titles providing for negotiating authority, Title I on tariff and nontariff barriers and Title IV on East-West trade.

Titles II and III are not only extremely protectionist oriented but, more important still, they embody a basically wrong conception. Amendment of legislation to deal with "fair" and "unfair" import competition should await, not precede international negotiations, particularly where such amendments are at variance with GATT and other U.S. international commitments. In effect, such approach presents our trading partners with a "take it or leave it" position. As Secretary of State Kissinger so lucidly explained in his March 7 testimony, this is not an approach calculated to secure the good will necessary to reach international agreements on complex and sensitive economic matters.

Title I—Negotiating Authority

In its testimony before the House Ways and Means Committee, the Institute noted the virtually unbounded and unprecedented negotiating authority requested by the Administration, and the lack of an effective mechanism for Congressional oversight and control. The Trade Reform Act as it passed the House is an improvement. However, a further improvement is required both to provide U.S. negotiators with necessary flexibility and to protect Congress' constitutional and traditional control over tariffs and trade.

The emphasis in the bill on a sector approach to negotiation is stultifying insofar as tariffs are concerned and totally unrealistic for NTBs. If the current oil crisis has taught us nothing else, it has dramatically shown the fallacy of treating U.S. industry on other than a basis of overall national interest. In view of the fact that members of Congress will be accredited delegates as "official advisors" to the trade negotiations and that, for the first time, representatives of U.S. business, agriculture, labor, the consumer and the general public will have an official status with the American delegation, there seems to be no reason to suppose that unjustified concessions will be made of a harmful nature to one industry in return for excessive benefits to another. On the contrary, American negotiators will not only have the benefit of careful economic studies by the Tariff Commission in advance of negotiations, but also first-hand assistance from the Congress and U.S. business interests during them. In such circumstances, there is no reason to provide rigid guidelines in the enabling legislation and they should be eliminated.

On the other hand, the comments of this Committee's staff on the projected joint Congressional Committee to oversee the negotiations and on the veto procedure provided for Congress to disapprove of agreements reached, are well taken.

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The Senate delegation to the trade negotiations should not be appointed by the Vice President as President of the Senate but rather by the Senate Majority and Minority leadership and should be answerable only to the Senate. The provision for a 90-day period to veto NTB agreements is unrealistic and illusory. It would not give sufficient time for mature consideration by the Congressional Committees to which the agreements were referred, let alone to the full Congress.

A better approach would be for periodic reports by the "official advisors" to each House of the Congress on progress of NTB negotiations, with eventual referral of agreements which require Congressional approval to the Senate in the form of treaties. This would be particularly important with respect to negotiations of changes in the GATT structure and in the Agreement provisions themselves since, unlike Congress' traditional practice of providing tariff reduction guidelines in advance of negotiations, negotiations on changes in the basic structure of the international system to regulate trade and in the GATT Code (and interpretative accords such as the International Antidumping Code) should receive the constitutionally required approval for treaty-making by the Executive.

As regards the Executive's authority to reduce and increase tariffs, the phasing requirements for reductions are too long and the authority to increase is too broad. The five step phasing authority granted under the Trade Expansion Act worked well in allowing for adjustments in the domestic economy resulting from the Kennedy Round. The 15 year phasing requirement of the Trade Reform Act should be reduced to 5 years. On the other hand, there seems no reason why the President should be authorized to raise tariffs above those provided in the Tariff Act of 1930, the last Congressional enactment of tariff ceilings. Certainly there seems to be no reason for an authority to exceed these historically high rates by 50% or to permit the President to remove articles from the Free List and impose up to a 20% duty, a power traditionally reserved to the Congress.

Finally, the Balance-of-Payments Authority and Inflation Restraint Authority are misplaced. Initially, it should be noted that the Balance-of-Payments Authority conflicts with current provisions of the GATT. If trade restraints, as well as the lifting of trade restrictions, are to be made a tool for dealing with domestic economic problems, this should be a subject first of international negotiation, with any necessary Congressional action to follow. The President has already asserted a power under present legislation to act quickly in emergency situations. Whether this power was properly exercised in the case of the 1971 10% import surcharge is a question presently pending in the courts. However, there seems to be little dispute that adequate statutory authority already exists in appropriate situations.

In any event, this is a subject which not only needs study on an international level, but careful Congressional scrutiny as well. It should be reserved by Congress as a separate matter from the currently pressing requirement for Executive trade negotiation authority. Indeed, the current fluctuating parity system which allows for adjustment in currencies depending upon trade and capital flows already has removed any urgency for Congressional action. A permanent system should be worked out within the framework of a new international monetary accord.

Title II—Relief From Injury Caused By Import Competition

(a) *The "Escape Clause"*.—The changes from present law contained in the Trade Reform Act are among the most objectionable sections in the Act. Not only are they far too potentially trade restrictive, they also are in contravention of the GATT.

The "escape clause" was initially enacted, and reenacted in the Trade Expansion Act, to implement the U.S. right to withdraw in whole or in part from tariff concessions, negotiated under the Reciprocal Trade Agreements Program, which caused unforeseen serious injury to a U.S. industry. Its purpose was to permit such action, consonant with our GATT commitments to compensate our trading partners for the withdrawal or limitation of the concession granted in international tariff negotiations.

The sponsors of the Trade Reform Act would instead convert the provision into a general provision to "safeguard" U.S. industry from foreign competition by totally eliminating the requirement that a nexus be shown between increased imports and an internationally negotiated and Congressionally sanctioned tariff reduction. Thus the purpose and international treaty sanction for such provision would be abandoned, and along with it, Congress' (as distinguished from the Executive's) traditional role as the arbiter of the larger question of whether an industry requires, or indeed is entitled, to special relief from import competition.

There is little question but that the history of "escape clause" proceedings under the Trade Expansion Act provision demonstrates a need for a less stringent test than the present requirement that increased imports be due in "major part" to a negotiated tariff concession. The Institute supports a return to the more realistic pre-1962 in "whole or in part" test.

The Institute submits, however, that with the foregoing change, present law is more than adequate to protect U.S. industries seriously injured or threatened with serious injury by an unforeseen increase in imports. The proposed change from "major" to "substantial" as the test of causality between such increased imports and serious injury is unwarranted. Since the purpose of the "escape clause" is to protect industries from injury caused by imports, imports should be the predominant cause (i.e. greater than all other causes, such as changes in consumer preferences, labor difficulties or the myriad of other problems which are usually the real reasons for a decline in production and/or employment in a domestic industry) rather than merely one of such causes. Where the other causes predominate, relief from import competition is at most a palliative rather than a remedy for the industry's problem. Certainly, in this new era of economic scarcity, when the United States will be increasingly dependent upon the normalizing of foreign sources of supply to maintain and expand its industrial plant, the trade disruptions and recriminations which often result from emergency tariff restrictions should be kept to a minimum.

The Institute also opposes the changes proposed in the Trade Reform Act which would direct the Tariff Commission to "segment" an industry or limit its study of the economic facts in an escape clause proceeding by rigid, artificial definitions and standards. We particularly point the Committee to what appears to be a technical oversight in the House version of the Trade Reform Act, which literally would make the finding of a "threat" of serious injury much more probable than that of the primary test, serious injury itself. The Tariff Commission, with its long history of assistance to the legislative branch and with the expertise developed over these years by its professional staff of economists and attorneys, can be trusted by the Congress to continue to administer the present escape clause provision with the degree of economic wisdom it has more often than not evidenced in the past.

(*b*) *Adjustment Assistance.*—The Institute supported a liberalization of the adjustment assistance provisions contained in the original Administration proposal in its testimony before the House Ways and Means Committee last year. H.R. 10710 is a distinct improvement. However, as in the case of other provisions of the bill which do not directly relate to negotiating authority, the Institute believes that, rather than including a hurriedly reviewed provision on this very important subject in an omnibus bill, it would be better if the Congress would address itself to fundamental reform in separately, carefully considered legislation.

In this regard, similar proposals have been introduced by Representative Charles W. Whalen (R. Ohio) (H.R. 4917), and by Senator Charles H. Percy (R. Ill.) (S. 1156), which merit serious considerations by the Congress. These proposals go to the fundamental problem with the present adjustment assistance provisions—and are similar to the Institute proposal to the House Ways and Means Committee for adjustment assistance programs which are not merely "hand outs." What is needed are governmentally financed and assisted, industry-wide technological modernization programs in the case of industries, and meaningful relocation and retraining programs in the case of workers, unemployed or under-employed, due to any irreversible industry decline.

Title III—Relief From Unfair Trade Practices

There are a number of objections we could make to the proposed amendments to the Antidumping Act, countervailing duty statute and the unfair trade practices provision of the Tariff Act of 1930. It would be pointless to catalogue them here. It bears emphasizing again that each of these subjects is technical and complex and has no place in a bill whose focus should be on trade negotiation authority.

It should be noted, for example, that most of the proposed changes in the Antidumping Act, which relate to procedural matters and time limits, are already contained in the presently effective regulations of the Treasury Department. There is no reason to embody these provisions in statutory form now, when the thrust of U.S. policy should be to negotiate with our trading partners further refinements and improvements in GATT Article VI and the International Antidumping Code.

Similarly, the proposed amendments to the countervailing duty statute are both protectionist and counterproductive to international agreement in this area. It should be noted that this is a most sensitive area of trade regulation, because actions by foreign governments rather than private firms and persons are involved. As such, it has been recognized by senior officials of the Treasury Department that fundamental reforms can only come in government-to-government negotiations.

As this Committee is aware, the United States is also vulnerable to changes of subsidization. A Congressional grant of authority to our negotiators will be recognized by the Common Market nations and others as a gesture towards international harmonization. The enactment now of severely restrictive statutory provisions by the United States—particularly the conversion of the statute into a private remedy by providing a right of appeal to private industries from the essentially political judgment of the Secretary of the Treasury whether to retaliate against the actions of a trading partner—can only be viewed abroad as an invitation to take similar action.

The Institute leaves to others better qualified on the subjects a discussion of Titles IV and V of the Trade Reform Act. Each of these Titles involves political problems and decisions which may profoundly affect U.S. foreign policy in the years to come. We are sure that this Committee will give these problems the most careful consideration and that, in cooperation with the Executive Branch, it will make the decisions which will best serve our national interest.

In conclusion, the Institute wishes to thank this Committee for the opportunity granted to express its views on the pending trade legislation. We are hopeful that the result of this Committee's work will be a clear mandate and charter to the Executive Branch to negotiate international agreements which will lead to the expansion of mutually beneficial trade with this nation's allies abroad and with other nations desiring peace and prosperity through international accord.

[From the American Metal Market]

THE SHRINKING WORLD OF STEEL—OR, A LESSON IN RETROSPECT

(By Alex Greten)

NEW YORK.—A most significant event in 1973 was the emergence of serious shortages of materials on a worldwide scale. This came as a surprise even to many experts. As late as the Fall of 1972, some of them still believed that there were margins of idle plant capacity and pools of unemployed workers which would prevent prices from rising significantly.

Unfortunately, or fortunately, they were wrong. These unused resources proved to be an illusion, even though most of the industries producing items currently in scarce supply complained of burdensome excess capacity as late as early 1972.

The United States steel industry has not experienced such a shortage of supply against unexpected demand since the Korea War some 20 years ago. Delays in delivery are chronic and there are many complaints about the inability of consumers to obtain reasonably priced steel. These phenomena are present despite the fact that the U.S. steelmakers have been working at capacity.

The problem is aggravated by the Voluntary Restraint Agreement (VRA) which limits steel imports into the United States. Because of the VRA, the foreign mills had scheduled their exports to this country on a tight basis. An even more important reason for the reduced quantity of steel imports this past year has been the world economic boom, which has raised international steel prices far aboce those presently prevailing in the United States.

Foreign mills have tried to maintain their good commercial relationships with their established customers here, and they have alleviated somewhat the unmet demands for steel. Had it not been for VRA, a greater amount of steel might well have been available for shipment to the United States in 1973.

While working overtime to meet domestic demands, the domestic steel mills have been able to increase their profits somewhat by exporting steel at prices considerably higher than they are permitted to charge in the United States. The price limitations for steel imposed by the Cost of Living Council actually provided a great inducement to the domestic producers to sell abroad. Thus, artificial government restraints have served in two ways to aggravate the domestic steel shortage.

STEEL IMPORTS TO THE UNITED STATES SINCE 1969[1]

	1969	1970	1971	1972	1973 (through October)
EEC	5,199,457	4,572,594	7,174,206	7,779,140	5,443,583
Japan	6,252,615	5,935,421	6,908,336	6,440,135	4,688,021
3d countries	2,582,115	2,856,421	4,239,811	3,440,695	2,613,743
Total	14,034,187	13,364,436	18,322,353	17,680,970	12,745,347

[1] Figures for 1969 through 1972 do not include imports from the United Kingdom.

Source: American Institute for Imported Steel.

Recognition of the fact that there is an international market for steel is long overdue. Steel should be shipped to those areas where consumers require it. The parochial stand against imports taken by certain labor unions and industries may temporarily provide benefits for those in the particular industry, but in the long run must work against them. Clearly, such restraints work against the welfare of the entire nation. This is likely to be true for the next decade or longer, as experts are unanimous in foreseeing a short supply of steel which can be met only by tremendous investment in new plants around the world.

Steelmakers should be allowed to raise prices to levels which will produce the capital needed for investment in new steelmaking capacity. The U.S. government's current price controls do not encourage investments, and are, therefore, counterproductive. By artificially depressing prices, demand for steel and steel products has soared sharply outstripping supply.

Furthermore, the combination of price and import controls has resulted in an odd turn of events. Consider this paradox: Bethlehem Steel, the nation's second largest steelmaker, has indicated it will be forced to produce abroad where costs are lower if the government does not drop its controls; at the same time, certain European and Japanese interests have begun producing steel in this country became of fears of further U.S. import curbs.

The case for free international trade can be stated just as convincingly on a theoretical level as well. The prices Americans pay for steel have always depended on supply and demand conditions in the world. Although transport costs and government controls raise prices of imported steel, international price movements suggest that neither factor stands in the way of harmony between prices in different countries.

"The Economist" of London recently published comparisons of international price movements which clearly point to a single world market for steel and other basic commodities. Transport costs and other obstacles to trade seem to have had only a minor effect on the harmony of international price movements. What is more, such harmony, according to the publication's chart prevails under both fixed and flexible exchange rates.

The lesson to be learned is one incontestable fact. Import quotas and other official hurdles to free trade, such as "Buy American" regulations, as well as export subsidies, are at the base of price inequalities among trading nations. The choking off of partial foreign supplies is bound to cause prices everywhere to rise. On the supply side, it is clear that if you interrupt shipments at one point, things begin to happen all along the line.

The basic-steel industry, for example, suddenly finds itself with a huge backlog of orders that is taxing the capacity of mills. This adds to supply problems for the manufacturers of automobiles, electrical appliances, farm equipment, heavy machinery, office equipment and industrial construction. A leading U.S. magazine recently concluded that when the major materials industries reach their capacity, production is slowed down in all other industries because not enough raw materials are being churned out for them to process.

Of course, the recent shortage of, and steep rise in prices for, oil may have some as yet difficult to predict effects on the economies of various nations. The United States, which is nearly self-sufficient in energy resources, can cope with the fall-off of Arab oil supplies with some consumer economies. There is no need for any U.S. industry to suffer unduly in the foreseeable future once the government takes the necessary steps to allocate oil where it is most needed to keep our economy boom.

The situation is likely to be otherwise for the Western European nations and for Japan. There unless the Arab nations reverse their present policies of restricting oil exports and increasing their prices as though there were no ceiling, severe economic repercussions are inevitable.

Thus, we may find in 1974 a temporary setback to the demands for steel. Yet the obvious remedies to the current energy shortage—the search for more oil by way of off-shore drilling, the mining of more coal, the development of more mass transportation facilities—all require huge tonnages of steel. We may find imbalances in the economies of various nations which will require larger amounts of steel for some, and smaller amounts for others. The need for the international steel trade will then become even more apparent than ever.

It is too soon to say now whether the shortage of oil will affect steel consumer or steel producers more adversely. It is possible that they will be affected roughly in proportion. Thus, although the longrange view is for steel shortages for the next decade, the shortrange view is obscure.

METALS—THE STEEL SURPLUS THAT ISN'T THERE

To desperate buyers, the situation in steel this week was rapidly escalating from a bad dream into a nightmare. Because the auto industry is reducing its purchases of steel by as much as 30% this year, there should be some 9-million tons available for other users. But there isn't.

Thanks to declining imports, rising exports, and the inability of U.S. mills to ship as much steel as they did last year, the supply of steel will probably be down by at least as much as the decline in steel shipments to Detroit—or about 10-million tons. And coal strikes will probably reduce production still further.

That is the picture facing frustrated steel buyers, many of whom are puzzled and angry over the fact that they cannot get more steel. "Despite auto cutbacks, our allocations have not been increased," says a steel buyer for a barge manufacturer. "In fact, U.S. Steel and Bethlehem have cut some of our allocations." Adds a buyer for a major oil company: "There is absolutely no improvement in the supply at all."

A GLOOMY FORECAST

There is no way that steelmakers can equal the 111-million tons of steel shipped last year, they maintain, even though the 1973 selling boom did not really get under way until the second quarter. The most U.S. steelmakers can ship, they say, is about 105-million tons. The chief reason is that the mills sold 5-million to 6-millions tons of steel out of inventory last year, and they have no extra supplies to dip into now. Moreover, maintenance problems, as well as trucking and coal industry strikes, are reducing steel production.

In addition, steel imports are expectel to decline by 3-million tons to a total of about 12-million tons this year because of higher prices and strong demand overseas. For the same reason, exports are expected to rise by at least 1-million tons to a total of 5-million tons. That adds up to 10-million tons less steel than was available last year.

In fact, the supply will probably drop much lower because a major coal strike appears increasingly likely (page 28). Already this week, a three-week-old wildcat strike of some 27,500 coal miners in Southern West Virginia had forced Indand Steel Co. and U.S. Steel Corp. to cut iron production 20% because of coking coal shortages. And coking coal was a problem even before the walkout started (BW–Feb. 16).

TWO-TIER PRICING

Steel shortages are the big worry of industrial buyers. But the combination of shortages and price control is also causing chaos in pricing. For example, the auto industry is in the unenviable position of having to pay higher prices for steel even when it is sharply reducing its purchase orders. On Feb. 28, the Cost of Living Council said that the steel industry could raise prices by some $750-million. U.S. Steel and Bethlehem Steel Corp. then announced a round of price increases but did not raise hot and cold rolled sheet, which account for about 40% of all steel industry shipments. Auto companies, faced with their own cost-price squeeze (page 28), have been pressuring suppliers to defer price increases on sheet.

National Steel Corp., which is more dependent on sheet shipments, could not wait. "With costs of steel production continuing to mount sharply, we are no longer in a positon to absorb these increases," said National's Chairman George A. Stinson when the company announced a $10-a-ton increase on both hot and cold sheet. Other major sheet manufacturers followed suit.

Now it appears that the higher sheet price will stick even though Bethlehem and U.S. Steel have not raised their sheet prices and now are at least temporarily blocked by price controls from doing so.

"Steel supply is so tight that the higher price wil hold," concedes a steel buyer for one of the Big Three auto companies. Adds William G. Sutter of Budd Co., a maker of automotive stampings, "I am resisting, but I can't get any more steel at the lower price from U.S. Steel or Bethlehem. They say they do not have any more."

A SELLER MARKET

In the gloom that is rapidly enveloping the steel situation, a few companies claim to see some light. Inland Steel's sales to the automobile industry will be down 15% in the first four months of 1974, says Derrick L. Brewster, vice-resident for sales. This is enabling the company to ship more sheet steel to distributors, who are handling more of the small orders that the big mills do not want, and to manufacturers of appliances, electric motors, and oil goods, such as line pipe and welded tubing. "The market is so strong," says Brewster, "that we wouldn't have any problem selling 100,000 tons of sheet in an hour and a half on the telephone."

The shortages have raised suspicions on both side, however, Buyers suspect that producers are exporting large quantities of steel, and producers suspect that buyers are hoarding. Both sides deny it. But both are also beginning to see the seriousness of steel shortages, which are clearly limiting the ability of the economy to expand and to become self-sufficient in energy.

Steelmen are still maintaining that the steel industry needs higher prices and tax incentives to stimulate capital expansion. "But even if we started today, it would take four or five years to make any major expansion," concedes Brewster.

Says Alex Greten, president of the American Institute for Imported Steel: "It may sound pessimistic, but the time of unlimited steel availability, like unlimited fuels, is over."

PREPARED STATEMENT OF DR. WALTER ADAMS (MICHIGAN STATE UNIVERSITY) AND DR. JOEL B. DIRLAM (UNIVERSITY OF RHODE ISLAND)

This is a joint statement presented by Walter Adams and Joel B. Dirlam, speaking in their capacity as individual scholars. Walter Adams is Distinguished University Professor, Professor of Economics, and President Emeritus of Michigan State University. He is also director of the University's Program for the Comparative Study of Industrial Structures in the Atlantic Community which has received grants for unrestricted research from the American Institute of Imported Steel. Joel B. Dirlam is Professor of Economics at the University of Rhode Island and Director of the University's Institute for the Study of International Competition which has also received grants for unrestricted research from the American Institute of Imported Steel.

1. In commenting on H.R. 10710, we are drawing on our studies of the economies of the steel and petroleum industries, and of the effect of import restrictions in these industries. This experience may be taken as representative of domestic industries liable to be affected by the Bill. In both industries, the United States has moved from a position of an exporting nation to that of a net importer; both industries have been protected by quotas; both are substantial from the point of view of employment; both are strategic, to some extent, for the maintenance of national security. Our conclusions regarding the impact of H.R. 10710 on the national economic interest in steel and oil would probably extend, *a fortiori*, to other, economically less significant industries.

THE CASE OF STEEL

2. Little, if any unemployment can be attributed to imports of either steel or oil products. Careful analysis of unemployment data shows that during the years when imports were rising to unprecedent proportions of domestic steel consumption, the unemployment rate in steel continued at rates no higher than

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the national average.[1] Only in 1971 did the rate in steel move above the national average for either manufacturing generally, or durable goods manufacturing, and this temporary peak appears to have been primarily due to the decreased level of general business activity. By 1972, when recovery got underway, the steel industry was suffering from a labor shortage. Indeed the mills have had to resort to novel strategems including the acceptance of women as production workers to secure and retain a minimum labor force.[2] By 1973, the unemployment rate in steel had fallen to 2.5 per cent, or only 60% of the prevailing rate in manufacturing.[3]

3. There is no question that average employment in the steel industry has shrunk since 1959, the year when imports first became an issue. But this decline is attributable largely to two factors. First, as the union itself recognizes, and has attempted to overcome by agreeing to outlaw strikes, is the stockpiling by customers fearing a strike at the expiration of a contract. Stockpiling is inevitably followed by a period of inactivity and layoffs, cutting average employment for the year. The pattern has been so marked that the union has given up the right to strike and will accept binding arbitration rather than perpetuate this form of instability.

Second, the industry has invested vast amounts in new equipment, the basic oxygen process has replaced the open hearth, and output per manhour has risen steadily. The decline in employment, therefore, over the long term reflects the rising efficiency of the industry in using this input. Production of 99.3 million tons in 1960 compares with 150.4 million tons in 1973.[4] Labor productivity

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[1] A. F. Shorrocks, "Measuring the Imaginary: The Employment Effect of Imported Steel," Industrial and Labor Relations Review, January, 1971, pp. 208–215. (Submitted for the record.)

[2] "In recent years, steel productivity has suffered because of labor market conditions in a number of the major steel producing areas, most notable Chicago, Detroit and Cleveland, where a rapid increase in turnover rates has required expanded training programs for new employees," Rev. William T. Hogan, S.J., "Productivity in the Steel Industry," Center Lines, Vol. VII, Jan. 1972, p. 8. See also "Women in Steel: First in a Generation," New York Times, Dec. 28, 1960, Sec. 3, p. 1.

While the labor situation eased somewhat between 1971 and 1973, volume continued well in excess of shipping capacity, lead times lengthened, and backlogs continued to rise. See Wall Street Journal, April 2, 1973.

[3] The following table shows the volume and rate of unemployment in basic steel compared with the unemployment rate in manufacturing and in durable goods manufacturing:

UNEMPLOYMENT: BLAST FURNACES, STEEL ROLLING AND FINISHING MILLS

[Numbers in thousands]

	1969	1970	1971	1972	1973
Unemployment level: Steel	9.0	18.0	55.0	27.0	15.0
Unemployment rate:					
Steel	1.6	2.9	9.2	4.8	2.5
Manufacturing	3.3	5.6	6.8	5.6	4.8
Durable manufacturing	3.0	5.7	7.0	5.4	3.9

Source: *Monthly Labor Review*, March 1973, and communication from John E. Bregger, Division of Employment and Unemployment Analysis, Bureau of Labor Statistics, U.S. Department of Labor, Mar. 14, 1974.

[4] Average employment, 1959–1973:

All employees receiving wages and salaries

1973	509,000
1972	478,000
1971	487,000
1970	531,000
1969	544,000
1968	552,000
1967	555,000
1966	576,000
1965	554,000
1964	520,000
1963	520,000
1962	521,000
1961	523,000
1960	572,000
1959	515,000

Source: AISI.

usually rises when activity moves up from recession to a period of prosperity. Thus, the raw steel output per man increased over 7% from 1972 to 1973. But the improvement in productivity registered between 1971 and 1973 of more than 20%, would appear to be attributable to something more than the business upturn. Apparently, the revival coincided with the realization of economies made possible by investments undertaken over a period of time,[5] the shutdown of obsolescent mills, and perhaps the improvement of management.[6] Bethlehem, for instance, found it possible to increase output of raw steel by 30% from 1972 to 1973, with only a 9% increase in employment.[7]

In any event, while steel production was 30 million tons higher in 1973 than in 1971 or by 25%, employment increased by only 22,000, or 4.1%. Coincidentally, *unemployment* fell much more, by 40,000, indicating that thousands had retired, or found jobs in other industries.[8]

4. Allegations of unemployment resulting from imports of steel have sometimes been couched in terms of the number of workers who would have been required to produce the imported steel, had it been made in the United States. We submit that this is a misleading, and indeed, fundamentally erroneous approach to analyzing the effects of imports.

(*a*) Any imported product that could also be made in the United States would, by this argument, cause unemployment; and the more expensive it is to make in terms of U.S. manpower, the more unemployment such imports would generate. If this were to be a standard for protecting domestic production we would be pushed into specializing in the production of these labor-intensive items that we make less efficiently than anyone else.

(*b*) The argument ignores the fact that imports generate the buying power to purchase exports; by cutting down imports of steel on the ground that this will expand domestic employment of steel workers, we curtail jobs for workers in the export industries—so that the increase in steel employment would have to be netted out against the unemployment caused elsewhere in the U.S. economy. According to quantitative studies by the Brookings Institute, there would be no gain in employment from substituting domestic production for use of imports.[9]

(*c*) Estimates of unemployment caused by steel imports are made by a mechanical multiplication of the imported tonnage by the average number of workers required to make a ton of steel. Not only does this average change with the stage of the business cycle, but the procedure assumes that if the steel had not been imported it could have been produced and sold in the U.S. at costs and prices close to the current levels. Actually, as the steel industry has finally admitted, such a large part of what had been formerly classified as steel capacity was obsolete that the imports would not have been replaced by domestic mills, except at prohibitive price increases. Either the additional steel could not have been sold, or it would have greatly accelerated the switch to steel substitutes. Moreover, given the tightening steel labor market, it seems highly unlikely that the steel industry could have found the personnel to produce the volume of steel being imported in recent years at prevailing or even premium wages, even if it had the capacity to do so in modern non-polluting plants.[10]

5. To summarize, therefore, the steel industry has encountered a long-term decline in the demand for labor, attributable on the one hand to a secular drop in the importance of steel in the national economy, as cement, aluminum and plastics have taken over parts of its markets, and to the gradual, but neverthe-

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[5] From 1961 to 1972, expenditures for steel plant and equipment totalled $18.1 billion. It would be unlikely that such a magnitude of investment would not be reflected, eventually, in rising output per employee. AISI, Annual Statistical Report, Table 4.

[6] In this connection, the recent shift in management personnel and philosophy at U.S. Steel, which still accounts for 23% of the U.S. market, is of some significance. Mr. Spear, chairman of the Board and chief executive began "revitalising" the company in 1973, "to attack problems that critics both in and out of the company had been citing for years: USS was too slow to make decisions, too slow to respond to changing conditions, and too slow to make thrusts into profitable new markets. The company . . . rarely was among the first to modernize plants, to respond to imports, or to attack the pollution problems." "A Steelman Steps Up the Pace at U.S. Steel," Business Week, March 9, 1974, p. 155.

[7] Bethlehem Steel Co., Annual Report, 1973.

[8] Data from AISI, Annual Statistical Report, Table IA.

[9] W. Salant and B. Vaccara, Import Liberalization and Employment, Washington: Brookings, 1961; and L. B. Krause (Assisted by J. A. Mathieson), "How Much of the Current Unemployment Did We Import?", Brookings Papers on Economic Activity, No. 2, 1971, pp. 417–28.

[10] According to H. R. Riesen, chairman of Jones and Laughlin Steel Corp., production during the first half of 1973 should show what steel capacity really is, because the industry is now producing at capacity levels. Moreover, "the steel industry is already lobbying for federal assistance—both direct and indirect—to finance the capacity gap industry officials say is looming." Wall Street Journal, February 28, 1973.

less substantial long-run improvement in productivity, attributable to innovation, on the other. The level of employment could be maintained in the face of these trends only by raising the price of steel products high enough to cover the inefficiencies of use of marginal, antiquated plants, and inefficient labor, and by excluding the use of imports and substitutes. This would obviously entail a gigantic misallocation of labor and capital.

6. In general, it should be noted that the industry's dire predictions about idle machines and unemployed workers have been vastly exaggerated. These Malthusian predictions came into vogue during the 1960's to buttress the industry's demands for governmental protection from import competition. Thus, in October 1967, Mr. John P. Roche, president of the American Iron and Steel Institute, told the Senate Finance Committee that quotas were necessary because of the chronic excess capacity in the world steel industry: "It has been estimated that steelmaking capacity abroad now exceeds demand by more than 55 million tons. Countries which formerly relied on imports for their steel requirements have tended more and more to develop their own steel industries and to protect them against imported steel. Home markets of some long-established steel producers have grown less rapidly than expected. These producers have, therefore, taken increasingly to invading the markets of other producers—especially that of the United States." [11] Joseph P. Molony of the United Steel Workers presented parallel testimony to the Finance Committee. [12]

Contrast that position with the industry's current rationale for protectionism. By 1980, says Father William Hogan, a sympathetic observer of the industry and a consistent advocate of import quotas, the annual steel demand will require a world-wide capacity of 1.1 billion raw tons as compared to today's capacity of only 780 million tons. " 'Blazes, that's a short fall, with new and replacement needs, of 600 million tons,' he says." [13] Thus, what was considered only a few short years ago a *chronic world steel surplus* has suddenly become an *endemic world steel shortage*—and the way to cure it, so runs the argument, is by higher prices and higher profits which would make additional investment in steel capacity attractive. This, in turn, would require—almost as a *sine qua non*—a "normalization" of world trade in steel, meaning strict regulation of steel imports and the sterilization of their impact on domestic steel prices.

In short, the steel industry has shown a fascinating talent for using contradictory arguments in support of its inflexible position: in boom and bust alike, it persists in its demands for governmental protection from import competition.

7. If we can conclude that, given the current predictions about a shortfall in steel capacity, the domestic industry simply could not replace imported steel except at prohibitive cost, we should recognize that the persons employed in those industries further fabricating this imported steel, and turning it into final product, owe their employment to the imports. They would have to turn to other jobs, or be unemployed for an indeterminate period if the steel were not available. Although we do not insist that imported steel makes a permanent, net contribution to employment—any more than we would conclude that any change in demand or output in one industry would have a permanent effect on employment—it is useful to recognize that, by our estimates, something like 1,000,000 persons are associated directly or indirectly with the production of goods for final demand, which are dependent on the input of imported steel. [14]

8. Imports of steel have affected the price of steel in the United States, and have therefore tended to check inflation, and to apply competitive pressures to the members of the steel oligopoly. While influences on prices are so diverse that it is difficult to determine the precise amount by which steel prices have been prevented from rising by imports—particularly during a period when both price controls and quotas have been in operation—the fact that imported steel has been available at between 10 to 20 per cent below the ruling domestic price for many finished and semi-finished shapes that has helped to prevent steel prices from escalating even further. That this has been a consequence of imports needs no demonstration. Even though, as a consequence of devaluation and the world wide steel shortage, imported steel often sells at a premium, this supply helps to prevent ever greater price rises, and serious production bottlenecks.

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[11] Senate Finance Committee, Hearings, Import Quotas Legislation (1967), pp. 828–829.
[12] Ibid., p. 889.
[13] Forbes, April 15, 1973. In September 1973, after taking into account Russian, Japanese, English, French, Italian, Brazilian and Spanish expansion plans for the foreseeable future, a critical shortage on a world wide basis was seen as probable for 1977. Address by Rev. William T. Hogan, September 19, 1973, p. 4.
[14] Unpublished study (1973) by J. F. Abgrall, translating input-output data into labor requirements per $1 billion of final demand.

The fact that the United Steel Workers and the domestic steel industry have finally united to support quotas shows the deflationary power of imports. With a price structure under pressure from imports, the union and the steel companies could not combine to exploit oligopolistic power. That is why both of them support quotas: even though higher wages mean higher costs, when demand is inelastic, as it is for steel, a higher price may not lead to a substantial decrease in the quantity sold if all domestic firms raise their prices by the same amount, and foreign steel is not available. In the long run, of course, there may be substitution, as there has been, of plastics, aluminum, and cement for steel; but this consequence seems to have been overlooked by the industry. Indeed, the industry and the union seem blithely unaware of the danger that constant escalation of wages and prices under the umbrella of a protective and permissive government are likely to have the same unfortunate results in steel as they had in our hapless railroad industry.

It is the domestic steel industry's unwillingness to have its pricing discretion threatened by imports that has generated the most powerful opposition to imports. The employment argument, as we have seen, is specious, and has been used when unemployment in the steel industry and the economy generally was less than five per cent. But to an industry long accustomed to making its pricing decisions through a kind of mutual tacit understanding about costs and margins, alternative sources of supply introduced a competitive variable which called for greater efforts and efficiency to maintain profit levels, and hence necessitated maintaining a technological parity with foreign mills. These conditions had never prevailed prior to the import surge of the 1960's, and the industry did not relish the competitive adjustments they necessitated.

9. Imports, therefore, through their effect of prices, generate pressures to innovate. Although the process of invention may be mysterious, and indeed not subject to economic law in any easily or directly ascertainable way, the improvement and adoption of invention are governed by profit and loss. Industries not characterized by competition may postpone the adoption or introduction of improvements. Whether the competition is actual or potential does not seem to be important. Driven by the necessity for operating at maximum efficiency from exclusively imported raw materials, that had to be turned into product marketed thousands of miles away, the Japanese have led the world in blast furnace size and efficiency. In the 1950's the steel industry in the United States was not aware of a competitive threat, and assumed that, when a revolutionary invention like the oxygen converter made its appearance in Austria, there was no point in replacing the anachronistic open hearths with the improved equipment until the former were fully depreciated.[15] To await the scheduled retirement of obsolete equipment is a luxury that only an oligopoly or monopoly can afford.

Imports, by undermining oligopoly power in the steel industry, have made the steel giants more receptive to new methods. U.S. Steel—the industry leader which not only did not pioneer the oxygen converter, but did not even introduce it until many years after smaller firms had found it successful—is now, at last, under competitive pressures, beginning to use its vast resources for pioneering. With the Q-BOP process, a German invention that blows pure oxygen into the bottom of a converter, U.S. Steel seems to have hit upon a genuinely important innovation. We think we can say, without exaggeration, that the industry has resolved not to repeat the oxygen converter mistake. But had it not been for import pressures, the awareness of the potentialities of the Q-BOP process would probably not have been created.[16]

10. Finally, in assessing the overall effects of steel imports on the domestic industry we should take account of, even if we cannot measure, the factor that Professor Leibenstein has called "X-efficiency."[17] (We do not pretend—nor did Leibenstein—that he was doing anything more than giving a fetching name to a phenomenon that has been recognized since the publication of Adam Smith's *The Wealth of Nations.*) Managements of monopolies, or closely knit oligopolies, do not search for ways of reducing costs with continuing, dedicated, un-

[15] See W. Adams and J. B. Dirlam, "Oxygen Steelmaking—The Phantasmagoria of Innovative Giantism," *Iron and Steel Engineer*, July, 1968.

[16] U.S. Steel is planning to install two 200-ton Q-BOP furnaces at Fairfield, Alabama, which will be the first to be constructed in the Western Hemisphere. At present, there are nine such furnaces in Europe and one in South Africa. See U.S. Steel Annual Report, 1972, and U.S. Steel press release, December 15, 1972. See also "Oxygen Bottom Blowing by the LWS Process," by P. Leroy, Assistant Manager of Creusot-Loire, in Iron and Steel Engineer, October 1972, pp. 51–55.

[17] H. Leibenstein, "Allocative Efficiency vs. 'X-Efficiency'," American Economic Review, Vol. LVI, No. 3, 1966.

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wavering intensity. One of the advantages of being a monopolist, to a monopolist, is that he can lead a more agreeable life, in which tensions can be relaxed, bureaucracies become entrenched, and promotions are given as the reward for long service. The big steel companies would be the first to insist that at an accelerated pace during the past 15 years, they have overhauled their organization, eliminated some fat, and prepared to compete on a more equal basis with their foreign rivals. While this does not deter them, of course, from efforts in the political sphere to erect barriers to competition through quotas, the companies today feel the competitive compulsion to strive for constant cost reduction—thanks largely to import competition.

11. For all the above reasons, we do not support legislation which would make it more difficult for steel imports to enter this country. Indeed, we believe that such legislation would run counter to the best long-run interests of the steel industry, its workers, and the national economy.

THE CASE OF PETROLEUM

12. At this juncture it should need no underscoring on our part to demonstrate the economic fatuity of restrictions on imports of petroleum. Our quota program has been a disaster. Not only did it raise prices of petroleum products for U.S. consumers, including the petrochemical industry, but it prevented the construction of desperately needed refineries, especially on the East Coast. The quota system now stands revealed for just what it was—a vital underpinning for a domestic and international cartel. Instead of preserving our self-sufficiency, the quota system with its artificially high prices, promoted the use of domestic reserves at an accelerated rate, leaving us less self-sufficient in 1974 than we were when the restraints were first proposed. Major U.S. chemical companies—duPont, Dow, and others—who had to compete in the world market, suffered serious handicaps because they paid 60% more for feedstocks than the world price.[18]

Professor Wayne Leeman has well summarized this aspect of the problem: "So the oil we keep out of the United States benefits our most important competitors. Manufacturers in Japan and Western Europe but energy, industrial heat, and petrochemical feedstocks at prices which give them a competitive advantage over U.S. producers. And they have this competitive advantage partly because import quotas give U.S. firms only limited access to cheap foreign oil and partly because oil shut out of the United States depresses the prices they pay."[19]

13. The ostensible justification for the quota system on petroleum was to enhance national security in time of emergency. Only by restricting the flow of foreign crude, it was argued, could we assure uninterrupted access to petroleum and petroleum products. But the experience since the embargo should have demonstrated the intellectual bankruptcy of this support for protectionism. The oil we produced domestically since 1955 which could have been replaced by cheaper imports is no longer available to us in time of emergency. The crisis, far from being resolved by turning to domestic supplies, required government intervention to control allocation of supplies and prices, and skyrocketing prices in the international markets as independents bid for incremental supplies. If prices stabilize, they will do so at a level far above the direct costs of oil production.

Our conclusion from the facts, reached before the embargo, seems even more apposite today than in 1973. The only safe and low-cost storage for oil is underground. If we are to conserve domestic reserves for an emergency, they should be kept intact rather than depleted by artificial stimulation of domestic production. Secondly, to the extent that domestic reserves are in scarce supply, we should resist the temptation to deplete them in peacetime and maximize our reliance on foreign sources—especially those which might be beyond our reach in the event of a military conflict. And rather than subsidize domestic drilling by creating an artificially high price through restraints on imports, the government should support R & D for substitute energy sources.

In short, as a general guideline we should import low-cost foreign oil at a time when we have free access to it, and conserve our own reserves for such times as foreign oil may be no longer available to us. In this, as in other cases, the imperatives of national security and the dictates of rational economic policy would seem to coincide. We could not prevent the oil embargo by our quota

[18] See testimony of Walter Adams, U.S. Senate Subcommittee on Antitrust and Monopoly Hearings on Government Intervention in the Price Mechanism, Part I (1969), pp. 306–307.
[19] Ibid., p. 274.

system; but we would have suffered less from it had we produced at a lower, competitively determined rate during the years 1955–1973.

14. If we face, in fact not, merely a temporary though upsetting inconvenience of an embargo, but a permanent energy crisis will the shortage be relieved by returning to a restriction on imports? Without a quota, domestic supplies will be stimulated to the extent that market prices reflect the monopolistic practices of the producing countries or higher energy costs. At the same time it would be folly to intensify shortages by further reductions designed to intensify the escalation of domestic prices.

15. In retrospect, the major benefits of the import restriction scheme in the petroleum industry accrued not to the consumer, or to the economy generally, but to those companies that held import quota rights for crude oil (quota tickets) which, incidentally, were negotiable, and to domestic landowners who could collect higher royalties because of artifically high oil prices. This experience should alert us to the danger of government intervention to exclude imports in order to protect an industry because of its supposed importance to the national security. In such cases, as like as not, special interests that ultimately benefit from the restrictionist policy can most easily disguise their true motives in seeking governmental protection from import competition.

COMMENTS ON SPECIFIC PROVISIONS OF H.R. 10710

Although some provisions of this bill might be questioned because of the amount of discretion and power they convey to the President to raise and lower tariffs and change the quantity of imports (for instance in Section 122), it is the novel procedures introduced for excluding imports that are sold in the United States under conditions of fair competition that are particularly disturbing.

16. In general, and with the exception of Title II, the bill appears to be constructive in purpose and in the procedures for which it provides. It is desirable that the President, as in Section 122(c)(1) be charged with promoting a reduction in quantitative restrictions. If there is to be effective bargaining to reduce duties, the President, or some executive body, must be empowered to make agreements. And in making specific mention of such other hindrances to the free flow of international trade such as non-tariff barriers and unfair and discriminatory practices the bill's provisions should hasten the disappearance of these practices both here and abroad. By providing for advisory committees, whose views will be sought during negotiations, the bill may improve the results of bargaining, particularly if consuming groups are included in the advisory committees.

17. In Title II, however, machinery is established, hitherto unavailable in this country, for hampering or preventing imports that compete fairly and efficiently with domestic production. The armory of weapons that can be employed to check the flow of imports and hobble foreign competition, we should note, is in addition to whatever tariff and other barriers already prevent the flow of trade. And these barriers may be set up whenever imports enjoy marketing success, with the danger of disruption of sales of certain categories of imports—those which other countries produce more cheaply than we do, and which, following principles of international trade, we should import in larger quantities. By impeding imports the actions contemplated by the bill would preserve high cost production in this country, and reduce our exports. On the other hand, those provisions of Title II that provide for adjustment assistance to workers and firms are deserving of support. But we want to emphasize that the principles underlying such assistance are wholly contrary to the protectionist spirit that underlies Chapter 1 of Title II whose sole purpose seems to be to protect inefficiency.

18. Specifically, Title II introduces a number of dangerous possibilities of undermining trade at each stage of enforcement of the provisions against imports that compete fairly with domestic products. First, Section 201(b)(3) in defining the industry which might protest against competition, the bill uses extremely narrow tests. In effect, an industry is equivalent to the production of any article subject to import competition, so that any U.S. firm, even though it make a variety of products, and be capable of shifting from one to the other, and even though it may, on an over-all basis, using the normal industry definition, be realizing substantial profits, may be protected by Presidential action. In effect, the bill adopts the industry definition employed by the Tariff Commission in anti-dumping cases, which is at variance with the concept employed in economic

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and business analysis. Moreover, this definition used in Section 201(b)(3) is so narrow that it does not correspond with published financial and economic data. In reviewing the data presented to the Tariff Commission, consumers would be unable to check assertions of injury by the firms complaining, since the only relevant material—as in Tariff Commission anti-dumping cases—would be confidential.

After defining the industry, the Tariff Commission is directed by Section 201(b)(2) to determine whether imports are a substantial cause—not a primary cause as in previous legislation—either of a serious injury or a threat of a serious injury. Injury is to be measured by such indexes as use of production facilities, profit rates, and unemployment and a threat of injury by a decline in sales, or rise in inventories. But as we pointed out earlier, the narrow definition of industry makes it extremely difficult for those most likely to be injured by exclusion of imports—the consumers—to present independent studies of the merits of the allegations of the domestic producers. How one could rebut a charge that a serious injury might result at some future date is not easy to imagine. It is akin to proof that one has stopped beating his wife.

19. If Chapter I of Title II is to be retained—and we fervently hope that Congress will not adopt legislation that reverses the presumptions of a free enterprise system—then at the very least the Tariff Commission, in examining claims of injury should be directed to look specifically at the efficiency, innovativeness, progressiveness, and anti-trust history of the firms in question. Those firms that would ask for government aid in order to avoid fair competition should be required to put their houses in order. True, the Tariff Commission is directed to report on efforts made to compete more efficiently. But the basic fallacy in the provisions of Section 201 is the implicit assumption that interests of producers of an article should take precedence over the interest of consumers. Nowhere in the initial definition of "injury" or threat of "injury" nor in the tests in Section 201(b)(2), is injury to consumers mentioned.

20. The provisions of Section 201(c)(4) direct the President in reviewing the recommendation of the Tariff Commission to take into account a broader spectrum of consequences of import competition so that he can, if he so desires, place greater weight on the possible injury to consumers, industries or localities that might follow from excluding exports. Thus the bill, by adding another stratum to the process of inquiry, attempts to offset, to a degree, the distorted focus of Section 201(b)(2). We can not assume, however, that the President will have the time or inclination to second-guess the Tariff Commission, nor will he have the experts on his staff to carry out the kind of inquiry needed to redress the balance toward the public interest. Hence this provision is far from constituting a necessary and adequate safeguard.

21. Although the obstacles to trade that may be employed by the President are four in number, ranging from an increase in duties to suspension of imports, only the setting up of an "orderly marketing agreement" is subject to review by Congress. In view of the importance of the actions that can be taken by the President, which may be a matter of life or death for those firms dependent on imports for profitable operations, the same review procedure should prevail whenever the President takes the step of choking down imports.

Certainly, the requirement that the President justify in writing, his selection of a particular type of restriction will help to prevent excessively arbitary action. Nevertheless, a sharp increase in tariff rates may be just as damaging to consumers as a quota set up under a so-called orderly marketing agreement. Moreover, in view of the peculiar disabilities of quotas, which provide no revenue to the government, and which can not be avoided by the foreign competitors no matter how much they may improve ther production and marketing efficiency, or the quality of their product, and which, in effect, require foreign producers to collude if they are to make the quotas workable, they should be adapted only after a full public hearing, at which the impact on supplying countries should also be taken into consideration. The bill now as drafted permits the President to select a quota without any public hearing. Only in the case of the orderly marketing agreements is there provision for Congressional disapproval, but approval does not require action by Congress.

22. Further, the definition of "directly competitive with" (Section 601(5)) seems so broad as to cause concern about harmful application. This definition of "directly competitive with" is strategic because in Section 201(b)(2) the Tariff Commission can find injury or threat of injury to an industry if an imported article is a substantial cause. Under the definition, the imported article is "directly competitive" with a domestic article, even if the economic effect

occurs at an earlier or later stage of processing. For instance, if gasoline is imported and this cuts into the market for gasoline, and affects the price of domestic crude, the imported gasoline is considered "directly competitive" with domestic crude. Or, if wire rod is imported and this is purchased by independent wire drawers, who sell wire in competition with domestic wire rod firms who are integrated and make wire, the wire rod imports will be considered "directly competitive" with domestic wire.

This provision has a superficial appeal; but in view of the tapered integration prevailing in the steel and petroleum industries, the history of squeezes extending from semi-finished to fabricated products—since we could also find, for instance, under this provision, that the import of wire mesh is competitive with the domestic product, wire rod, which is two stages removed from wire mesh—the definition masks a very dangerous extension of the Tariff Commission's powers to find injury and threats to injury. Unless there is also a requirement that the domestic industry be found to be vigorously competitive, the application of the definition might buttress the maintenance of undue oligopoly power.

23. In conclusion we should like to stress the dangers inherent in the passage of this bill if it still contains Chapter I of Title II. This chapter in effect declares it to be the policy of the United States that domestic producers are to be insulated from foreign competition whenever that competition threatens to reduce output, employment or profits. Yet one of the bases for our high level of productivity and income has been our continuous rise in productivity stimulated by competition both domestic and foreign. To protect our firms against fair competition from imported products is no different from protecting them from a domestic competitor who happens to make a better item for the same money. Chapter I of Title II would result in a stagnant, high cost economy insulated from one of the major stimuli to technical progress.

Senator FANNIN. Our next panel will be Mr. Jerome O. Hendrickson, an executive vice president, Cast Iron Soil Pipe Institute; Robert B. Mangum, president, Central Foundry Co.; Frederick Drum Hunt, foreign trade consultant, Cast Iron Soil Pipe Institute. If you gentlemen would please come forward——

Gentlemen, we appreciate having you with us today.

Will the spokesman for your panel introduce the other members of the panel and himself and we will start from there.

STATEMENT OF ROBERT B. MANGUM, PRESIDENT, CENTRAL FOUNDRY CO., ACCOMPANIED BY JEROME O. HENDRICKSON, EXECUTIVE VICE PRESIDENT, CAST IRON SOIL PIPE INSTITUTE; FREDERICK DRUM HUNT, FOREGN TRADE CONSULTANT, CAST IRON SOIL PIPE INSTITUTE; AND JAMES WELCH, GENERAL COUNSEL, CAST IRON SOIL PIPE INSTITUTE

Mr. MANGUM. Mr. Chairman, I am Robert B. Mangum, president of the Central Foundry Co., and president of the Cast Iron Soil Pipe Institute. I have with me Mr. Frederick Drum Hunt, who is foreign trade consultant to us and Mr. Jerome Hendrickson, who is executive vice president of our institute, and Mr. James Welch, who is general counsel for our institute. I am the only member of the panel who will make a prepared statement, but the other gentlemen on the panel will be glad to assist me in answering questions that you may ask.

Senator FANNIN. Thank you. If you will proceed, your complete statement will be made a part of the record, and you may handle it as you see fit.

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Mr. MANGUM. Thank you, sir.

The members of our institute produce more than 95 percent of the total cast iron soil pipe and fittings which are utilized in the United States. Our cast iron products are made from recycled metal, such as used automobile motor blocks and bodies and similar items.

Every day we see our major source of iron depleted by the transfer of such scrap metal to foreign countries. This has been very hurtful to us. But what really hurts the most, Mr. Chairman, is for that metal to come back into our domestic market as dumped or subsidized products at prices with which we cannot compete, because we have an entirely different type of relationship, both by law and by custom, with our workers than do some nations which have a different ideology and relationship with their workers.

In the recent years our industry has been concerned in at least five dumping investigations. The last two involved shipments from Poland. Whatever relief, if any, we have obtained, has been too little and too late. We are convinced that the Treasury and the Bureau of Customs both have taken an inordinate and totally unjustified length of time to provide relief, if indeed they have provided any at all.

We have spent years of effort to obtain a ruling that foreign cast iron pipe and fittings must be marked with the country of origin.

Why should all products not be so marked?

For years foreign-made cast iron soil pipe and fittings were not marked in this respect simply because the Treasury erroneously included them in an excepted category.

What reason is there for us to believe that if Treasury is given the broad discretion which is written in the present version of this bill that they will exercise any better judgment than they have in the past?

Now, if I may, let me tell you about our most recent unhappy experience with Treasury. Since June 23, 1969, some 4 years and 9 months, we have had pending a petition for the imposition of countervailing duties for cast iron soil pipe and fittings imported from India.

No relief is yet in sight, although we have furnished positive evidence of subsidization by the Government of India. You can easily understand, therefore, our industry's deep concern with respect to title III of the pending bill.

An article dealing with our petition appeared in the press following testimony before the House Ways and Means Committee in 1973. This article was published in the "American Metal Market" on August 14, and is submitted for the record as exhibit No. 1. It gives an objective and fair résumé of the events which have transpired since our petition was first filed in 1969. I request that a copy of it be received into the record. I also submit for the record a copy of one of the documents which we presented to Treasury and which makes it abundantly clear that India does, in fact, make a substantial subsidy available to exporters of Indian-made cast iron soil pipe and fittings to the American markets. I invite your attention to exhibit No. 2.

Senator FANNIN. Without objection, they will be made a part of the record.

[The material referred to above follows:]

[From the American Metal Market]

EXHIBIT 1

POTOMAC PULSE

FOUR YEARS DOES SEEM A BIT LONG

(By Jeff Wood)

WASHINGTON.—Back in 1969 the Cast Iron Soil Pipe Institute filed a complaint with the Treasury Department alleging that imports of pipe and fittings from India were being heavily subsidized by the Indian government.

The trade association sought the imposition of countervailing duties to offset the subsidies, which it claimed, amounted to as much as 25 percent of the value of the imports.

Four years later the CISPI is still waiting for a decision in the case and it's getting damned impatient. So much so that Congress has been asked to nudge the Treasury Department into taking action.

In recent hearings on trade reform before the House Ways and Means Committee Dan Gerhardstein, vice chairman of the import study committee of the Association, outlined the background of the case.

The complaint was filed in June of 1969. With it was what Gerhardstein described as a "wealth of evidence" that the government of India was giving cash assistance to exporters of cast iron soil pipe and fittings sent to the United States.

The case was so clear cut, according to Gerhardstein, that it could have been determined within a few days.

The association waited and waited for a decision but none was forthcoming. It began to gather more evidence and in August of 1972 received confirmation from the U.S. embassy in Calcutta of the subsidies that India grants its exporters.

The incentives, gleaned from the Engineering Export Promotion Council, consisted of a direct 25 percent cash subsidy on cast iron pipe and fittings, plus 25 percent of the railroad freight from plant site to port of shipment and 5 percent import replenishment.

The Association pointed this out to the director of the Office of Tariff and Trade Affairs and again told him that the case was so simple that he need only draw up the necessary document for the signature of the assistant treasury secretary. "The director insisted that there was a 'matter of policy' involved."

After hearing Gerhardstein's testimony, Rep. James Burke (D., Mass.) directed the chief counsel of the Ways and Means Committee to write Treasury Secretary George Shultz and find out what the delay was all about.

On July 12, Shultz replied to the Ways and Means Committee, but the answer turned out to be a non-answer. He acknowledged that treasury has had the complaint under inquiry "for some time," but pointed out that it has a policy of not publicly discussing antidumping and countervailing duty complaints while they're in process.

Shultz added that the administration is prepared to explain the handling of the countervailing duty complaint in executive session of the committee on ways and means.

If it ever reaches the executive session stage, treasury officials are likely to tell committee members that the complaint has been shelved, in effect, for diplomatic reasons.

One Treasury Department source told this newspaper that he feels the main reason for the footdragging is that, "India is a developing country and we're reluctant to go ahead with cases like this when a developing country is involved."

It's hard to swallow this kind of reasoning. The law, Title 19, Section 1303 of the United States Code, stipulates that countervailing duties should be imposed whenever any country pays its exporters any bounty or grant for merchandise imported into the U.S.

It says nothing about giving developing countries a break.

The Treasury Department's options are clear. If there is evidence of subsidies, as the cast iron soil pipe producers claim, then the countervailing duties should be slapped on Indian imports.

If not, the case ought to be dropped.

EXHIBIT 2

CAST IRON SOIL PIPES AND FITTINGS

I. Minimum export prices for U.S.A. shipments effective June 1, 1972

	Amount
(1) Extra heavy:	
4 inches by 5 feet	$132.71
3 inches by 5 feet	138.
2 inches by 5 feet	155.40
(2) Service weight:	
4 inches by 5 feet	130.
3 inches by 5 feet	144.05
2 inches by 5 feet	159.15

[1] Per metric ton, less 10 percent commission to the agent. Above prices are cost and freight, Atlantic ports.

II. Incentives

Cash subsidy based on f.o.b. value	25 percent.
Excise duty rebate	Rs 40 per metric ton.
Railroad freight from the plant site to the port of shipment, when applicable.	25 percent.
Import replenishment license based on the f.o.b. value.	5 percent.

NOTE.—F.o.b. value to be calculated after deducting ocean freight, bunkering charge, and Suez surcharge:

	Per metric ton
Ocean freight rate to Atlantic ports	$30.50
Bunkering charge	2.95
Suez surcharge at 12½ percent	8.81

Source: Engineering Export Promotion Council, Calcutta.

Mr. MANGUM. When we pursued this matter, Treasury officials stated that a matter of policy was involved, but they never shared with us what that policy was. Members of the House Ways and Means Committee inquired as to why the Secretary of the Treasury had not acted, but they were not given a meaningful answer either.

Upon pursuing the matter further, top ranking administration officials advised us that they hoped to gain such wide latitude in discretionary areas under the bill which is now pending before you that they do not propose to take any action under the law as it now stands.

The law currently provides for the mandatory levy of countervailing duties once the Secretary of the Treasury has announced that the country of origin has provided a subsidy. Unfortunately for us, however, the law does not set any time limit within which Treasury must complete its investigation as to whether or not there has been a payment of such subsidy. This permits Treasury to avoid the levy by not making the announcement.

In our case there is really no need for any substantial investigation—certainly not one of almost 5 years' duration—because Treasury could have confirmed the information which we provided for them within a matter of days.

We believe that the executive branch of the Government is not going to make such findings, but on the contrary, will keep the investigation on the back burner until it is granted the discretionary power which it is now seeking, and when this is done the discretion will be exercised to the detriment of American manufacturers.

The House, in its consideration of the bill, decided to delete the provision for the exercise of this discretionary power, but still per-

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mitted a suspension of the countervailing duty requirement for a period of 4 years during negotiations. We are greatly concerned that the Administration will attempt to interpret this suspension as granting it authority to exercise its own discretion as to whether, if at all, and in what situations, if any, the imposition of countervailing duties will be undertaken. That appears to be what it actually is doing now, rather than enforcing the existing legislation.

Now I would like to speak specifically to several amendments which we believe to be required to protect American industry from what may be serious curtailment of the protection which Congress has obviously intended to provide. Section 303(a)(1) provides that the Secretary of the Treasury shall determine within 12 months after the date on which the question is presented to him, whether any bounty or grant is being paid or bestowed.

This section should be amended so as to require the determination to be made within 6 months rather than 12. There is no reason why the time element should be so long—and there are many—why it should not be as short as possible to minimize the disruption of the American market.

We are much more deeply concerned, however, with section 313 (a)(4), which provides that whenever . . . the Secretary concludes from information presented to him that a formal investigation is warranted, he shall forthwith publish notice of the initiation of such investigation in the Federal Register. Please note that there is no time limitation whatever as to when, if ever, the petition must be presented to the Secretary for consideration.

Publication as to the initiation of the investigation should be required within some statutory period of time. We suggest that such publication, in fairness to all parties, take place within 30 days after an industry files a petition for the levy of a duty. We are driven to the inescapable conclusion that Treasury wants to have complete freedom to take whatever action it wants to, whenever it wants to, or to take, indeed, no action at all. It must not be so permitted to thwart the will of Congress.

We also believe that section 321 should be amended so as to require publication of notice of the initation of an investigation within 30 days following the filing of a petition. The Tariff Commission already has a statutory limitation of only 3 months to investigate and to decide the question of inquiry in those cases in which the Treasury has found that dumping exists. Business judgments must be made expeditiously.

Why cannot the Treasury accomplish its task within 7 months?

We also believe that section 321(b) should be amended by omitting the words, or in more complicated investigations within 9 months. I do not know exactly what the term more complicated investigations is intended to mean. I suspect that it may be interpreted to mean that the Treasury should be granted a substantially longer period of time to complete investigation regarding imports from socialist countries. From our experience with dumping cases involving Polish exports, we see no justification whatever for granting this additional period of time.

The present law does not differentiate between nations and there should not be any special circumstances—such as unwillingness to

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furnish information—which can be interpreted as creating a more complicated investigation. The grant of power to substantially extend the period of time for the completion of investigations which are loosely characterized as "more complicated" simply creates a fertile field for granting extensions of time for little or no reason at all. The American businessman has to meet many deadlines in dealing with the Administration and the executive branch.

Why, then, should those folks not be required to meet a few deadlines themselves?

Mr. Chairman, this brings me to my final point. Our experience in the Polish cases has demonstrated the fact that, in dealing with certain nations, no one knows the values of their currencies or their actual production or distribution costs, nor how they compute their sales prices either for domestic consumption or for export. All foreign trade is conducted through state trading companies which are Government owned and controlled.

As we understand it, Treasury contends that it cannot readily obtain information necessary to properly investigate dumping or subsidy charges. That, sir, is a sad commentary. If foreign exporters who send their merchandise to this country for sale in competition with American-made products will not tell the American Government whether their products are being dumped or being subsidized, then there is a very simple answer. Their products should be denied entry until they provide such information.

The American businessmen realize that we must compete in our own markets with foreign made products. But are we not entitled to start off on a somewhat equal basis?

Our only hope, gentlemen, for relief is with this committee and with the Congress, and we respectfully request that you consider the amendments, the changes which we have recommended, and include in this pending legislation specific time limits to specific requirements, so that we can expect as great a certainty as we are able to that Treasury carries out your intent.

Thank you, sir.

Senator FANNIN. Thank you, Mr. Mangum. Gentlemen, we are very appreciative of the very provocative statement, one that I have discussed many times—many phases of your recommendations.

In regard to the difficulty, Mr. Mangum, in obtaining foreign cost figures, I have introduced a bill that would allow a party to go into a Federal district court in a dumping case and if information related to costs of imports has not been forthcoming, the product is excluded from this country.

Would you support this type of legislation?

Mr. MANGUM. We would indeed, Senator. It would speak to one of the issues which we have raised, and most particularly to the issue of the pending claim which we have, which has been riding for some 5 years, and there is no present avenue of relief presently provided.

Senator FANNIN. Is this the one from Poland?

Mr. MANGUM. This is from India, sir.

Senator FANNIN. From India, I see. The one that you referred to in your testimony that was of long duration.

Mr. MANGUM. Yes, sir.

Senator FANNIN. Are there any other comments on that subject?

Mr. HENDRICKSON. Mr. Chairman, with your permission could we add to the record the exhibits pertaining to the correspondence between Congressman Burke and Secretary of the Treasury Shultz?

Senator FANNIN. The exhibits will be made a part of the record. We appreciate very much the additions.

[The information referred to above follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 29, 1973.

Mr. FREDERICK DRUM HUNT,
Foreign Trade Consultant,
Washington, D.C.

DEAR MR. HUNT: As I stated in my July 25 letter, I took up the matter of the countervailing duties complaint of the Cast Iron Soil Pipe Institute regarding unfair competitive practices in India with Mr. John M. Martin, Jr., the Chief Counsel of the Committee on Ways and Means. The response of the Treasury Department to the official inquiry of the Committee was terse and vague. Accordingly, I personally notified Secretary Shultz of my displeasure with the Treasury response and handling of this matter in a letter dated August 8, a copy of which is enclosed. I have received a reply from the Secretary which I find to be very unsatisfactory. A copy of that reply, dated August 14, is also enclosed.

The attitude of the Department of the Treasury in this matter is distressing and unfortunate. It appears that the responsibilities of enforcing the countervailing duties regulations, as far as the Department is concerned, are contingent upon certain proposals found in the Administration's trade reform bill which are more amenable to the administrative technique of the Treasury, I will make every effort to pursue this matter further when the Congress and the Committee convene in early September. With every good wish and kindest regards, I remain

Sincerely,

JAMES A. BURKE,
Member of Congress.

EXHIBIT 4

THE SECRETARY OF THE TREASURY,
Washington, D.C., August 14, 1973.

Hon. JAMES A. BURKE,
Committee on Ways and Means, House of Representatives,
Washington, D.C.

DEAR MR. BURKE: I gather from your letter of August 3 that there is some misunderstanding regarding my exchange of correspondence with Mr. John Martin relating to the complaint of the Cast Iron Soil Pipe Institute on imports of cast iron soil pipe from India.

As you noted, I stated in my letter to Mr. Martin, in response to certain comments which were made, that *antidumping* investigations are presently being processed on a 9 months schedule. It was not my intent to imply that countervailing duty investigations are processed on a similar time schedule.

As you are aware, the administration of the Countervailing Duty Law presents a number of difficult policy questions. We have attempted to deal with these in the Administration's proposals in Chapter III, Title 3 of the Trade Reform Bill of 1973.

The Administration has not completed its testimony regarding the countervailing duty provisions in the bill. When we do testify on this subject, we fully intend to come to grip with these questions. We plan to discuss the cast iron soil pipe case in this context.

Sincerely yours,

GEORGE P. SHULTZ.

Senator FANNIN. Any other comments regarding my question, whether or not you would support this type of legislation?

Yes, sir?

Mr. HUNT. Mr. Chairman, I think your bill is very well founded. One of the complaints that has often been made is that the importers have much more opportunity for judicial review than the American industrialist has. Furthermore, I had suggested one time to the Treasury that in the case of Poland, for example, that if they cannot make information available, then we have to forget the old rule of English common law and assume that they are guilty until they can prove otherwise.

Senator FANNIN. Well, that would be consistent with what I was discussing, because if they were not provided the right to import during that period, then I think it would probably get their attention.

Thank you, gentlemen.

I could cite other instances of countervailing duty petitions being ignored by the Treasury Department. For this reason I introduced legislation in 1970 to correct this problem, and will seriously consider your recommendations in that respect. And I do not know whether you have had an opportunity to review the legislation that I did introduce, but I would appreciate it if you have that opportunity. If you do not have the legislation available to you, my staff can furnish it and I would like to have your comments, because I would feel that with the expertise that you have in this field it would be very valuable.

Under the problems that we have, you have heard discussions earlier under GATT, what is your feeling as to what we face in the future in working with GATT, under GATT, as far as the American industry is concerned?

Mr. HUNT. I happen to be very familiar with GATT, going back to my State Department days, and I think that it was a very good agreement when it was first inaugurated. But I am afraid that the situation in the world today, the economy of the world, has made GATT somewhat obsolete. I heard Senator Long expound on that when Secretary Shultz was here. This business of having to make most favored nation treatment available every time you make an agreement is very difficult. I remember one case dealing with a country in South America where they said, well, we would like to do better with you in respect to this product, but we do not want those fellows over there in Europe to have it. That was about 5 or 6 years ago, and the situation is even worse now.

Now, of course, there is the escape clause involved in GATT which everybody says, if you have any trouble, why do you not use the escape clause.

One can really bring the escape clause into effect only when it is too late, when there is such a tremendous amount of imports.

Now, in the case of the cast iron soil pipe people, for example, quantity is not so important as bringing it in at subsidized prices or dumping prices. You know, iron pipe is like cement. It is something that you do not move around readily, as you would a calculator—and you can completely disrupt the market in one given area. We have cited this in the case of Poland, which was bringing it in to New York. It was the Northeast, which had its market disrupted just by enough pipe and fittings at dumping prices to completely erode the market.

Senator FANNIN. Well, I have been vitally concerned, because I have had so many manufacturers call on me explaining the situation they had been in, and of course this has been going on for so many

years that I realized when GATT was originally formed that we had certain objectives. Those objectives have changed.

We were trying to assist the other nations of the world. We were trying to place them in a competitive position. We were giving, I think, giving out agreements. We were giving out concessions that we would not think of being able to do today. I feel that we must update GATT, and I do not know whether we can. With the voting power that is present in GATT it is very difficult to try to do something about it. I know that when a group of us were in Japan not too many years ago we asked if we could have their assistance in updating GATT, and the answer was, we like it as it is. It is very much in our favor.

And of course, they seem to—so many of the countries, I am not saying that they were the only ones—but so many of the countries ignore what they want to ignore and turn it aside. And so I am really concerned because, in looking at the future and in writing legislation and depending upon GATT in the formulation of that legislation, it is serious business. And I just wonder what we can do in that relationship. We would certainly appreciate your recommendation and your testimony. You have, no doubt, some very valuable data that can be taken into consideration.

Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Gentlemen, one of the things that I have observed in the last few years is a decline in the price of scrap. I have gone around on farms and ranches in my State of Wyoming and here are old tractors that have a lot of steel and a lot of cast iron in them, and I do not know what the situation is right now, but about a year ago you could not have them hauled a distance where I live of about 170 miles to Rock Spring, Wyo. The scrap iron market down there was not enough to pay the freight on it.

Has that situation changed any?

Mr. MANGUM. It has changed dramatically, Senator. The materials which we use—such as automobile bodies. The distribution of automobile bodies has been a problem in some areas of the country for the reasons which you have just cited. In the summer of 1972 we were paying $28 a ton for automobile bodies that had the motor and the transmission, the power train removed, which had been slightly compressed and cut into three sections. We were paying $28 a ton for that material. The market today in the Southeast for that material is about $75 a ton, and that certainly has created plenty of incentive to bring the automobile bodies in and it has made it economically feasible to haul it for much longer distances.

This brings to mind a particular problem which we have had and which I would like to use as an illustration of why we would urge this committee to be very specific in its time requirements and in spelling out its intent in this legislation. We have seen the Commerce Department simply by failing to make a determination that a substantial American industry was being damaged by the quantity of exports, fail to make the rulings that they should have regarding exports.

We have been caught in our industry, and the total foundry industry, in a classic dilemma where the raw materials that we were using were being exported. The price is being escalated by orders of magnitude, and no action being taken on that front, simply because the ad-

ministrative agency involved declined, for their own policy reasons, to carry out what we perceived to be the intent of Congress in that legislation.

We have seen sort of thing being done by Treasury in these countervailing duty cases. With that in mind, sir, we would urge you to spell out your intent specifically so that your intent cannot be subverted by the agency which will administer the legislation.

Senator HANSEN. Let me conclude, Mr. Chairman, by saying that I have no sympathy or understanding at all with bureaucrats who say that they are anticipating the passage of legislation and consequently fail to enforce the law of statutes already on the books.

Senator FANNIN. Thank you, Senator Hansen.

Mr. HUNT. Mr. Chairman, I would just like to say one thing.

Senator FANNIN. Yes, if there are any further comments we would certainly want to have them.

Mr. HUNT. I do have one comment to make on what Senator Hansen just said. I am sorry that Senator Byrd could not stay, because I was very impressed on the first day of these hearings when he pinned down Secretary Shultz on a countervailing duty case that had been waiting only a year. He was speaking for the shoe manufacturers at the time, who had three countervailing duty cases pending, and he kept pinning the Secretary down. I was very glad to note that about a week later the Treasury Department did come out with an announcement on one of those three cases.

Now, I would hope, Mr. Chairman and you also, Senator Hansen, that you two would please try to do something with the Treasury Department to get this India case loose.

Senator FANNIN. Well, gentlemen, I appreciate it very much. We will delve into it and we certainly realize the importance to your industry of trying to solve that problem. It just seems ludicrous for something to go on that long without a decision. And of course, naturally, that is what we are concerned about and that is why I was concerned and introduced legislation to try to eliminate this prolonged delay. And I do not know just what we can do, but we will at least make an attempt. I appreciate it that you have brought it so forcefully to our attention.

Do you have any further comments, gentlemen?

Mr. MANGUM. No, sir.

Senator FANNIN. Again, our thanks to you and the hearings will stand adjourned until 10 o'clock tomorrow morning.

[The prepared statement of Mr. Mangum follows:]

PREPARED STATEMENT OF ROBERT B. MANGUM, PRESIDENT, CAST IRON SOIL PIPE INSTITUTE

Mr. Chairman, I am most appreciative of the opportunity of speaking to you briefly concerning a problem which seriously affects the industry I represent. I am Robert B. Mangum, president of The Central Foundry Company, which is one of the leading manufacturers of cast iron soil pipe and related fittings. Our principal foundry is in Alabama but we have additional plants in Pennsylvania and New York. I am also president of the Cast Iron Soil Pipe Institute whose members produce more than 95 percent of the industry products. All of us make our cast iron products from used automobile motor blocks and bodies and similar cast iron items. Every day we see our only source of iron depleted by the transfer of such "scrap" metal to foreign countries. We are hurt by that, believe me! What really hurts the most, however, is for that metal to come back into our domestic

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markets as "dumped" or "subsidized" products at prices with which we cannot compete, because we have an entirely different type of relationship, both by law and by custom, with our skilled American workers than do some nations which have a different ideology and relationship to their workers.

In the past 20 years our industry has been involved in at least five dumping investigations. The last two involved shipments from Poland. Whatever relief, if any, we have obtained has been, to put it bluntly, "too little, too late". We are convinced that the Treasury and the Bureau of Customs both have taken an inordinate and totally unjustified length of time to provide relief, if indeed it is provided at all.

We spent years of effort to obtain a ruling that foreign cast iron pipe and fittings must be marked with the country of origin. Why shouldn't ALL products be so marked so as to prevent commingling of foreign with domestic products with the result that American purchasers are unable to make a choice between domestic and foreign-made products? For years foreign-made cast iron soil pipe and fittings were not marked in this respect simply because the Treasury erroneously included them in an excepted category in which they should not have been included. What reason is there for us to believe that if Treasury is given the discretion it now seeks it will exercise better judgment than it has in the past? We do not believe that it will.

Now, let me tell you of our most recent unhappy experience with Treasury. Since June 23, 1969, four years and nine months ago, we have had pending a petition for the imposition of countervailing duties for cast iron soil pipe and fittings imported from India. No relief is yet in sight although we have furnished positive evidence of subsidization by the government of India. So, you can easily understand our industry's deep concern with respect to Title III of the pending bill.

An article dealing with our petition appeared in the press following testimony before the House Ways and Means Committee in 1973. This article was published in the August 14, 1973 issue of *American Metal Market*. A copy is attached as Exhibit 1. It gives an objective and fair resume of the events which have transpired since our petition was first filed in 1969. I request that a copy of it be received into the record. I also submit for the record a copy of one of the documents which we presented to Treasury and which makes it abundantly clear that India does, in fact, make a substantial subsidy available to exporters of Indian-made cast iron soil pipe and fittings to the American markets. See Exhibit 2.

When we pursued this matter, Treasury officials stated that a matter of "policy" was involved *but they never told us what that policy was.* Members of the House Ways and Means Committee inquired as to why the Secretary of the Treasury had not acted but they were not given a meaningful answer either. See Exhibits 3 and 4 attached. Upon pursuing the matter further, top ranking administration officials advisd us that they hoped to gain such wide latitude in discretionary areas under the pending bill that they did not propose to take any action under the law as it now stands.

The law currently provides for the *mandatory* levy of countervailing duties once the Secretary of the Treasury has announced that the country of origin has provided a subsidy. Unfortunately for us, however, the law does not set any time limit within which Treasury must complete its investigation as to whether or not there was payment of such subsidy. This permits Treasury to avoid the levy by not making the announcement. In our case there is really no need for any substantial investigation—certainly not one of almost five years duration—because Treasury could have confirmed the information which we provided on this subject within a matter of a few days.

We believe that the Executive Branch of the Government is not going to make such findings but, on the contrary, will keep the investigation on the "back burner" until it is granted the discretionary power which it is seeking and that when this is done the discretion will be exercised to the detriment of American manufacturers.

The House, in its consideration of the bill, decided to delete the provision for the exercise of this discretionary power but still permitted a suspension of the countervailing duty requirements for a period of four years during negotiations under the provisions of this bill.

Even so, we are greatly concerned that the Administration will attempt to interpret this suspension as granting it authority to exercise its own discretion as to whether, if at all, and in what situations, if any, the imposition of

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countervailing duties will be undertaken. That appears to be what it actually is doing now rather than enforcing the mandatory provisions of the law.

Now I would like to speak specifically to several amendments which we believe to be required to protect American industry from what may be a serious curtailment of the protection which Congress obviously intends for it to have. Section 303 (a) (1) provides that "the Secretary of the Treasury shall determine within twelve months after the date on which the question is presented to him, whether any bounty or grant is being paid or bestowed". This section should be amended so as to require the determination to be made within six months instead of twelve. There is no reason why the time element should be so long and there are many why it should be as short as possible to minimize the disruption of the American market.

We are much more deeply concerned, however, with Section 303 (a) (4) which provides that "whenever . . . the Secretary concludes from information presented to him . . . that a formal investigation is warranted he shall forthwith publish notice of the initiation of such investigation in the Federal Register". Please note that there is no time limitation whatever as to when, if ever, the petition must be presented to the Secretary for consideration. Publication as to the initiation of the investigation should be required within some statutory period of time. We suggest that such publication in fairness to all parties, take place within 30 days after an industry files a petition for the levy of a duty. We are driven to the inescapable conclusion that Treasury wants to have complete freedom to take whatever action it wants to, whenever it wants to, or to take no action whatsoever! It must not be permitted to so thwart the will of Congress.

We also believe that Section 321 likewise be amended so as to require publication of notice of the initiation of an investigation within 30 days following the filing of a petition. The Tariff Commission already has a statutory limitation of only three months to investigate and to decide the question of injury in those cases in which the Treasury has found that dumping exists. Business judgments must be made expeditiously. Why can't the Treasury accomplish its task within seven months?

We also believe that Section 321 (b) should be amended by omitting the words "or in more complicated investigations within nine months". I do not know exactly what the term "more complicated investigations" is intended to mean. I suspect that it may be interpreted to mean that the Treasury shou'd be granted a substantially longer period of time to investigate complaints involving exports from Socialist countries. From our experience with dumping cases involving Polish exports, we see no justification whatever for granting this additional period of time. The present law does not differentiate between nations and there should not be any special circumstances (such as unwillingness to furnish information) which can be interpreted as involving "more complicated investigations". The grant of power to substantially extend the period of time for the completion of investigations which are loosely characterized as "more complicated" simply creates a fertile field for granting extensions of time for little or no reason at all. The American businessman has to meet many deadlines in dealing with the Executive Branch. Why should not it be required to meet a few deadlines itself when deciding whether to grant relief or not to do so?

Mr. Chairman, this brings me to one final point. Our experience in the Polish cases has demonstrated the fact that, in dealing with certain nations, no one knows the values of their currencies or their actual production or distribution costs; nor how they compute their sales prices either for domestic consumption or for export. All foreign trade is conducted through state trading companies which are government owned and controlled. As we understand it, Treasury contends that it cannot readily obtain information necessary to properly investigate dumping or subsidy charges. This is a sad commentary. If foreign exporters who send their merchandise to this country for sale in competition with American-made products will not tell the American government whether their products are being "dumped" or being "subsidized", as the case may be, then there is a very simple answer. Their products should be denied entry until they provide such information. We, the American businessmen, realize that we must compete in our own markets with foreign-made products but aren't we entitled to start out on a somewhat equal basis?

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Our only hope for relief is with the Congress. The members of Congress are the elected representatives of some two hundred-ten million people, each of which has a right to come to you when he believes he has been ill-treated by the Executive Branch or any other agency of the Federal Government and to seek your aid. That is why I am here, as the representative of my industry. We have full confidence that you will give careful thought and attention to our problem. We also hope that you will find some way to convince the Executive Branch (particularly Treasury) that when you, the Congress, enact a law providing that the assessment of countervailing duties are *mandatory*, after payment of a subsidy by the exporting country is established, you mean exactly what you said when you enacted the law and that Treasury has no alternative but to follow that law.

Thank you very much for your attention.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, to reconvene at 10 a.m. on Wednesday, March 27, 1974.]

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TRADE REFORM ACT OF 1973

WEDNESDAY, MARCH 27, 1974

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

The committee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long presiding.

Present: Senators Long, Hartke, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bentsen, Bennett, Dole, Packwood, and Roth.

The CHAIRMAN. This hearing will come to order. Other Senators will be along in a few moments. In fact, we expect rather full attendance this morning.

Meanwhile, I believe we should commence this hearing. This morning we are honored to hear from a great leader of the American labor movement, Mr. George Meany, president of the AFL–CIO, accompanied by Mr. Andy Biemiller and Mr. Nat Goldfinger, representing the largest of our labor organizations in America.

All witnesses have been instructed to confiine their remarks to a summary of principal points in their written brief. The 5-minute rule for Senators will be in effect during the first round of interrogation.

Senators who wish to interrogate the witness for a longer period of time may utilize the executive room, after the witness has been interrogated by other members of the committee.

Mr. Meany, it is always a pleasure to have you with us, and I would suggest that you identify your assistants in somewhat fuller manner.

Mr. MEANY. Mr. Andrew Biemiller is the director of legislation in our legislation department. And Mr. Goldfinger is head of our economic department.

The CHAIRMAN. We are very pleased to have you here, Mr. Meany, also Mr. Biemiller and Mr. Goldfinger. We will be pleased to hear your statement.

STATEMENT OF GEORGE MEANY, PRESIDENT, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY ANDREW BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AND NAT GOLDFINGER, DIRECTOR, DEPARTMENT OF RESEARCH

Mr. MEANY. Thank you very much, Mr. Chairman. The AFL–CIO welcomes the opportunity to appear before this committee to discuss the need for new trade legislation to meet America's problems in the rapidly changing world of the seventies.

Perhaps no period of history in this century, outside global war, has brought the avalanche of international changes which has occurred in this past year.

The situation as it relates to trade legislation is well put in the recent summary and analysis of the Trade Reform Act by the staff of this committee.

And I quote, "It's a totally new ball game which was not envisaged in the planning and conception of the Trade Reform Act."

The fact that it is now a totally new ball game has made the administration's so-called Trade Reform Act totally obsolete. Its provisions bear no connection with the events of the day. Indeed, it is worse than no bill at all.

We find it incredible, in the light of all that has happened and is still happening in the world, that administration officials could come before this committee and present the same, barren arguments as they did when it was first proposed last May.

We urge this committee to give the House-passed bill a quick burial, and turn its time and attention to the writing of new trade legislation which will be comprehensive, flexible, and realistic, and which will meet the complex needs demanded by today's world.

What America needs urgently is not just a revision of trade policies but an entire restructuring based on the recognition that the concept of free trade versus protectionism which dominated the thinking of the thirties and forties is badly out of phase with today.

America needs a positive policy that will put the well-being of the United States and its people above all else. What it doesn't need is a nonpolicy which, in the hands of this administration, puts the Nation and its people last.

Every other nation has built-in protection for their national self-interest. The recent events in the Middle East and Europe, Japan, Latin America, and the Soviet Union all reinforce this fact. Certainly it is not out of place for the United States to assert its self-interest.

The United States needs a policy that will assure American taxpayers, consumers, workers, and businessmen a fair and up-to-date set of laws so that the United States can conduct mutually fair and beneficial trade with other nations.

As a necessary condition to this, however, the United States needs a healthy and expanding economy, providing diverse jobs for Americans with a wide range of skills, an economy which will afford its people a decent and rising standard of living and provide a strong industrial base from which the United States can carry out the mutually beneficial trade we seek with the rest of the world.

Unfortunately, this Nation's economy of today falls far short of meeting this requirement.

The United States is clearly in a recession. At the same time, the American people are the victims of a rampant inflation which in part has been brought on by this administration's misapplication of present foreign trade and investment policies. The achievement of the $1.7 billion 1973 trade surplus, about which the administration is so boastful, came at the expense of the consumer. Much of the gain in the trade accounts was the result of heavy exports of farm goods and critical raw materials. And it was exports of these commodities which caused sharp domestic shortages and brought on the rapid acceleration of inflation.

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What the United States has done is to put the nations of the world in competition with the American consumer for the food he buys. The New York Times, in a recent page 1 article, said, and I quote:

> Agricultural and economics experts agreed in interviews over the last three weeks that a major reason for some of the sharp increases in food prices in recent years had been the sudden and vast expansion of agricultural exports from the United States.

And there is no sign of letup in this competition which is pushing food prices up so rapidly. The same article in the Times noted that:

> In the fiscal year ending June 30, 1972, the total value of American agricultural exports was $8 billion. For the year ending this June 30, the Government is estimating total agricultural sales abroad of $20 billion, 2½ times as much.

The administration takes refuge of sorts in the fact that inflation in this Nation has been less severe than in many other nations of the world. But we have no such consolation. America's rate of inflation is now surpassing that of many other nations. The Wall Street Journal, on March 13, recently noted that there are 7 other countries in Western Europe, plus another 11 in other parts of the globe, where prices are rising at a more moderate rate than in the United States. A year ago, the Journal noted, the consumer price rise in the United States was 4.7 percent, well below the countries of Austria, Belgium, France, West Germany, the Netherlands, Norway, and Sweden. In the last 12 months, however, the Consumer Price Index in the United States has risen 9.4 percent.

And I would like to point out, Mr. Chairman, that that is for calendar 1973. Take off January 1973, and bring the 12 months from February 1, 1973 to the end of February 1974, and the rate is 10.2 percent, so that the rate has not only got up to double figures but it has accelerated each month: it is going up a little higher. So the prospect, I would say, is not for 12 percent this year. The prospect is something maybe close to 14 percent. And there is very little comfort in that for the American consumer.

The rate of inflation has accelerated in every country, but the Journal said that "the U.S. speedup has been by far the sharpest." Only Britain, Italy, and Switzerland within industrial Western Europe now have steeper inflation rates than America.

In addition to being inflationary, the trade surplus is a dangerous illusion. America still faces basic and painfully serious trade problems.

Imports continue to flood the U.S. market, wiping out jobs by the hundreds of thousands and sweeping away segments of industries. The 1973 total of manufactured imports was $44.8 billion—an increase of 18 percent over the previous year. These imports continue to curtail American production in electronics, shoes, apparel, steel, autos, and a wide range of industries. Two official devaluations of the U.S. dollar have made these imports more expensive for American consumers, thus adding to the inflationary pressures of the American pocketbook. In many cases, the consumer, because of the elimination of American production by the inundation of imports—for example, black and white TV sets, tape recorders, even baseball mitts—has no other choice than to buy these imports, whatever their price tag.

In spite of the dollar devaluations, there was no surplus of manufacturing exports over imports; these exports in 1973 totaled $44.7 billion. Furthermore, the exports of America are now increasingly the

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entire production process—jobs, technology, and capital. We are sending our businesses abroad as well as our products.

What's more disturbing is that the technology America is sending abroad is sophisticated technology, the job-generators of the future. Where U.S. exports were once plants which produced shoes, apparel and textiles, the United States is now sending abroad technology for electronics, computers, aircraft, aerospace equipment—areas in which we were once predominant in the world, thus giving up America's clear competitive lead. This transfer of technology can take place in many ways—by direct transfer, by licensing, by patent agreement and other methods. But the sum total of it is an erosion of America's industrial base.

The volume of this transfer of technology is difficult to detail from the official trade statistics: the figures are either vague or nonexistent. However, the fees for actual licensing and patent transfer of know-how show a 10-to-1 disadvantage for the United States. The royalties and fees paid to the United States totaled $3.5 billion in 1973 while payments to foreigners for their technology in these forms were only $300 million.

While there is a small flow of technology to this country from abroad—oxygen furnaces and radial tires, for example—the overwhelming flow is the other way. If that flow were more balanced, we wouldn't be here raising these arguments.

The employment impact of these developments are difficult to determine. Unfortunately, the foreign trade experts show little interest and even less knowledge about measuring this impact. However, the Government not long ago made some rough calculations indicating the net loss of some 500,000 jobs and job opportunities in the period 1966 to 1969. The AFL–CIO, employing the same methods of calculation, has determined that the further deterioration in the U.S. position in the world trade through 1973 has brought the total loss to over 1 million jobs—and that's probably conservative.

We have attached to this testimony the resolution on foreign trade and investment passed by the AFL–CIO Executive Council at its meeting in February, which details our legislative recommendations.*

To highlight these recommendations, we believe that new legislation should regulate U.S. imports and exports as a means of establishing an orderly flow of international trade. Specific flexible legislative machinery is needed to control imports. This flexible mechanism should also be applied as a restraint on the excessive exports of farm goods, crucial raw materials and other products in short supply domestically. Exports, imports and U.S. production should be linked in relation to needs for supplies, production and job opportunities in the United States.

We should modernize trade provisions and other U.S. laws to regulate the operations of multinational corporations. Regulation of multinational firms, including banks, is necessary because these concerns are the major exporters and importers of U.S. farm products, crude materials, and manufactured products.

We should eliminate U.S. tax advantages and other subsidies for corporations investing abroad. Specifically, the tax laws should eliminate tax deferral of income earned abroad and foreign tax credits.

*See page 1168.

Clear provisions should be written into new legislation to regulate exports of capital and new technology.

The energy crisis has demonstrated that overdependency on foreign sources of any material can be costly and perhaps fatal. It has also demonstrated that nations, when faced with a choice, are quick to act in their own self-interest. And it has graphically demonstrated that multinational corporations hold corporate allegiance above national allegiance.

The energy crisis has also revealed the price America has paid for not curbing the activities of the multinational corporations. The United States might not be facing so severe an energy problem if it had not been made so profitable for the major oil companies to locate new refinery capacity abroad in recent years instead of in the United States.

The AFL–CIO has long been concerned over the devastating impact of the activities of U.S. multinational corporations on the economic health of the United States and its people.

In industry after industry, we have watched plant after plant close and jobs disappear—only to see the same plants and the same jobs appear overseas as the multinationals moved production facilities to Taiwan, Singapore, South Korea, Brazil, Spain, France, England, Germany, Mexico, Portugal, Tanzania, and a host of other countries.

Not only have we watched the jobs and production go abroad, but we have watched goods come back from the overseas plants of multinationals as imports, competing with domestically-produced goods and making further inroads into U.S. employment. Faced with such pressure, the domestic producer either sells out or, more likely, joins the crowd and relocates abroad.

These massive operations are taking a heavy toll among American families and American communities from coast to coast.

The shutdown of manufacturing operations here and their relocation abroad, where low-cost operations are more profitable, depress the whole American economy by the loss of domestic jobs, payrolls, domestic corporate revenues, local purchasing power, local taxes—and has a "ripple out" effect on the local service economy from the loss of an industrial base. Hard-hit communities face empty factories, slackened businesses, unemployed workers and heavy revenue losses.

The multinationals operate as supranational entities. Each makes decisions solely on its own interests. These are decisions which have major consequences for the America of today and of the future.

The multinationals are, or they would like to be, stateless in their operations, freed of any responsibilities except to themselves.

Robert Stevenson, when he was in charge of Ford Motor Co.'s international operations, expressed what they have in mind, and I quote: "It is our goal to be in every single country there is: Iron Curtain countries, Russia, China. We at Ford look at the world map without any boundaries. We don't consider ourselves basically an American company. We are a multinational company. And when we approach a government that doesn't like the United States, we always say 'who do you like? Britain? Germany? We carry a lot of flags. We export from every country.'"

Nor do the multinationals let national interest stand in the way when corporate interest is at stake. Just how the multinationals feel

with respect to their role in relation to American interests was stated quite simply in a recent CBS television show in which William Martin, then president of Phillips Petroleum, was being interviewed. He was asked whether the corporation should be expected to serve the national interests of the United States by accepting less profit here than it could obtain abroad. "I don't think we should be expected to," Mr. Martin replied. And when asked whether a U.S. international corporation should be expected to hold the national interests of the United States above the interests of other countries where that corporation does business, he replied: "I think not. If we were expected to do that, we couldn't operate in those foreign countries. I think it's just that simple."

The Arab oil embargo put the multinational oil corporations in a position where, as Leonard Silk pointed out recently in the New York Times, and I quote: "They must obediently respond to the commands of such governments as Saudi Arabia and Kuwait, over which they have much less influence than over the Government of the United States, even if this means helping the Arab countries to levy economic warfare against the United States."

Mr. Silk points out that the multinational corporations "would like to be world citizens, but since there is no world government, no world community to which they are responsible, they must feign loyalty to every country where they do business, concealing the flag under which they really sail—the old Jolly Roger emblazoned with the motto, "short-run profit maximization.'"

What helps to make it so profitable for the multinational to locate and produce abroad is the U.S. tax code. Through loopholes available to these corporations, the U.S. taxpayer subsidizes their foreign operations.

The result is that American workers not only lose their jobs, the economy loses part of its industrial base and the Federal Government loses revenues and the American taxpayer picks up the tab for the whole bit.

John Nolan, formerly this administrations Deputy Assistant Secretary of the Treasury for Tax Policy, told the President's Commission on International Trade and Investment, and I quote: "There is a clear-cut bias in our existing tax structure favoring the manufacture of goods abroad through foreign subsidiaries as opposed to exporting, in order to benefit from the deferral of U.S. taxes. The distortion in our tax system simply makes no sense at a time when the United States has substantial balance-of-payments deficits."

As long as America's tax policy makes it more profitable to invest abroad than at home, the foreign export market will be increasingly supplied from foreign-based plants instead of from domestic-based industry, and the domestic industrial base on which the economy depends will continue to erode.

Two tax loopholes are the most significant in discriminating against American production and American jobs. One, the deferral provision, which permits U.S. corporations to pay no income taxes at all on the profits of their foreign subsidiaries until such profits are brought back home—which may be never; and two, the foreign tax credit which permits taxes paid to foreign governments to be subtracted, dollar for dollar, from the parent company's tax liability.

As a result, in 1970, U.S. corporate profits from foreign operations totalled $17.5 billion, yet the Treasury received ony $900 million in tax revenue—an effective tax rate of 5 percent.

Tax deferral is an interest-free loan from the Government which in practice can result in the equivalent of an outright tax exemption. But the tax advantage of the deferral aspect goes beyond the interest-free loan aspect because substantial amounts of corporate profits are continually invested and reinvested abroad and do not come home at all. To that extent, deferral amounts to total tax immunity for the individual corporation and continuing tax losses to the U.S. Treasury.

The foreign tax credit permits corporations with foreign subsidiaries to subtract, dollar for dollar, taxes paid to foreign governments from the parent corporation's tax liability—when the corporation decides to send a portion of its profits back to the United States. In contrast, a firm operating domestically and paying taxes to State and local governments cannot defer its Federal income taxes. And taxes levied by State and local governments are treated as costs of doing business and can only be listed as a deduction—a considerable difference from a credit.

This is grossly unfair tax treatment for the rest of the American taxpayers. The closing of these loopholes would not only bring in some $3 billion a year in badly-needed revenue, but would remove an unfair advantage now afforded U.S. corporations with foreign subsidiaries.

The multinationals and the administration seem to be among the few Americans now who do not have some reservations about détente in view of the Soviet Union's recent behavior in the Middle East.

It appears more and more that détente is, as we charged, a one-way street.

Unfortunately, the American businessman so eager to turn a quick profit seems woefully unaware that the Soviet Union is interested in one thing only: it does not want America's products; it wants America's technology. Once the Soviet Union has that technology, the seeming advantage of the U.S. businessman quickly can be closed off.

Harry Schwartz, the veteran observer of the Soviet Union for the New York Times, noted recently that, as costly as the American wheat deal was to the United States, "there could be even higher costs in the long run from today's lemming-like anxiety of some American businessmen to make massive transfers of U.S. technology and capital to the Soviet Union."

One reason for disquiet, he notes, "is the technical virtuosity" of some of the Soviet weapons which were used against the Israelis in the Mideast war. He pointed out that the Soviet Union has been able to develop weapons which the United States has no means to offset.

"The impression is inevitable," Mr. Schwartz says, "that the Soviet Union has concentrated its substantial resources of scientific and technological talent overwhelmingly on military needs—including the military-related space program—while neglecting civilian technology. What Moscow seems to be asking now is that the United States play a major role in repairing the backwardness caused by this concentration."

Too many American businessmen and bankers are shortsighted when they forget that commercial relations with the Soviet Union are not

ordinary and normal trade deals between buyers and sellers in the free world. The Soviet Government has a total monopoly on the buying and selling of all goods and access to all raw material resources in the U.S.S.R. American technological know-how turned over to the Russians stays there and helps develop its resources. The Soviet rulers can shut off their markets or natural resources at any time they see fit. The benefits of U.S. technological help to the Russians are permanent, and will sooner or later reduce Russia's need for buying from the United States.

We think both U.S. businessmen and the Government ought to be taking a hard look at how much and what kind of technology America is apparently ready to hand to the Soviet Union.

Does it make any sense, taking a look at the gigantic Siberian natural gas deals that Moscow seems ready to conclude with some American companies, to put the same sort of weapon in the hands of the Soviet Union as was in the hands of the Arab nations? Does it make any sense to pay billions of dollars in capital investments for the privilege of doing so?

This administration seems all to eager to assist American businessmen in transferring huge chunks of American technology to the Soviet Union.

Senator Case not long ago called attention to the fact that there apparently were parts of the October 1972, agreement between the United States and the Soviet Union which had not been submitted to the Congress as required by law—and that the administration was implementing the agreement through the extension of substantial credits by the Export-Import Bank to the Soviet Union.

This was followed by a finding by the General Accounting Office that the Bank was not obeying the law in the way it was extending commercial loans to the Soviet Union.

The GAO checked the legislative history of the law setting up the Export-Import Bank as the result of a request from Senator Richard Schweiker. The GAO found that the President must determine that each project individually was in "the national interest," and submit to Congress the reasons why. The Bank had been considering loans and other extensions of credit to the Soviet Union under a blanket ruling by the President in October of 1972 that such activities were in the national interest.

The Presidential order of October 1972, reads, "I hereby determine that it is in the national interest for the Export-Import Bank of the United States to guarantee, insure, extend credit, and participate in the extension of credit in connection with the purchase or lease of any product or service buying for, in, or for sale or for lease to the Union of Socialist Soviet Republics in accordance with section 2(B) (2) of the Ex-Im Bank Act of 1945 as amended."

In view of the legislative history outlined in the Comptroller General's opinion, the order of the President, to me, is incredible.

As a result of Senator Schweiker's request that the GAO check the law, the Export-Import Bank temporarily halted further loans or projects to the Soviet Union.

But then the President's newest Attorney General found a convenient loophole: No matter what the statute said or what was the clear intent of the Congress, the President could get away with it because he had

been getting away with it. In other words, since the Congress had not challenged him in the past, it couldn't challenge him now.

So the Export-Import Bank has resumed its program of loans to the Soviet Union—loans made on terms and at interest rates that no American homeowner, worker, or businessman can get. And that, we submit, is unacceptable to the American people.

Senator Schweiker has now introduced legislation to specifically forbid all U.S. Government-supported investment in Russian energy development programs during our own energy crisis. In the words of the Senator, "if our taxpayers are going to subsidize energy development, the investment should be made here, not in Siberia."

We would go further. We believe the Congress should plug the loophole the Attorney General has just discovered and sustained.

We believe the administration is clearly attempting to circumvent the will of the Congress. The administration seems willing to do anything possible to give the Soviet Union most-favored-nation status. The House, by a vote of 319 to 80, also voted against the unrestricted extensions of credit to the Soviet Union, and in the Senate, I believe, there are 78 cosponsors to the amendment by Senator Jackson which would apply this same restriction to any trade bill it passes.

The AFL–CIO unreservedly supports this concept. We think it is about time this administration put the interest of the American people ahead of the interests of the Soviet Union.

Every other nation on this Earth puts the self-interest of its own people first. We think that is sound policy for the United States of America.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you for a very fine and thoughtful statement, Mr. Meany. I am going to yield my place to Senator Ribicoff, who is chairman of our Trade Subcommittee, for a quick interrogation.

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

I followed your testimony with great interest, Mr. Meany. You make many pertinent points. You make the point that although we have had an overall trade surplus, we still had a billion-dollar trade deficit in manufactured goods. If this deficit in manufactured goods continues, what labor-intensive American industries do you see in danger?

Mr. MEANY. Well, there are any number. The electronics industry is one that comes to mind, but we have any number of labor intensive industries that are going to be affected. It seems to be a tendency to toy with the idea of making this a service nation, and I do not think we could maintain our standard of life, let alone elevate it to any extent, as a service nation.

Senator RIBICOFF. Do you think that any nation can continue to be a great power if it does not have a great degree of self-sufficiency, in let us say, automobiles, chemicals, electronics, and steel, the basic industries that provide the sinew and muscle of a nation?

Do you think a great nation could exist without them?

Mr. MEANY. Well, the history of our economy has been that we always had industries which were basic and key, for instance, steel, autos, construction. If we are going to lose our basic industries such as airplane construction, automobile and things like that, farm implements, I do not think we are any longer going to be the leading nation of the world.

Basically, you see, up to this minute we have the consumer purchasing power, and everybody, no matter where they manufacture, is looking to sell here. Now, if we lose our consumer purchasing power, we are certainly not going to be a great nation. So what is the basis of our consumer purchasing power? The basis of our consumer purchasing power is the consuming power of the great mass of the American people. The best customers of American industry are still the American people. No matter how much we put abroad, over 90 percent of the things we make must be sold here, and the basis for the whole economy over the years has been the mass purchasing power of the great mass of the American people, right down to the lower levels.

Senator RIBICOFF. So the problem is not just a trade balance, but a trade balance in what? The necessity to preserve the economic health of American workers becomes very important to the entire future of our Nation.

Is that not correct?

Mr. MEANY. Yes, I think so.

Senator RIBICOFF. Let me give you an example of what happened in Hartford, Conn., and I would like to get your reaction. For 60 years we had the Royal Typewriter Co. there. A few years ago the Royal Typewriter Co. was taken over by Litton Industries, a conglomerate, multinational corporation. The average hourly wage of Royal in Hartford was $3.60 an hour. Litton acquired a typewriter company in Hull, England, where the average hourly wage was $1.20 an hour. 55 percent of what goes into making up a typewriter is labor cost. So, Litton moved Royal Typewriter to Hull, England, and about 2,000 people were out of jobs.

What do you consider to be the responsibility of a company to its employees and the community when they move an industry to a foreign country? What is their responsibility to the community and their employees?

Mr. MEANY. Well, I think their responsibility certainly would be to the country of employment, but the point is, what does the Government do about this? What would another government do about this? What would other governments of the world do? They would develop a policy to protect their own people, and I think that the answer to this is in the tax structure and in the tariff structure. I think you have got to do something to make it a little less profitable to these people.

You know, in the final analysis, if you carry this whole theory down to the idea that you go where the cheapest labor is, well, then, forget your American standard of life because the only way we are going to get down to these people is to reduce our standard of life.

We had an academic expert over in the White House a few years ago. Thank God he is gone. But he had a very simple theory. He was discussing with a group of businessmen and labor people from New England the closing down of a shoe factory which put a town out of business, and he said very simply, well, if Yugoslavia and the Italians can make shoes cheaper than we can make them, we should stop making shoes, and we should turn around and make something that the Yugoslavs and Italians cannot make as cheap as we can make.

Now, you follow that sort of a philosophy to its natural conclusion, you forget your American standard of life. And you forget your American consumer purchasing power that made it possible to have

these gigantic corporations. General Motors did not become a great corporation, Henry Ford did not develop a great corporation selling to those in the upper 20 percent. They became great corporations because they sold something that the people way down at the bottom of the economic ladder could buy.

Senator RIBICOFF. Let me ask you another question that the energy crisis highlights. Europe and Japan's oil bills are going to skyrocket because of the much higher cost of oil. Japan's increased costs this year will be some $8 billion. In order to get that kind of additional revenue, do you not see Japan and the European countries making a strong drive to increase their exports to the United States to earn dollars? What impact will that increased export drive have upon American industry and American jobs?

Mr. MEANY. The drive is already there. You say a strong drive——

Senator RIBICOFF. A stronger drive.

Mr. MEANY. They were making a strong drive before they had this problem. This may make them try a little harder. I do not know.

Senator RIBICOFF. I have many more questions, Mr. Chairman, but my time is up.

The CHAIRMAN. Senator Dole?

Senator DOLE. Thank you, Mr. Chairman.

I think I find myself in agreement, Mr. Meany, with your comments on the foreign tax credit. I think it is an area we have to address ourselves to, but I was concerned. I just left a meeting early this morning of the National Wheat Growers Association where they were calculating the increased exports as income to the farmer, which in turn, of course, creates jobs and does a lot of other things.

Do I understand your statement correctly that we have had too much in the way of farm exports, we have gone too far?

Mr. MEANY. Yes, that is our position, and it has caused shortages, and what do shortages mean? Higher prices.

I am concerned with the farmer, too, but we are concerned with the consumer. I mean, if our only concern is with the people who grow the stuff, then we are really in trouble. I think we have got to have a balanced approach. I think the action of the President yesterday to push up beef prices is deplorable, but he is doing it to give temporary aid, taking $45 million of Government money to give temporary aid to the beef producers, and as a result, and the purpose of it is quite deliberate, to push the price up.

Senator DOLE. Well, I might say there, I do not think the purpose is to push up the retail price. The problem is, a great lag between the farm price and the retail price. Farm prices have been depressed for a number of weeks, and retail prices have never gone down, and I think the stimulus, $45 million, is not going to mean a great boost to the livestock industry. But it might have some psychological impact, and it might eventually get the farm price up where they are not losing a couple of hundred dollars per head on their cattle.

Mr. MEANY. Well, do you think that they are going to push up the wholesale price without it being reflected at the market counter, the supermarket counter?

Senator DOLE. I think the aim of the purchase was to sort of clean out the glut in the marketplace and eventually raise farm prices. But I think the keyt to stabilizing prices is to increase production. We are

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not going to increase production if we find the livestock producer losing $100 a head. He is going to get out of that business and do something else.

Mr. MEANY. Well, unfortunately, the consumer is in a different position. He cannot get out of the business of buying things he needs for his kids. He has got to keep on buying for his kids. He does not have that option of getting out of the business, as you say.

Senator DOLE. Well, farmers are consumers, too. If it had not been for agricultural exports, we would not have had a trade surplus last year for the first time in a long time, which you think is a plus for American agriculture.

But I share your views with reference to tax credits.

Are you opposed to any trade with the Soviet Union?

Mr. MEANY. No; I would not say we are opposed to any trade with the Soviet Union.

Senator DOLE. Well, what do you want to trade them?

Mr. MEANY. I am opposed to giving them most-favored-nation status.

Senator DOLE. And you are opposed to——

Mr. MEANY. I am opposed to doing the things that we are doing without getting anything in return, and I am opposed to this idea of détente. Détente is an absolute fraud. It is a fraud. We are told it is better than cold war. The cold war still is there. The war is still there. They have not changed, you know, the Soviets have not changed.

Senator DOLE. What do you suggest as an alternative to détente?

Mr. MEANY. Good old Yankee horsetrading, give and get. That is what I suggest as an alternative. I would say to Mr. Brezhnev, you need something for your Kama River truck project? The Kama River truck project is receiving $342 million from the Eximbank, American technology, American capital mixed up with slave labor to build a truck project. What are you ready to give in return?

It is very interesting that most of the things they are getting are things that can be converted very rapidly to military hardware or are directly related to military hardware.

So, I say, let us do business wtih them in the good old Yankee horsetrading fashion. Détente was supposed to——

Senator DOLE. I go along with that.

Mr. MEANY. Détente was supposed to be a two-way street. Mr. Brezhnev and President Nixon, they were going to not only have peace between the United States and the U.S.S.R., they were going to use their influence with their friends through the rest of the world.

What happened last October, what happened after this great big wheat deal, after we gave them everything that they asked for in the Eximbank? They started a war against us, against our friends in the Middle East. Do you think they care about the Israelis or the Arabs? The purpose is the age-old Russian purpose that precedes the Communists, to get control of the Mediterranean.

So, at a time we had détente, the Russians not only supplied the Arabs, but the day the war started, to show how sincere they were, the day the war started they started their resupply. They had their planes and they were going into the——

Senator DOLE. I am not going to withdraw that question, but I want to ask another one, though.

Mr. MEANY. What is that?

Senator DOLE. I am not going to withdraw that question——

Mr. MEANY. I have not half finished answering it.

I would like to give you a little——

Senator DOLE. Mr. Chairman?

Mr. MEANY. I would like to give you a little quotation.

Senator DOLE. Could I have some of his time? [General laughter.]

Mr. MEANY. I am sorry, I am sorry. I do not want to——

The CHAIRMAN. I will let the witness finish his——

Senator DOLE. No, I just want to——

The CHAIRMAN. I think this is very interesting. The witness ought to finish his answer, and I will let you have another question.

Senator DOLE. I am not trying to rebut him; I think I agree with him, but I do not know what he finally said.

Mr. MEANY. I am saying we should do business with the Soviet Union the way President Kennedy did. He said to them, you take your stuff out of Cuba or I will blockade your ships going to Cuba. And they understood that.

I have had years of experience. They understand dealing from strength. They have got nothing but contempt for people who deal with them on the basis of weakness. Our present policy toward the Soviet Union—and I read Henry Kissinger's testimony—is a policy of appeasing. We are appeasing. We are appeasing the blackmailers, and if you know anything about human history, appeasement never paid off. If you know about history during my lifetime, it never paid off with any dictatorial group.

Senator DOLE. Well, I agree with that and I admire you, Mr. Meany, for your stand in that area over the years, even though it was not popular a couple of years ago for you to do that.

But, what is the alternative if we cannot have some realistic détente? Is it a nuclear arms race or further conflicts in the Mideast?

Mr. MEANY. Oh, no, no. You know, this theory is that here are two enemies—and I again go to Kissinger's testimony before this committee—these are two enemy countries, two enemies, no question about it. Now, they can destroy us, they can destroy 100 million people in a couple of hours. So can we.

Now, the theory is we will not do it, we are not that kind of people: We do not have a jingo party. We do not covet somebody else's territory. We do not want to control any other government, we do not subvert, we do not start wars of liberation, but they are different. They are much more evil, and they could do it. They could throw the H-bomb at us.

I think human nature is pretty much the same. I think Russians are pretty much the same as other people. I think they want to live. I think the urge to live—and I just do not think that that is the answer at all, to say that we have got to give in because they may throw the bomb and we would only throw it in retaliation.

So, let us forget that, but if we keep giving them concessions, they will not even have to think about the bomb. They will just put a little gun up there and say, well, boys, get over there. We have got you over the barrel now with conventional weapons, and, consequently, we keep on making concessions to them.

Senator DOLE. Well, the agreement must be made strong militarily.

Mr. MEANY. This is what they are using détente for. They are using détente to try to keep us from getting a strong military posture, and I say again, when you look at this Eximbank stuff, particularly everything there except the making of dishware, table and dishware, everything else could be used for military hardware.

I would like to get this to your attention. It is not very long. In 1967, at a place called Karlovy Vary addressing a group of Communist representatives, Mr. Brezhnev said this, and you think the end of the cold war was President Nixon's idea? You think it was Bill Fulbright's idea? You think it was Henry Kissinger's idea? Oh, no. Here's where the idea came from and here is when it happened.

Brezhnev explained, "Experience teaches that the 'cold war' and the confrontation of military blocs, the atmosphere of military threats seriously hampers the activity of revolutionary democratic forces."

Now, what does he mean by revolutionary democratic forces? He does not mean us. He means Castro. He means some other bums throughout the world. Here's more: "In conditions of international tensions in bourgeois countries"—that is us, we are bourgeois. "The reactionary elements become active." That is again us. That is me. I am a reactionary. "The military raise their heads, antidemocratic tendencies and anti-Communist tendencies are strengthened.

"And conversely, the last few years have shown quite clearly that in conditions of slackened international tension, the pointer of the political barometer moves left." This is Brezhnev talking here. "Certain changes in relations between Communists and social democrats in certain countries, noticeable falling off in anti-Communist hysteria, and the increase in the influence of West European Communist parties is most directly correlated with the reduction of tension."

So, why did he want the end of this so-called cold war and the facade of détente? Why? Because he felt that the cold war with its atmosphere, as he described it, of military threats, confrontation, seriously hampers the activity of the revolutionary democratic forces.

So you have got détente because Brezhnev wanted detente, not because Henry or Dicky wanted it.

The CHAIRMAN. Senator Hartke.

Senator DOLE. Thank you, Mr. Meany.

Mr. MEANY. I am sorry, Senator.

Senator DOLE. No, that is all right. I think we agree on part of that.

Mr. MEANY. Well, I think my answer was too long.

Senator HARTKE. Thank you, Mr. Chairman.

I would like to ask permission of the chairman to put into the record the New York Times article of March 13, 1974, which is headlined "Soviet Radio Beamed to Arabs Back those Favoring Oil Ban."

[The article referred to above follows:]

[From the New York Times]

SOVIET RADIO BEAMED TO ARABS BACKS THOSE FAVORING OIL BAN

WASHINGTON, Mar. 12—Administration officials said today that Soviet broadcasts to the Middle East were taking the side of the radical Arab nations opposed to lifting the oil embargo against the United States.

The officials said, however, that this did not represent any Soviet shift, rather a repetition of a well-established position.

Most of the broadcasts of an anti-American nature are carried in the Arabic-language Service of Radio Peace and Progress. For instance, on March 5, in a broadcast monitored by the United States Government, Radio Peace and Progress said:

"United States imperialism has hidden behind the mask of a friend of the Arabs in order to break up Arab unity, weaken the vigilance of the Arab peoples and carry out in the Arab countries those tasks which have faced the Israeli military clique in the recent past and which, it is well known they could not overcome."

"Today," the broadcast said, 'attempts are being made to undermine the progressive Arab regimes from within, or to at least shift these regimes' domestic and foreign policies in the direction desired by the Imperialst West."

In domestic broadcasts, the Soviet Union's regular Moscow service has tended to be more straight forward in reporting Middle East developments.

BROADCAST BACKS EMBARGO

LONDON, Mar. 12 (UPI)—The Soviet Union, in Arabic broadcasts, is urging nations to resist American pressure to lift the oil embargo.

A broadcast monitored here today spotlighted Moscow's displeasure with successes scored by Secretary of State Kissinger in the Middle East.

Recalling that the oil embargo was imposed on countries supporting Israel to secure Israeli withdrawal from occupied Arab lands, the broadcast said:

"If today some Arab leaders are ready to surrender in the face of American pressure and lift the ban on oil before those demands are fulfilled, they are taking a chance by challenging the whole Arab world and the progressive forces of the whole world, which insist on the continued use of the oil weapon.'

Senator HARTKE. The thrust of the article is that the Soviets are urging the Arabs to maintain the oil embargo against us.

Mr. MEANY. That is right.

Senator HARTKE. Why should we give long-term credits to the Soviets for technology when they are playing the embargo game with us. They should cease urging Arab countries to continue to keep the embargo going against us.

Mr. MEANY. One advantage we could get, we could get cheaper vodka.

Senator HARTKE. Cheaper vodka?

Mr. MEANY. Well, that is part of Don Kendall's deal, you know, to get cheaper vodka.

Senator HARTKE. In exchange for Pepsi-Cola?

Mr. MEANY. Pepsi-Cola, but it would not be made here. The Pepsi-Cola is made in Germany. I mean the Pepsi-Cola concentrate. So we get the vodka and he gets the most favored Nation status, and so forth, and the tariff is cut, and the vodka comes down 75 cents a bottle, so Don would sell it here, maybe 25 cents cheaper. He would keep 50 cents for himself, I am sure.

Senator HARTKE. We could have a darn good party, could we not?

Mr. MEANY. Yes.

Senator HARTKE. Do you think that the trade bill which was passed by the House and which so many of these multinational corporations are giving their slick propaganda in support of. They have been propagandizing against the Hartke-Burke bill and criticizing it for having your blessing and your support.

Do you think that the President's trade bill which is before us now, is an unconscionable delegation of power to the President at a time when Congress is trying to get part of its power back?

Mr. MEANY. Yes, I think so. Under the present circumstances, with

the President's giveaway attitude toward the Soviet Union, I do not think we would want him to have that power.

Senator HARTKE. What about the harm such a bill would do to industries like the shoe industry? The president of U.S. Shoes said he would like to make shoes here, but he could not afford to do it. He could not afford to meet the competition of those slave labor wages in Brazil and other foreign countries where the majority of our shoes are produced.

Mr. MEANY. Well, you know, if you look at the trade policies of other nations, you will find that they take a little different view.

If I were to come up with one very simple philosophy of our trade policy with other nations, it would be that every time they close the door on us, we should close the door on them. Every time they give us something in the way of an open door, let us give them an open door. In other words, give and take.

All of these multinational corporations go abroad to manufacture. As the fellow testified here a year ago, he said, I went to Taiwan, I brought American technology, I brought American machine tools, I brought American money, I brought American know-how. The only thing I did not bring American was labor, and I got 5 cents an hour labor over there. But, he said, I am selling back here in America. They do not sell any of this stuff in Taiwan. The consumer market is still here. We have the consumer market, and in the final analysis on trade, this is the strongest card that we have got in our deck, the consumer market.

And I say we should trade.

I want to remind you, Senator, we of the American trade union movement from the time of the Hull reciprocal trade pacts, were free traders. We were free traders right down the line, but we have got a different situation today. In those days we were for lower tariffs. We were dealing with backward European policies where they had the cartel system. But this is a different ballgame today entirely. This is American multinationals. This is American money. This is American technology. This is American know-how, and sitting back here is the American consumer, and I say that in trading with any of these other countries should be dictated by our own self-interests. That is the way they trade. That is the way they do business. They shut the door. You could not go to any of these countries and come in there with some kinds of a trade deal that was going to take their jobs away.

Imagine going to the socialist Scandinavian countries, and you are going to take a few hundred jobs, a few thousand jobs away. They would not let you do it.

Senator HARTKE. Mr. Meany, in short what you are saying is we are exporting jobs. Ultimately we will destroy our consumer purchasing power if this policy of job exports continues. If we destroy our consumer purchasing power, we are no longer a viable marketplace and they will not need us anymore.

Mr. MEANY. Yes, that is right.

Let me just give you a sample of what other countries do.

France has quotas on many farm products, on tobacco and tobacco products. And on alcoholic beverages, you are not allowed to advertise bourbon. Now, you know bourbon is a pretty good old beverage, and you are not allowed to advertise that.

Senator HARTKE. Let me just point out that most of the bourbon is still bottled in southern Indiana rather than Kentucky. Please do not forget this fact!

Mr. MEANY. Well, all right, but you cannot even advertise it in France. You cannot advertise it——

Senator HARTKE. You do not have to advertise bourbon. It advertises itself.

Mr. MEANY. Well, some of the French might be better off if they drank good old Kentucky or Indiana bourbon.

Senator HARTKE. Right, I agree.

Mr. MEANY. And a license is required to import some electronic components and textile goods. There are quotas abroad on motion pictures and television films from other countries. Japan has quotas on aircraft parts, on computers and parts for computers. Licenses are required for electric measuring instruments. Imports of coal are subject to quotas. There is an embargo on certain vaccines and serums in Japan. Screen time quotas are applied to motion picture imports. In other words, they only get a portion of screen time. The Japanese, through their devices, make it very difficult for American cars to get in their market.

In Canada, wheat, barley, and oats are state traded, which means that the Canadian Government effectively controls all sales through licensing.

Now, most nations of the world have state trading in their alcoholic beverages.

So, what I am saying in effect, "Sure, do business with the Soviets, do business with them. But do business on the basis of give and take. Do not let it be a one-way street."

Senator HARTKE. Be fair traders rather than free traders.

Mr. MEANY. Fair trading.

Senator HARTKE. Because we have gone a long way, and I tell you there have been tremendous changes, not only since the Hull reciprocal pact, but there have been tremendous changes in the last 10 years, and tremendous changes in the last few months.

Senator HARTKE. Right.

Mr. MEANY. And I think Congress should take a look at the whole ball of wax.

Senator HARTKE. The U.S. Congress should start representing the United States of America instead of representing all the foreign countries. This is what you really mean?

Mr. MEANY. Well, I would not say that in the company of a group of distinguished Senators.

Senator HARTKE. Mr. Meany, I am not going to take any more of your time. I do want to congratulate you on a forthright statement. I never can understand why the American working man, the American businessman, and the American Congress cannot understand that what you are suggesting is in the best interests of the Nation, not necessarily for the AFL–CIO, not for organized labor, but in the best interests of all of the people of this country. Your policy makes it possible to pay the bills, pay the taxes, educate the children, and keep this country strong.

Mr. MEANY. Senator, there is not anything I could think of that would help this country that would not help the AFL–CIO. There is

just nothing. So the idea that we have got some special interest is wrong. Take our support of minimum wages. We do not have any members below the minimum wage. Everybody is covered by workman's compensation because of labor activities, and we are only a minority. We are still a minority of the work force, and we make no apology for it, but we have a very simple theory: anything that helps our country has got to help us. There is no other way out.

Senator HARTKE. Well, let me congratulate you again, and I just wish more people would listen to you.

Thank you.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Did I hear you say, Mr. Meany, that what is good for the country is good for the AFL-CIO?

Mr. MEANY. It's got to be.

Senator PACKWOOD. And vice versa.

Mr. MEANY. I did not say vice versa. You said it.

Senator PACKWOOD. No, I was paraphrasing something.

Mr. MEANY. You are in the Charlie Wilson camp. That is what Charlie Wilson said. What was good for General Motors had to be good for the United States. I do not buy that idea at all.

Senator PACKWOOD. What he actually said is what is good for the United States is good for General Motors, and vice versa.

Mr. MEANY. No, he did not.

Senator PACKWOOD. Now, I will not quarrel with you.

Mr. MEANY. You were going to school when that happened. I was around here.

Senator PACKWOOD. Well, hopefully we will both be around for a long time.

What do you think would be a fair income for a wheat farmer who has got a couple of hundred thousand dollars tied up in machinery and land and who is working the farm with his family?

Mr. MEANY. What would be a fair income?

Senator PACKWOOD. Yes. A couple of hundred thousand dollars in investment and he is probably working 80 or 90 hours a week?

Mr. MEANY. Well, I think a fair income, what I would think would be a fair income would be much higher than he is getting.

Senator PACKWOOD. I agree with that.

Mr. MEANY. You see, I am a high income guy, you know, I have sat in on all of these Government salary study committees. I do not think you are getting enough money.

Senator PACKWOOD. Most of my constituents would quarrel with that.

Mr. MEANY. I have sat on Government commissions that had to do with the salaries of congressional leaders, Cabinet members and I am a high income guy. I do not think the farmer is getting enough. Let me put it that way.

Senator PACKWOOD. All right.

Now, let us take the wheat farmer particularly. Barring a terrible crop failure, this year we are going to harvest about 2 billion bushels of wheat, of which we will use between 700 million and 800 million bushels domestically.

What do we do with the rest of it?

Mr. MEANY. Well, I guess you talk to Continental Grain and

Cargill and the big wheat shippers and see what they want to do with it, and when the deal is all said and done, I think the farmer gets the short end of it, you know.

I do not go with these breast-beating Members of Congress who say that they are worried about the farmer when they are really worried about Continental Grain and Cargill and the great big shippers. So anything that helps the farmer—and when you talk about the farmer, you are not talking about Dwayne Andreas. You are not talking about Continental Grain. I am talking about the farmer, and I am with you on the farmer. But somewhere in between.

Senator PACKWOOD. You have no objection to the farmer getting $5 a bushel for wheat?

Mr. MEANY. No, I have no objection if that is what he needs. Let him get it.

But I certainly am going to try to find some way to get the workers, to get their wages up to the point where they can buy the bread that you produce with that $5 wheat, and I surely want him to get it and not the Russians to get it.

Senator PACKWOOD. Let me ask you about something in your statement where you are questioning the loyalty of multinational corporations. Where do you think corporate loyalty belongs for a foreign company that operates in the United States?

Mr. MEANY. A company that is based in the United States, its loyalty belongs here.

Where does the foreign company's loyalty belong that operates? Back home, that is where you will find it.

Senator PACKWOOD. When the Volvo plant opens in Virginia. That plant should be subjected to Swedish sovereignty and Swedish regulation and not, to that of the United States?

Mr. MEANY. You think it will not be? You do not know the Swedes if you do not think it will be.

Senator PACKWOOD. I do not think the U.S. Government is going to tolerate it.

Mr. MEANY. But the point is, let them pay their obligations to their own government, and as far as them operating here, we will try to do our bit for the workers and let our government—but the idea that they will not be loyal to their own government is ridiculous. Of course they will.

Senator PACKWOOD. But you are not suggesting, are you——

Mr. MEANY. But what do you do with a U.S. corporation——

Senator PACKWOOD. You are not suggesting——

Mr. MEANY [continuing]. That takes orders from the Arabs and will not supply our fleet in the Mediterranean? What do you think of that?

Senator PACKWOOD. What do you think if we have a Volvo plant down here and we get into a war and they are making tanks instead of whatever they might be making?

Who should they be subject to, Sweden or the United States as to where they ship those tanks?

Mr. MEANY. Not if we get into a war. If we get into a war we would certainly have emergency powers.

Senator PACKWOOD. How about the automobiles they make there?

Should they be able to ship them any place they want and not be subject to our rules?

Mr. MEANY. We have had an open market, and you will find out that the automobile workers, like all other trade unions in this country, have been free traders, but I think you had better talk to Leonard Woodcock now. He might have some different ideas. I defer to his thinking on that.

Senator PACKWOOD. Let me ask you something about this foreign tax credit to make sure I understand how it operates.

You have a company that makes $2 million before taxes in this country. They pay a 48-percent tax rate.

So they pay $960,000 in taxes?

Mr. MEANY. Right.

Senator PACKWOOD. Now, let us say the same company they operate here and in Germany and assume the tax is at a 48-percent rate in Germany. So I understand they pay $480,000 on a million dollars profit in Germany.

Is that correct?

Mr. MEANY. I do not know what they pay in Germany.

Senator PACKWOOD. Well, assuming it is a 48-percent tax rate, that is what they pay there. And they pay a 48-percent tax rate on the million dollars they make here.

Now, it is your position that they should not be able to credit any of what they have paid on the taxes in Germany against the total tax liability: that they should pay a total tax on the entire $2 million in this country?

Mr. MEANY. As a credit?

Senator PACKWOOD. Yes.

In other words, what you are saying is if they choose to operate in Germany, they have the same total profit as when they operate here, but if they split it between the United States and Germany they should actually have to pay more taxes, more total taxes than if they operated here alone.

Mr. MEANY. Our position is that they should operate just the same as any other domestic company.

Senator PACKWOOD. Any domestic what?

Mr. MEANY. Any domestic company so far as taxes.

Senator PACKWOOD. So they should not have to pay any more taxes than they would pay if they were a domestic company.

Mr. MEANY. No, no, no.

Senator PACKWOOD. Oh, they should pay more.

Mr. MEANY. They should pay more.

Senator PACKWOOD. Why?

Mr. MEANY. Why should they not pay taxes on the profit they make overseas?

Senator PACKWOOD. Well, they do pay taxes on the profit they make overseas.

Mr. MEANY. To us.

Senator PACKWOOD. Well, you want them to pay——

Mr. MEANY. I want them to pay it to us.

Senator PACKWOOD. And to the foreign country.

Mr. MEANY. I do not care whether they pay the foreign country or not. Let them pay it to us.

Senator PACKWOOD. In other words, they should pay the full amount to us and then pay the foreign country, if they choose to operate overseas, that is the way they should be taxed?

Mr. MEANY. Then they would most likely come home where they belong, and then we would have the jobs here.

Senator PACKWOOD. All right.

I have no other questions, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Meany, I was most interested in your forthright appraisal of détente and your view of the Russian leadership. I do not express it in as colorful language as you but I am in thorough agreement with what you said in that regard. I happen to feel that President Nixon provided a service in going to Peking and to Moscow and I like to see the dialog between the leaders of our great nations of the world. But when it comes to agreements the way I analyze these agreements that were made in 1972—and there were three of them with Russia—the United States came out second best in every one of those agreements, the wheat deal subsidized by the taxpayers to the tune of $300 million, the SALT agreements, and the Russian debt.

Mr. MEANY. Debt?

Senator BYRD. The debt that Russia owes the United States $2,600,000,000, and here is the way we settle it: $48 million unconditional, $722 million conditioned on Russia getting the most favored nation treatment and long-term credits from the American taxpayers.

Now, if that is a good deal——

Mr. MEANY. You know, Senator, I do not want to interrupt, but one of the agreements they signed when they had this scenario here at the White House, you know, when Brezhnev arrived and he got out of the helicopter, and 1 hour later they were signing and then they had one at 4 o'clock, all with the proper press coverage and so on and so forth, one of the deals they signed was on farm exports and agricultural products, and part of the deal was that we were to get from the Soviets information as to their need for these products, in other words, their production. They refused completely to give us that information. So they have already welched on that deal, and that deal is not a year old.

But, of course, this is par for the course. They welch on their deals and have over the years. They do not keep agreements, and some of these American corporations are going to wake up some one of these days and find out that they are dealing with a dictatorial monolithic government.

Senator BYRD. We are dealing with a dictatorship. The Russian people, I am convinced, are just as peace loving as are the American people, but they have no way to express themselves.

Mr. MEANY. No question about it.

Senator BYRD. The decisions are made by a few people in the Kremlin, which is an entirely different situation than in the United States. And consider the contrast in the standard of living.

I sat next to Comrade Shushkov, the trade commissioner, when he was over here recently, and I asked him how many automobiles the Russians have per capita. He told me they have 1 automobile for

every 200 citizens. Over here we have one for every two citizens. That is the standard of living we want to maintain in this country. That is what puts me in a quandary about this trade bill.

I am basically a free trader, I guess, through the years.

Mr. MEANY. We have been.

Senator BYRD. But we do not want to get ourselves in a position where we will have to lower our standard of living to meet the standard of some other countries.

And that is why I want to ask you your view as to how we can pass a trade bill, in what form we should pass a trade bill without undue trade restrictions, but at the same time, give some reasonable protection to the standard of living of the working people of our country?

Mr. MEANY. Well, we think that we have supported a bill here and Senator Hartke introduced it but we are willing to concede that since that bill was introduced, there has been a major change in the whole world situation. We certainly have the same objective as you just stated, Senator, and whether it is a quota system or some other system, I think this Congress can find—and must find—a way so that we can trade with the rest of the world on some other basis than the complete one-way system we have now. I just cannot understand American industrialists. I can understand their short-term attitude toward quick profits, but I cannot understand their long-term philosophy. If they are going to lose their consumer market here—and I repeat again, and I will repeat this just as often as I can—that the consumer market is the great mass of the American people. It is the American workers. You go through a little town in Germany outside of Bonn, you see a few television aerials. You will find out that here and there, there is a washing machine or a dishwasher or a refrigerator in these homes. But when you go out to one of our industrial cities, and in the residences there, there will not be a single home there that has not got all of these things.

So, the television sets and the refrigerators, they are purchased by the machinists, the auto workers, and the people that make them.

We have a situation where an auto worker can buy an automobile or a machinist can buy a refrigerator. So, we are the only country in the world that has this standard. We have the highest standard of living for our workers, no question. And I just cannot see giving it away. I think we should trade with all of these countries, and I have no objection to trading with the Soviet Union, but let us get something, and if we cannot get something economic, let us get something political. We can go a long way if they would just say that they would live up to their commitment to the United Nations.

They made a commitment to the United Nations in writing. In fact, they had a ceremony, and old smiling Gromyko was there when he delivered the document that any person, any citizen has a right to move without restriction from any country, including his own, to any other country on Earth.

Now, this is something that they could help us with. They can help us settle this Middle East thing. God Almighty, do not tell me that the Arabs are pushing the Russians around. You know, I do not think Saudi Arabia is calling the shots for the Kremlin. In fact, when you look at the military situation, suppose in Iran or Iraq that the Russians wanted to take that oil. Well, it might take them 24 hours to move

in, so they are the bosses there. They are the bosses in that area of the world.

This October war was started when they gave the signal, and it was so well coordinated that the minute the shooting started, they resupplied by planes. They knew their Arab friends. They knew their Arab friends well enough to know that the Israelis were going to knock out a lot of their equipment, so they had them resupplied. They were resupplying almost faster than they lost it. And what happened in those first few days? Where was détente in the first few days of that engagement over there?

Kissinger was begging for a meeting of the U.N. Security Council. They would not talk to him. They did not want to have anything to do with him because the Egyptians were doing quite well. The Israelis were getting it in the neck. But then when they turned around and they broke through and they cut across to the west bank of the Canal and split the Egyptian forces, boy, the Russians wanted a sudden meeting of the Security Council, and, boy, Henry obliged them right away, and he patted them on the back. There would have been no meeting of the Security Council if the Egyptian success had continued.

So this is détente, and détente is an absolute fraud. It is a fraud. The cold war—we talk about the cold war. The cold war was a Russian tactic. I showed you here why they dropped it. But the war is still on. But now the name of the war is détente, you see, that is the name of the war. It is détente and I do not think we can afford the luxury of self-delusion. We cannot deceive ourselves. We have got to go by the record. We have got to know who we are dealing with, and the idea that a dictatorial form of government is going to deal with us on the basis of human values and human rights, they have no concept of human rights. And Senator, here is a map.

You have heard of Solzhenitsyn's book, "The Gulag Archipelago." Well, here is a map published by the American Federation of Labor showing the central Gulag controlled system, and when do you think this map was printed? Twenty-five years ago. Twenty-five years ago, we printed this map and we documented all of the slave labor camps there, and the slave labor is still there.

So we have got our great big industrialists and our great big bankers embracing these guys, sending American capital over, mixing American capital and slave labor. Good God, have we no principle at all?

You know, in the days of Hitler, we heard a lot about Hitler's atrocities, but there was no validation of the gas chambers until the troops moved in, in the late days of the war. We heard a lot of rumors. We did not know about Dachau and a lot of these camps, but we heard a lot of rumors. But Franklin Roosevelt opted for human freedom before we got in the war. He did not appease Hitler. He came to the British rescue. He helped the British with Lend-Lease, so we opted for human freedom even before we got in the war.

I would like to see this administration take a similar principle on the question of human freedom and human decency and deal with the Soviet Union and deal with them on the basis of give and take.

Our policy should be: we've got something, what have you got? What have you got to give? We sell, what have you got to sell?

Senator BYRD. Thank you very much, I believe Mr. Meany, you agree with my favorite politician, insofar as Russia is concerned, when Al Smith said, let's look at the record.

Mr. MEANY. That is right.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Roth?

Senator ROTH. Mr. Meany, I would like to say that I appreciate the forthright statement, and frankly agree with much that you say. I sort of have the feeling that rather than adopt new trade legislation, maybe we ought to just appoint you our chief negotiator as I feel that too often we have been out-negotiated.

One question I would like to ask you is not directly on trade, but relating to the current economic situation is that one of the reasons for the inflation, at least in the minds of some experts, is shortages of many types, not only agricultural, but we have fertilizer shortages and many other types of materials.

I wonder if you would have any comment to make about what we should do to try to increase production. For example, one suggestion has been thrown out, I believe it was by the chairman of the House Ways and Means Committee, is that we ought to give special depreciation to promote capital expansion at this time. In the recent years we have not increased facilities, and that is one of the causes of shortages.

I think the suggestion was this be granted on a 5-year basis.

Do you think there is any merit in trying to adopt special procedures?

Mr. MEANY. I do not know. I would have to look at it. But I thought that part of the policies of the past few years was to encourage this. This was certainly inherent in the restoration of the investment tax credit, and then in August of 1971 the President proposed more rapid depreciation allowance and so forth.

Now, certainly anything that would increase our capacity to produce, you know what I mean, and at the same time provide more jobs, we are for it. We are for making the system work better. But I am just wondering if there is a tax incentive needed at this time.

Now, of course, there is talk about an income tax cut and we are told that it would add to inflationary pressures and so on and so forth, and I am not an expert. I am not an economist, but do we have to have 10 percent money in this country?

Senator ROTH. That is a good question, but going back, if I may——

Mr. MEANY. Must we live with 10 percent money? Do homeowners have to pay 10 percent to the big corporations when they finance? I am just wondering if there is something basically wrong with the whole idea. You want to keep this in mind, that this whole upswing of money, inflation, unemployment, all started from a pretty decent base in February 1969, and Arthur Burns got his cottonpicking hands on the economy and we have been in trouble ever since.

Now, he is still there. He is still running the Federal Reserve Board. He is still talking about restricted credit. He is still talking about tight money and so on and so forth, and the net result is some kind of an economic miracle. We have got restrictive credit, we have got tight money, we have got tight interest rates, and we have got increased unemployment and inflation at the same time.

How we accomplished that, I do not know, but I feel that anything that will help American business has got to help us. This gets right back to what I said before.

Senator ROTH. Going back a moment to Russia and trading with her, I mentioned making you the chief negotiator. Are there any materials or things that we need from Russia that would be helpful to us?

I think you did say that on the proper basis you favor trade. Do you see a mutual basis of——

Mr. MEANY. I do not know anything. I do not have all of the figures, but I do not know offhand of anything that they have that we need so bad that we have got to give them the Washington Monument.

Senator ROTH. Let me ask you this question.

We have seen the consequences of the recent oil embargo, and many of the American people feel that this country ought to be able in some way to counteract such measures. It was said that the oil countries will be investing billions of dollars here in the future.

Would you see any merit to legislation to provide that in the event of future blackmail of that kind, this Government could take action against those assets to compensate for the adverse effect on our economy?

We did that during the war.

Mr. MEANY. You mean assets that are overseas?

Senator ROTH. No; the assets of the Arab countries in this country.

Mr. MEANY. Well, I think we are justified in protecting our people and protecting our interests. I think on the whole question of energy, I think there should be a turnaround. I am quite sure that there is enough ingenuity in American management and American business to meet this problem, and I am for the Government encouraging—I think we ought to have more oil refineries here at home, but of course, we do have problems with the environmentalists and things like that, but we have got a lot of energy.

Now, I understand that there is going to be a slurry line built from Wyoming right into Arkansas, which is going to bring all of that coal down there. I think these things are all good, and I think our Government should encourage these things. We have always done that.

I mean, this Government, you go back through the history. How did we get the railroads to the west coast? Through Government encouragement. How come that when World War II came around we had an airplane industry? We could not have had that airplane industry if, during the late 1920's and through the 1930's, the Government had not encouraged and subsidized this particular industry.

And if we are going to become self-sufficient in energy, I think the Government ought to be in there and be in there in a big way, but I think we ought to get the cooperation of these multinational corporations. I just cannot accept the fact that an American corporation, no matter what the circumstances, is going to take orders from an Arab chieftain who says, don't you supply the American fleet under a contract. He had a contract to supply the American fleet, and he stopped giving the oil. This is Exxon Corp., and as an American, I just cannot buy that under any circumstances.

There may be some justification from their point of view, but I

think the whole picture should be changed so things like that cannot happen.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bentsen.

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

Mr. Meany, I just read a book by Merl Miller about Harry Truman entitled, "Plain Speaking." I believe he could write one about you and give it the same title.

Mr. MEANY. I read it, too. But I do not use the language that Harry became so familiar with. [General laughter.]

I know the words, but I do not use them.

Senator BENTSEN. Mr. Meany, we have become a service-oriented society in this country of ours. Over 50 percent of our GNP is comprised of services, and I am proud of our American farmers who are productive and efficient and help so much in our balance of trade. But I also note that since 1971 we have become a net importer of manufactured products, and I think it will be a very serious mistake for this country if we let that trend continue because our jobs and our national defense depend on our manufacturing capacity in this country. I understand that it takes about $25,000 to create just one job in manufacturing in this country.

Mr. MEANY. I think it is more than that.

It is a little more than that.

Senator BENTSEN. The tax deferral approach for multinational corporations on their overseas earnings concerns me. Does that not in effect really create an incentive for them to invest that capital overseas instead of bringing it back home where we are short of capital for the creation of jobs and the expansion of industry within this country?

Mr. MEANY. That would be my reaction that it does.

Senator BENTSEN. How do you feel about the types of contracts we have seen approved by our Government which allow the Japanese to come in here and buy our technology, as they did recently on the launching of satellites and rockets, supposedly for meteorological purposes, and spend some $100 million buying that technology and taking it to Japan?

Mr. MEANY. You are talking about the Thor Delta?

Senator BENTSEN. Yes.

Mr. MEANY. Well, we are very much upset by that and we do not like the idea at all. I get back to what I said before. Let us deal with these governments the way they deal with us. You could not do this in reverse with the Japanese or the Swedes or the Norwegians or anyone else.

Senator BENTSEN. I could not not agree with you more on the need for a quid pro quo when it comes to trade.

Mr. MEANY. So why should we give them a better deal than we could possibly get from them for ourselves?

Senator BENTSEN. Do you see any justification for a U.S. business which has a branch overseas paying full taxes on the earnings of that branch but, if they change the corporate structure a bit and call it a subsidiary corporation overseas, then being allowed to keep their earnings overseas and not pay the tax on it?

Do you see any justification for that?

Mr. MEANY. Well, I think I made that clear in my statement here this morning.

Senator BENTSEN. Well, one thing I agree with you, too, very strongly on is this question of national defense. I think we were outtraded on SALT I and I think having a second-best defense post is like having a second-best poker hand. In other words, all it does is cost you. I am in full concurrence with that.

Mr. MEANY. I thought SALT I was one of our great successes. But analyzing it, I think we got the short end of the stick on SALT I, and I am afraid that's what may happen down the line. As far as national defense is concerned, you just cannot deal from weakness, and this is one of the things that we get out of this phoney détente.

Why does Defense Secretary Schlesinger need more money if everything is so fine, if we have got peace, you know, and this idea of saying that we have accomplished something in our foreign policy, I do not think we have accomplished a great deal. Oh, yes, we got our boys home, we got our prisoners of war back, what was left of them, but we did not bring peace to Indochina. That noise you hear out there is not Hurricane Agnes. That is a war still going on there, and I do not buy the idea that our foreign policy has brought peace, and we need, if we are going to deal with these countries—and Kissinger's testimony before this committee here, and I read every word of it, he was talking about our relations with an enemy. There is no other conclusion. He was talking about an adversary relation with an enemy, an enemy that does not think as we do, that does not deal as we do, and I say that our first requirement is to be just as militarily capable as they are.

Senator BENTSEN. Well, I went along with considerable misgivings on SALT I and supported qualifying language that with SALT II we be full force with the Russians.

Mr. Chairman, thank you very much.

The CHAIRMAN. Senator Nelson.

Senator NELSON. Mr. Chairman, I had another appointment so I missed a great deal of the testimony, and I do not want to be repetitious.

On the question of competing with other countries, bargaining at arm's length, I certainly would agree with you, Mr. Meany. One, among many puzzling questions to me is, the production of automobiles in this country. General Motors Corporation is the world's largest industrial corporation.

The foreign automobile imports—most of which are small cars—are at a level of 16 percent of the total market. At least that was the figure a few months back. That number may have changed in the past few months. However 16 percent of the home market is foreign imports, if my memory is correct, as of some time last year. And almost 40 percent, of the market in California was foreign imports.

How can you account for the success of the foreign manufacturers in invading the American market?

Is it lack of productivity in the auto industry, lack of competitive capacity?

Mr. MEANY. Lack of productivity? Oh, no. I think our automobile workers are as productive, if not more productive, than the workers in any other part of it.

Senatro NELSON. I am talking about everything—all costs of production, all materials.

Mr. MEANY. I am not an expert in the auto industry, but I assume that it was the attraction of the small cars. Now, you talk about percentage; you said 16 percent. I am sure the percentage of small cars, for instance in the State of California—and this may be due to the proximity to Japan—has been well over 16 percent for a good many years.

Now, the question of competition, I did not hear any complaints over the years from the auto workers, the American auto workers, but I do hear now that they are very, very much concerned, and I think they should be concerned.

Now, General Motors is a great corporation, but I think General Motors will meet this situation. I think they are very resourceful. And offhand, I think the answer is going to be smaller cars.

Senator NELSON. I was raising these questions in terms of competitive capacity or excessive profits or a desire to put into the marketplace an automobile that will give them four times as much profit per unit as a smaller one.

Mr. MEANY. I cannot fill you in on that, Senator. I do not know.

Senator NELSON. In your statement, Mr. Meany, you make reference to excessive exports of farm goods, crucial raw materials, products in short supply. And then on page 6 you refer to the:

> Energy crisis has demonstrated that over-dependency on foreign sources of any material can be costly and perhaps fatal. It was demonstrated that the nations, when faced with the choice, were quick to act in their own self-interest.

How do you balance this whole trade thing out—the products that we do have in surplus, our proteins? We consume about 800 million bushels of wheat in this country, and we produce about 2,100,000,000 bushels, so we have a surplus in excess of our needs to export.

On the other hand, a much more serious crisis it seems to me is the coming metals crisis. So if we start to put some kind of a limitation on export of food products, are we in trouble with the countries that have the metals that we have to have?

In 1969, the United States had become more than 63 percent dependent on foreign sources for metals very important to our industry. Today U.S. dependence on foreign sources for some minerals is as high as 80 and 90 percent. Six of them are vital to the survival of the system.

What happens if we start putting restrictions on what we ship out, and they start putting quotas on what they will ship in?

Mr. MEANY. I think this should be the subject of discussion across the table; and surely, if a country that needed our grains, as you say, would put on an embargo on ours, we would retaliate. But I would like to get away from this retaliation business. And surely, if we have got all of these grains to export, then—it seems that we have done quite a job of leaving ourselves short last year, but I understand we are going to be in great shape again this year—but if we have got all of this grain export, we have got a pretty good card at the bargaining table, have we not?

You are talking about confrontation and retaliation, and this is not the approach. I think the approach is if some country has got some raw material that we need and they need some of our grains, I think this gives it a pretty good basis to start talking.

Senator NELSON. Well, I do not know the answer to the question, but from reading your testimony, it looks to me like we would be suggesting that we need to put controls on what we would allow to be imported, controls on what we would allow to be exported.

Mr. MEANY. That is possible; yes.

Senator NELSON. Then we do not have a world market situation? We do not let the world market determine what will be bought and sold, imported or exported from a country. We set up some kind of a control system.

Is that what you are suggesting?

Mr. MEANY. I do not know. You say we do not have a world market control. I do not know. Is that good or bad?

Senator NELSON. I do not know either, but I would assume that your——

Mr. MEANY. So that makes us even.

Senator NELSON. Well, I am assuming since you were suggesting that there need to be limitations on imports of some kind or another plus limits on exports, then you have to move to some control situation. I am wondering what the model design for that is, and how that would work.

Mr. MEANY. This is what we are searching to find out. As I said earlier, Senator, this whole world situation has changed so rapidly, not just in the last few years, but even in the last few months. I think we have got to take a good look at it, and I think the basis should be give and take. And as I said before—I do not know whether you were here or not—but if some nation locks the door on us, we should lock the door on them. And this is the way they do business. They do business in their self-interest.

And I think there can be world trade. I think there can be world trade with almost any nation; but at the same time, I do not think that you build up by making unilateral concessions to any nation. I think it is a little give and take.

Senator NELSON. But I do not understand how the system will work if we are going to change the whole policy and not have a world free market. Then what do we all do?

Mr. MEANY. Well, do we have a world free market? In what commodity do we have a world free market?

Practically every other country on earth has controls of some kind. I do not think you are suggesting that we should live in that sort of a world market and have no control over our own policies.

Senator NELSON. I do not know how you define the word free, but there are many foods in a world market situation, with a few limitations here and there.

Mr. MEANY. I do not know whether you were here or not, but I just went over some of these things. The French have quotas on many of their farm products—tobacco, alcoholic beverages. They even restrict advertising on good, old Kentucky bourbon, or Indiana bourbon as Vance Hartke said. And Japan has quotas; Canada—wheat, barley, and oats are controlled by the Government through what they call a State trading system.

So I am not saying that we should put controls on this, that, or the other thing; but I say we should put them where we need them and where it affects our economy, and that is what these other nations are doing. We should do the same thing.

Senator NELSON. Thank you.

The CHAIRMAN. Senator Byrd wanted to ask an additional question.

Senator BYRD. Thank you, Mr. Chairman.

I just wanted to say, Mr. Meany, that I agree with most everything you said this morning; but even if I did not agree with it, I am glad to applaud someone who will come before this committee and speak forthrightly and not in circles.

We in Congress talk too much in circles, and most of the people in the executive branch talk too much in circles, and most of the people who come before this committee talk too much in circles. And I like to get a good, firm, clearcut view such as you have expressed today; and I think that it is desirable that you do speak your frank views on détente, because I fear that they could very well lull the American people into a false sense of security.

When the leader of just as important an organization as you head speaks on the subject, I think it is quite important. I am glad that I was able to be at this meeting today.

Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Meany, it appears to me that with the support you have generated on the Republican side of the aisle, you now have the unanimous support of this committee to be our chief negotiator in trading with the Soviet Union.

Mr. MEANY. I have been overrated before.

The CHAIRMAN. Well, you have picked up a huge amount of support, and I must say that judging by the impression you have made on the other Senators on a number of your key points, it looks to me as though you have just about persuaded the committee on some of your key points.

Now, there are one or two items that I am very much concerned about. One of them is that if we do what you are recommending with regard to taxing these companies and their overseas operation—if we tax them on their overseas operations as heavily as you are suggesting—the oil companies and the manufacturing companies will tell us that that will then lead them to establish foreign operations out of Switzerland, Tangiers, or somewhere where they have a lot of American-Euro dollars overseas and to do business as foreign companies rather than as U.S. companies.

What is your reaction to that?

Mr. MEANY. Well, we have made some suggestions here, Senator. And I have never come before a legislative committee of any kind and got everything I suggested, everything that I wanted. Maybe the oil companies would give up a little bit here. It would all help, you know.

The CHAIRMAN. They would have to give up a lot, if I judge correctly the temper of this committee. My guess is that they will not do any better on the Senate floor than they will do on this committee.

Under those circumstances it seems to me that some of what you are recommending might come to pass. But, they will contend that

they will no longer be competitive overseas if we tax them as heavily as you are recommending.

Mr. MEANY. They will contend that, but Senator, I have a great confidence in the resourcefulness and ingenuity of the oil companies. They have got a pretty good track record.

The CHAIRMAN. I am talking about what they are saying will happen. If they are not saying this in a committee hearing, they are saying it behind the scenes: If you tax us as heavily as Mr. Meany is recommending, and as heavily as Mr. Hartke and Mr. Nelson are recommending, we will have no choice but to quit this business overseas, or else more likely, to establish ourselves as foreign companies operating out of some other country—Switzerland, Monaco, Tangiers—somewhere.

Mr. MEANY. They have been operating overseas with the constant danger of their overseas business being terminated. I mean, they have been operating in areas of the world where some sheik could get up not feeling too good in the morning, and they would be out at night.

So they are used to taking that kind of a risk. I would not worry about that too much.

The CHAIRMAN. Now, you have made the point in your statement that American tax policy should not encourage the location of American financed plants overseas; it loses jobs for this country.

Now, you have a good point there, and I do not think that we ought to have an American plant or an American industry close down, losing all of those jobs, just because there is a lower tax rate or a more advantageous tax situation abroad.

There is an additional problem that you have not touched on—that is the question of productivity. Isn't that an area where management and labor ought to work together?

Mr. MEANY. I think American labor and management have worked quite well on this question. I can recall when there was tremendous resistance on the part of labor to anything to cut down their share of the labor; but that has gone behind us for many years. Oh, we have a few vestiges remaining; but it has practically been eliminated.

The productivity, for instance, of the stevedoring industry has gone up tremendously in the last 10 years. They reduced the size of gangs. And why? Because the unions have accepted a complete modernization of that industry. They used to have 22 men on a gang at a hatch loading from the dock down into the hatch of a ship, and at least 6 of them were completely unproductive—not because of a desire not to work or anything else, but you needed 6 men as watchmen to insure the safety of the others.

Now, that is all gone. I mean, we have got containerization; we have got the stuff picked up, and it is all automatic. And the productivity per man has increased tremendously.

Now, you take the construction industry, which is an object of criticism from time to time. The National Association of Homebuilders, their records show—and this is not one of our research institutions; in fact, it is not an institution that has anything to do with unions. But their records show that in 20 years the cost—the percentage of cost to the purchaser of an American home, for onsite labor went from 33 percent down to 18 percent.

Now, that did not mean that the wages went down, nor did it mean that the overall cost went down. The cost of hiring, the money, did not go down. The cost of the land did not go down. The wages did not go down. But the percentage of cost for onsite labor went from 33 to 18 percent. That is the record of the National Association of Homebuilders.

Now, this shows increased productivity. We do not stand in the way of increased productivity. Now, when you try to compare productivity of the American industry with other countries throughout the world, you have some real problems. One that comes to mind is Japan.

In order to become more knowledgeable in this field, we set up an institute in Japan about 10 years ago. And I say "we"—the labor movement set it up with the Japanese labor movement, and we set up an institute. We sent our research people over there, and we were trying to make comparative costs between the cost of production in Japan productivity, and we gave up after 3 years. We just gave up. We could not make the comparison because of an entirely different approach.

They have an entirely different employment policy. You know that in Japan if a man works for 5 years for a corporation and he reaches the age of 29, he belongs in that corporation for the rest of his life. He can never be laid off—not by any union rules or anything like that.

You know that they still have industrial homework in Japan. And when I say industrial homework, I do not mean homework like we had years ago, which was mainly in the garment industry, which was a national disgrace and which we have eliminated from our scene pretty much. But they have industrial homework where they actually take parts home from a factory and work on them at night. Now, how do you make a comparison between their costs and our costs?

But insofar as the overall picture of productivity, I lived in the days when American labor in a good many cases resented the introduction of a new material and new method. That is all behind us now, and I think our labor is the most productive labor in the world.

The CHAIRMAN. I have one more thing I want to ask you, and that will complete my questions.

When we were looking at the Penn Central reorganization legislation, we included some provisions that labor was very much interested in. It seemed to me that if this Government was going to put its credit to work to bail out those railroads that we had a right to ask that they have a major employee stock ownership plan. If the railroads could be put on a paying basis and made to succeed, the workers would be the key to making that success and should be entitled to a major portion of the stock of those railroads. And we could have gotten it, I think, or at least could have gotten a lot more for workers if we had had the support of organized labor at that point.

I am not aware that the union movement has done anything in particular in these cases—especially if we have to go to bail a company out—to obtain for its members a piece of the action.

Mr. MEANY. We would leave that to the employees concerned. We have never taken a position that we want to own the companies where we work. We have never taken the position that we want special stock

option plans for employees. We have never taken the position that we want a portion of our income, for our work, in stock. However, we do not bar any of our groups from going into this sort of a plan. In fact, the Kaiser Co. out in California, they have some sort of a plan which gives the employees a personal interest in the success of that corporation.

Now, we do not object to that at all, but our basic approach and I think you and I talked about this the other day—our basic approach is that we like to run our unions, and we like management to manage. We do not want to interfere with the management.

Now on the other hand, if some company comes along, whether it is Penn Central or some other corporation that is in trouble, comes along with a stock plan, that is up to the workers in that particular industry. And we do not really have a national policy on this. This is up to each industry.

The CHAIRMAN. Well, I do not think that employee stock ownership should be a method by which management achieves any undue influence over labor. You would not want it to be that way, and I do not think it should be.

Mr. MEANY. I do not think it should be, but what I am saying is, if there is to be employee stock ownership as part of a collective bargaining agreement, that is up to the particular workers, and the AFL-CIO is not going to make policy on that.

The CHAIRMAN. Well, I am concerned that only 2 percent of the American people own 90 percent of all of the corporate stock. The last figures I saw, 90 percent of the people did not own any of it; and it would seem to me that the working people of this country would own just a lot more of the stock of these companies and the corporate growth of America—I am talking about the stock now—if——

Mr. MEANY. I agree with you. I would like to see them own more.

The CHAIRMAN. I think they ought to own a lot more of it.

Mr. MEANY. We do not have a policy to promote it.

The CHAIRMAN. Why do you not, one of these days, develop a policy, because I think you would just get a lot more if you asked for it. And that has a lot of appeal to me.

Mr. MEANY. Now, if you happen to be unemployed, come over and see me. We might have a spot for you over there.

The CHAIRMAN. Well, I do not like to admit it, but that is always a possibility, Mr. Meany.

Thank you very much for your testimony here today. You made a very fine statement.

Mr. MEANY. Thank you very much.

The CHAIRMAN. This committee will stand in recess until 2 p.m. this afternoon.

[Appendixes to Mr. Meany's prepared statement follow. Hearing continues on p. 1223.]

APPENDIX

I —AFL-CIO Executive Council resolutions on International Trade and Investment, and The 1972 U.S. Soviet Trade Agreement.

II —Labor's Historic Role in Trade, and the American Workers' Mission Impossible; excerpts from the testimony of I. W. Abel, Chairman of the AFL-CIO Economic Policy Committee before the House Ways and Means Committee, May 17, 1973.

III —Excerpts from the Summary and Analysis of HR 10710—The Trade Reform Act of 1973 by the Senate Staff of the Committee on Finance.
IV —Some recent trade trends.
V —AFL–CIO analysis of the Administration's Trade Reform Act of 1973.
VI —The Administration's "adjustment assistance" proposals.
VII —Retaliation and the right of America to self interest.
VIII—Answering the argument that U.S. consumer would be hurt if imports and exports were regulated.
IX —Answering the argument that multinational firms' operations abroad spur job growth here.
X —Answering the argument that if the U.S. acts in its own behalf imports and exports will be reduced and trade diminished.
XI —Answering the claim that providing the President with options will answer the U.S. trade problem.
XII —U.S. productivity remains high, labor costs low.
XIII—Analysis of Item 806.30 and 807 of the U.S. Tariff Code.
XIV —Transfer of technology.
XV —Statistics
U.S. Merchandise Trade.
U.S. Trade in Manufactured Goods.
Annual Percent Change in U.S. Exports and Imports, 1960–1972.
Percentage Change in U.S. Exports and Imports 1972–1973.
Comparison of Imports and Exports for first 10 Months of 1972 with 1973, Commodity groups.
Private Capital Outflows from U.S.
Change in Industrial Production by Selected Industries September 1969–September 1973.
Change in Non-Farm Employment, 1969–1973.
U.S. Employment in Manufacturing, September 1969–September 1973.
Employment Change by Industry from June 1969 to June 1973.

APPENDIX I

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON INTERNATIONAL TRADE AND INVESTMENT

The international economic structure has been seriously shaken. Normal trade patterns are being shattered. National currencies are in disarray. Nations with once-comfortable trade balances are desperately seeking larger export markets to earn the price of oil for industrial survival.

Much of the blame can be laid to the staggering price increases levied by the oil-producing nations, which have further fueled a global inflation carrying with it the possibility of worldwide recession and unemployment of crushing proportions.

These events have made the Administration's so-called Trade Reform Act of 1973 totally obsolete. Its provisions bear no relation to the events of the day. Indeed, the bill passed by the House late last year and now pending before the Senate Finance Committee is worse than no bill at all. A total reexamination of U.S. trade and investment needs is in order, utilizing the realities of the Seventies—particularly 1974—and abandoning the dead and unworkable dogmas of the past.

The energy crisis comes on the American economy at a time when it already is in deep distress, much of it traceable to the nation's misguided and misapplied foreign trade and investment policies. The American worker, consumer and businessman are all suffering from a deepening erosion of the U.S. industrial base. A tide of imports has wiped out more than a million jobs as products and whole industries have been engulfed. The export of technology and capital at reckless rates have funneled American production and productivity abroad, costing the U.S. economy not only badly-needed new jobs and job opportunities but the benefits of more efficient production means. Multinational corporations, manipulating U.S. tax laws, have transferred jobs and production overseas at the expense of the American economy, costing the nation badly-needed tax revenues.

The Administration's trade bill fails to address itself to these problems. In addition to granting the President unprecedented and sweeping new powers which he could use to permanently alter the structure of foreign trade and the structure of the U.S. economy, the bill contains these serious deficiencies:

It provides no specific machinery to regulate the suffocating flow of imports or to curb the export of materials in short supply at home.

It does not deal with the export of U.S. technology and capital to other parts of the world where corporations—mainly American-based multinationals—can maximize profits and minimize costs at the expense of U.S. jobs and production.

It does nothing to close the lucrative tax loopholes for multinationals which make it more profitable for them to locate and produce abroad.

It does nothing to repeal Items 806.30 and 807 of the Tariff Code, which encourage U.S. firms to locate abroad and take advantage of low-wage foreign production and a special low tariff rate on goods exported to the U.S.

It fails to assure action against unfair trade practices of other nations.

It does not assure adequate U.S. responses against new and old barriers to U.S. products raised by other nations, particularly at a time when nations of the world are re-examining these barriers with an eye to greater self protection.

It encourages the entry of goods from low-wage nations of the world at special or zero tariffs.

It ensures the further heavy erosion or stunted growth of badly-hit U.S. industries such as steel, apparel, chemical and allied products, rubber, shoes, stone, clay and glass, autos, aircraft and electronics.

It ignores the fact that America's industrial base and productive strength have been weakened by current foreign trade and investment policies, and makes no provision for restoring the nation's critically needed industrial health.

For these reasons Congress should reject the bill now before it and write a new trade bill which will contain legislative provisions that are comprehensive, flexible and realistic.

The new legislation should:

1. Regulate U.S. imports and exports as a means of establishing an orderly flow of international trade. Specific flexible legislative machinery is needed to control imports. This flexible mechanism should also be applied as a restraint on the excessive exports of farm goods, crucial raw materials and other products in short supply domestically. Exports, imports and U.S. production should be linked in relation to needs for supplies, production and job opportunities in the U.S.

Shortages of raw materials in the U.S. and new demands by countries which have those raw materials have led to new problems. Many raw material producers are requiring companies to use those raw materials within their borders. This interchange has led to a new threat to the American industrial system. As long as the U.S. has a policy of freedom of investment abroad and other countries have policies to seek their own rapid industrialization, the shortages of raw materials here will be used as an excuse to help industry to move abroad and further undermine production facilities within the U.S.

Interwoven into this problem is the recent change in the value of each nation's money. The value of the yen, the franc and other currencies have become lower. Many countries are competing to export as much as possible to improve their balance of trade and balance of payments. Imports from any part of the globe into the U.S. can shoot up very rapidly and the U.S. has no system to prepare for the rapid influx of any product from any part of the world.

2. Modernize trade provisions and other U.S. laws to regulate the operations of multinational corporations. Regulation of multinational firms, including banks, is necessary because these concerns are the major exporters and importers of U.S. farm products, crude materials and manufactured products. They use U.S. tax, trade and other laws in combination for their worldwide advantage. They export production facilities, money and jobs and juggle prices and credit to maximize their own worldwide company advantage. They license the newest technology for use abroad and combine in joint ventures with foreign companies and governments regardless of the impact on the U.S. need for jobs, production, or supplies.

3. Eliminate U.S. tax subsidies and other advantages for corporations investing abroad. Specifically, the tax laws should eliminate tax deferral of income earned abroad and foreign tax credits. These provisions allow U.S. corporations to pay no income on the profits of their foreign subsidiaries until these profits are brought home—if ever—and the foreign tax credit permits corporations to credit taxes paid foreign governments, dollar for dollar, against their U.S. tax liability. These provisions contribute to the export of jobs, the erosion of the

U.S. industrial base, the denial of needed raw materials and components for U.S. production and job needs, and encourage foreign governments to change their rules to the disadvantage of the U.S. The present provision in the tax laws allowing the establishment of Domestic International Sales and Corporations (DISCs) should also be repealed. This provision now gives the largest multinational firms and banks windfall tax breaks on their exports.

The annual cost to the U.S. Treasury of these tax loopholes amounts to at least $3 billion in needed revenue.

4. Repeal flagrant incentives and subsidies to encourage U.S. firms to move or expand abroad. These are Items 806.30 and 807 of the Tariff Code, which encourage the foreign production and foreign assembly of goods for sale in the U.S. These provisions are used to shift production to cheap labor markets for the profits of the multinational corporations. Imports under these provisions have risen from $1 billion in 1967 to $3.4 billion in 1972; in the first ten months of 1973, imports under these provisions were 55 percent higher than in the like period of 1972.

5. Re-examine and limit the operations of the Export-Import Bank which provides loans at interest rates much lower than those paid by American businesses, consumers and home buyers. These loans help U.S.-based multinationals expand foreign branches and assist foreign governments, including the Soviet Union and other Communist countries, in getting America's newest production facilities. Particular emphasis should be given to the impact on U.S. jobs, and potential cost to the U.S. taxpayer.

6. Clear provisions should be written into new legislation to regulate exports of capital and new technology. Other nations are demanding only the newest kind of U.S. technological facilities and U.S. firms are licensing or producing America's newest inventions abroad with the help of U.S. and foreign governments.

7. Multilateral trade agreements with other nations, such as the textile multifiber agreements, should be administered in keeping with the flexible machinery devised to regulate imports and exports. This flexible machinery would be a safeguard against a misunderstanding of America's intent and assure continued U.S. sovereignty over its trade and other domestic laws.

8. Since almost any federal, state or local law can be considered a non-tariff barrier to trade, any legislative provision to authorize negotiation on non-tariff barriers should be limited and should require specific Congressional approval for the removal of any barrier, with full information about the products affected. U.S. tax laws, consumer protection laws and other social legislation, including occupational health and safety standards, should be barred from such negotiations.

9. New provisions are needed to speed and assure action against foreign dumping of products on the U.S. markets—the sale of these goods at a price artificially lower than in home countries—or other subsidized imports into the U.S. These provisions should emphasize U.S. producer and worker needs and rights to participate in proceedings.

10. Clear labelling on imports of products and components to mark the country of origin of the product and the components within it is needed. Advertisers also should be required to designate the country of origin of products they handle. All consumer protection legislation should be strictly enforced on imports.

11. Trade with Communist countries should not be viewed as ordinary commercial exchange. The U.S. should end the extension of low-interest loans and insurance of private loans by U.S. government agencies to Communist countries. Senate legislation must contain the restrictions on Soviet trade written into the House bill over the opposition of the Adminisration.

12. The need for improved U.S. statistics on imports, exports and production has become urgent. Neither the U.S. government nor interested U.S. producers and workers can obtain adequate statistics in sufficient detail on the impact of imports or exports of industrial commodities. A comprehensive system of reporting on investment abroad, licensing of production and other technology flows is needed. Firms which operate within the U.S. should be required to segment their U.S. and foreign production in reporting to government agencies.

The energy crisis has demonstrated that over-dependency on foreign sources of any material can be costly and perhaps fatal. It also has demonstrated that nations, when faced with a choice, are quick to act in their own self-interest. And it has graphically demonstrated that multinational corporations hold corporate allegiance above national allegiance. New trade legislation must recognize these factors.

By every test, the House-passed trade bill fails to relate to the realities of the Seventies. The Senate now has an opportunity and an obligation to fully re-examine U.S. trade and investment policies and write legislation that meets America's needs.

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON THE 1972 U.S.-SOVIET TRADE AGREEMENT

At a time when Congress is considering trade legislation, the Nixon Administration, it has now been revealed, illegally implemented the October 1972 U.S.-Soviet trade agreement. The Administration is extending long-term, low-interest loans to the Soviet Union under conditions not "less favorable than those usually extended to other purchasers in similar transactions."

Under U.S. law, the Case Act requires the Secretary of State to transmit to the Congress the text of any international agreement within 60 days after it is made effective. Senator Clifford B. Case of New Jersey has charged that the Administration has failed to comply with this law in granting Export-Import Bank credits to the U.S.S.R. Senator Case also wants disclosure as to whether the Soviet Union submitted the "necessary financial data" and justification for the Export-Import Bank making the loans. Senator Case has called for a full investigation before the Senate Foreign Relations Committee.

In December 1973, the House of Representatives voted against the unrestricted extension of credits to the Soviet Union. In the Senate, the same legislation is pending with 78 co-sponsors. Nevertheless, against this background, the Export-Import Bank has extended $160 million in credits to the Soviet Union at a 6% interest rate and has made preliminary commitments for over $100 million more.

The Export-Import Bank, a U.S. government agency, has made direct low-interest, long-term loans to the Soviet Union for such projects as the huge Kama River truck plant, the construction of an iron ore pellet plant, two tableware plants and assembly facilities for the manufacture of pistons.

American workers, taxpayers and consumers are paying to export these productive facilities to the Soviet Union at bargain-basement interest rates and fire-sale prices. U.S. businessmen, consumers and homebuyers are paying much higher interest rates than those extended to the U.S.S.R. And, while America needs jobs and production, the U.S. government is helping to export equipment and know-how to build the competitive strength and military power of the Soviet Union.

Government agencies and private businesses have been spending an estimated $23 billion yearly to develop America's technology. Some U.S. government and business spokesmen have recently warned of the dangers and costs of these technology transfers to Communist countries. According to *Business Week* of January 12, 1974, Defense Department officials say the Communist countries are acquiring "U.S. technological know-how that has important military applications under what are supposed to be commercial agreements. The areas involved in the recent sales range from computers and communications to shipbuilding and aircraft."

Electronic News of February 4, 1974, reported that the President's trade negotiator, Ambassador William Eberle, and U.S. company officials were concerned that U.S. electronics firms might be "selling high technology rights at 'bargain basement prices'." They warned, "foreign customers, especially astute Communist bloc nations, are learning how to play one U.S. firm against another to auction off potential offers for American technology."

The AFL–CIO has repeatedly called attention to the fact that trade with the Soviet Union is not merely a commercial transaction. The implications of Senator Case's charges and the far-flung consequences of the 1972 U.S.-Soviet trade pact deserve close attention.

We urge the Congress to fully investigate the terms and implications of the 1972 U.S.-Soviet trade pact and its implementation.

APPENDIX II

EXCERPTS OF TESTIMONY OF I. W. ABEL, CHAIRMAN OF AFL–CIO ECONOMIC POLICY COMMITTEE BEFORE THE HOUSE WAYS AND MEANS COMMITTEE

LABOR'S HISTORIC ROLE IN TRADE

We of the AFL–CIO are no strangers to the world of foreign trade and investment. The workers we represent have long made the products which this nation exports. Our members have had first-hand experience—disastrous experience in too many cases—with the effects of a policy which has left the door to the rich American market wide open to a flood of imports. This has turned America's reciprocal trade policy into a one-way street.

Starting in 1934 the trade union movement—the AFL and the CIO before merger and the AFL–CIO since—provided consistent and firm support to the United States' reciprocal trade policies and the expansion of world trade. We believed that this was the appropriate vehicle to achieve the goal of increasing employment and improving living standards both at home and abroad.

In the Thirties and Forties, when the world was recovering from first a global depression and then a global war, expansion of trade brought expansion of employment and benefits to the majority of the people not only of the U.S. but the world.

Starting in the Fifties, and accelerating during the Sixties and Seventies, new changes appeared on the world economic scene which significantly changed the world economy. These included:

The spread of managed national economies abroad which raised more and more direct and indirect barriers to imports, particularly from the U.S., while embracing a government policy of capturing a larger share of the world export market, particularly the vast American market;

The internationalization of technology:

The skyrocketing rise of investments by U.S. companies in overseas subsidiaries as a substitute for American production, and the unchecked spread of U.S.-based multinational corporations under government policies which made the export of goods from plants abroad more profitable than domestic production;

The U.S. share of the world's trade declined; exports rose less rapidly and a tide of imports washed away first American jobs, parts of product lines, then full product lines, and finally entire industries. Persistent and growing deficits in U.S. balance of international payments in the Sixties have been followed by deficits in the balance of trade in the Seventies for the first time in this century. These events have been at the heart of the two devaluations of the dollars within a 14-month period—and world confidence in the dollar continues to dwindle.

It should be alarming to every American—and particularly to those who are experts in trade—that this industrial giant is, for the first time in modern history, a net importer of manufactured goods. America's once clear world lead in technology and productivity is dwindling. When you go looking for reasons, it is incredible to discover that America is losing its lead because U.S. businessmen are sending abroad or are selling off abroad the capital and technology which is the nation's industrial base, and transferring this nation's high productivity to low-wage foreign countries where the profit bucks are bigger. America is the only nation in the world that is running a fire sale of its industrial capacity—and the beneficiaries are the corporations, not the citizens and the government.

The AFL–CIO has sought to point out for some time what has been happening, but we have found few listeners. Since 1963, we have been calling attention to the need for action to stem the outflow of U.S. capital because of its devastating impact on the domestic economy. Since 1967 we have sought to turn the attention of the Congress and the Administration to the danger of maintaining special low tariff provisions which provide the excuse for American business to export plants and jobs. We have sought specific tax revisions to halt the avoidance or evasion of U.S. taxes on profits from foreign investment and production. We have sought government actions to meet the rising threat of imports and the growing dominance by multinational corporations of the world economy.

We not only had few listeners, but those who did listen told us we were wrong, that the problems we were talking about didn't exist, and if they did exist they weren't doing any real damage.

Let me cite an example that shows we were not wrong. For some years now we have been saying American imports under Item 807 of the Tariff Code were

directly causing a substantial loss of American jobs. Item 807 is the provision under which American firms export components for assembly outside the U.S. and then pay duty on the value added to the finished product when it is returned to the U.S. for sale in U.S. stores. In 1967, using this device, $146.6 million of goods were exported across U.S. borders. Subsequently, this $146.6 million was shipped back to the U.S. as part of finished products with a value of $931.6 million. By 1972, use of this device had grown so that the U.S. shipped out $681.6 million of components and they came back in products worth $3.1 billion. America had a reported increase in exports, all right, but a $2 billion increase in imports.

Even the U.S. Tariff Commission, which seems reluctant to concede that the American worker suffers any damage from imports, reported that the use of Item 807 by U.S. firms had, by 1970, cost over 100,000 U.S. jobs. This is only one example. The losses in all segments of U.S. manufacturing—and parts of the service economy—have cost America many times more jobs.

We don't take any gratification in the fact that there is now wide recognition that the worsening trade situation we sought to alert the nation to does indeed exist.

We are concerned by the failure of the Administration to come to the realization that the entire new set of facts and forces facing the nation demands a complete change in thinking. The recycled phrases, concepts and cliches of the Thirties and Forties are still muddying the discussion.

It is time to get the terms "free trade" and "protectionism" out of the debate. They no longer apply. For the U.S. government to talk and act as though the nation lives in a world of free trade is to ignore the painful lessons of this world of the Seventies. It just isn't so.

The U.S. has marched along the free trade route before, only to find out that other nations are using a different road map. They are concerned—and rightly so—with looking after their own interests. If U.S. interest and their conflict, there is no question and no hesitation for them about which comes first.

And it is time that the U.S. learned something from those nations which have managed to come to grips with their own trade problems and have put the primary interests of their own citizens first.

THE AMERICAN WORKER'S MISSION IMPOSSIBLE

Instead of getting the help needed to meet our problems, concerned Americans are getting harassment.

America can cure its problems, the nation is told, if the American workers will just try harder and be satisfied with less pay and if the American businessman will sell harder.

But, at the same time, the game is being rigged in favor of the overseas producer and the multinational corporations.

Americans are told to seek jobs and help themselves. But their jobs are being exported out from under them. A suffocating tide of imports is driving them out of work. The loss of export markets is resulting in a further loss of employment. American plants, technology and patents are being shipped overseas.

And the government does virtually nothing to help the Americans affected.

Americans are asked to improve productivity at home to keep labor costs down and improve exports from the U.S. The U.S. worker is the most productive in the world. Government figures show productivity shot up at an annual rate of 3.2 percent in the period from 1947 to 1971, against a 2.2 percent yearly gain in the previous 28 years. A 1973 Tariff Commission report to Congress on the direct investments of some U.S.-based multinationals in seven nations in relation to overall U.S. productivity declares that "all firm data for the U.S. showed unit labor costs to be generally lower" than in five of the nations studied—the United Kingdom, Belgium-Luxembourg, France, West Germany and Canada.

But what affects the relationship of productivity, wage rates and unit labor costs, is the accelerating transfer abroad of U.S. technology. The effect of these transfers, through direct sale, through licensing, through the shipment of entire plants abroad, through patent agreements, and through the operation of U.S. subsidiaries overseas, is to transplant sophisticated American productivity capability into other nations. The result: Foreign nations are able to use American productivity not only to increase their own efficiency, but to compete more effectively with U.S.-produced goods. Thus the U.S. industrial base is not only eroded

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by these transfers, but America's own technology and productivity are used against it. Under these conditions, it's no wonder that the U.S. productivity lead is being undermined.

Americans also are asked to reduce trade barriers for expanded trade. But other nations increasingly raise barriers to our goods, and U.S.-based multinationals, through their foreign affiliates, use these trade barriers to compete with domestic U.S. companies.

Americans are asked to understand that other nations have the right to curb U.S. investment in their country, to regulate the output of that investment and to require U.S. firms which have located there to export from the host country. But, if we or other Americans suggest that the U.S. should put a damper on imports and provide some regulation for the outflow of capital, we are told this would provoke retaliation and start a trade war. There's no logic in saying that what is good for nearly every other nation in the world is bad for the U.S.

Americans pay taxes to help develop new technology to support America's economic strength. But American business is shipping this technology abroad in wholesale lots to foreign subsidiaries and foreign companies. Not long ago, the AFL-CIO disclosed that the Thor-Delta launch rocket and its entire missile launch system is now in the process of being sold to the Japanese by McDonnell-Douglas Corp., a multinational corporation.

The Thor-Delta system is considered by space experts to be this nation's most effective and reliable launch unit. The basic system was developed at taxpayer expense and cost millions of dollars in research and development funds; it has been a positive factor in the nation's balance of payments through contracts with other nations to provide them with satellite launch services. Now it is being sold to the Japanese at a fraction of its cost for the exclusive profit of McDonnell-Douglas.

This is costing the U.S. the loss of a basic resource, while the Japanese are getting a sophisticated piece of technology—which it did not develop on its own—to add to its productive base. The sale of this technology means that the highly-skilled American workers who built and operated this system are out of work, with no assurance that further technology in this area will be developed.

In addition to Thor-Delta, much of the nation's military fighter aircraft, including the F-4 Phantom and much of the commercial aircraft program are being shipped abroad.

Since this is what's happening in our higher technology industries, what's going to be left to provide the jobs the nation has been assured would be available for those workers who have lost their jobs as a result of the export of lower technology industries?

Americans are paying more taxes to give tax breaks to U.S. firms to encourage them to stay at home and export. But the multinationals can and do take advantage of the tax breaks at home and still go abroad—and get further tax breaks for going abroad.

Americans are being told that the foreign operations of U.S.-based multinationals are creating jobs at home. Citing various studies, the government and the multinationals claim that the growth of employment among multinational concerns rose more over recent years than did employment in the U.S. as a whole. We're supposed to be persuaded by this that it is the multinationals' foreign operations which are responsible.

This is statistical quackery.

U.S. multinationals are among the largest of America's corporations. They are the largest employers, the largest defense contractors, largest government contractors, target manufacturers, largest financial institutions, as well as the major exporters and importers of products, technology, money and jobs. It is what happens in the American economy that affects their employment levels, not what happens as a result of their foreign operations. Just to show how vulnerable their statistics are, subtract their employment additions as a result of mergers and acquisitions and their gains will be about the same or lower than U.S. employment gain for all corporations.

There is a massive campaign to brainwash the public on this issue. Special business interests, such as the National Association of Manufacturers and the Chamber of Commerce and the American Importers Association are now posing as champions of the consumer, claiming that imports keep prices down. Restrict imports, and the consumer will have to pay more, they say. However, since 1062

foreign imports have tripled. Since 1968, imports just of manufactured goods have gone up from $21 billion to $38 billion. But prices have gone through the roof.

The NAM and the Chamber of Commerce also claim that if the U.S. raises barriers to foreign goods, other nations will retaliate. Already, other nations have made a pretty regular business of putting up barriers to imports to safeguard their own industries and interests; they've been "retaliating" for years.

These are the same organizations, along with the government "free trade" experts, who have been telling the country that even though the nation's trade position has been getting worse, it hasn't had a significant impact on jobs. When the AFL-CIO seeks data to substantiate this claim we are told that no precise information on the direct job loss from imports is available and that estimates of the job impact of exports are clouded.

Today, imports affect almost every manufacturing industry. These imports more and more are largely in goods which could be—and once were—produced in the U.S. The job losses are no longer the result of slight displacement, but of deep penetration of our markets, with the wholesale elimination of entire industries with no comparable job replacement.

The rapid expansion of manufactured imports in the Sixties and continuing into the Seventies was particularly great in several areas in which the U.S. had previously been the world leader: steel, autos, machinery, electrical products, including TV, radios and telecommunications equipment. Imports of these products joined with the continued rise of imports in other areas which had previously suffered import problems, such as shoes, textiles, clothing, glass and leather goods.

Nine out of ten radios sold in America are now made abroad; one out of four cars; seven out of 10 sweaters; 19 out of 20 motorcycles, one out of two nails and staples, nine out of 10 baseball mitts. The roll call of decimated industries of high and low technology from imports is almost endless.

It is time the nation paid closer attention to what it is doing to itself. It is time to look at where present policies are taking the country. America's problems in the world economy are likely to get more difficult in the coming decade, particularly if the forecast of serious shortages of energy and raw materials come to pass.

If you want a sobering picture of what could be America's future, go into a community where the main or a major job-supplying industry has been shipped abroad, or overrun by imports. The jobs are gone; the payroll is gone; the tax base is eroded. What are these communities left with? A loss of local purchasing power, the loss of taxes to pay for the services that community once had and still needs. Other taxpayers must pick up the slack. Either that, or the community must cut the services, and its standard of living goes down.

How many more goods can this community buy from other communities when its taxpayers must support the burden of higher service costs, the burden of unemployed workers who once had a living wage but who must now live on unemployment insurance or welfare because there aren't any more jobs?

All of the above are added costs to America and must be shared by all. These are very real growing consumer costs of our present foreign trade policies. You won't find much consumer purchasing power in these communities once the industrial base is gone, but every American must pay the costs of the destruction left by the overrun industry or the moved-abroad firm.

The argument is made that America is losing only its unsophisticated industries, such as shoes, textile and apparel. But those are badly needed industries and mean jobs for millions of Americans. Further, the loss is in every industry, even the most sophisticated, such as aerospace and computers, where we are supposed to be dominant. It is most frightening when the Secretary of the Treasury, Secretary of State and the Administration's Executive Director of International Economic Policy agree before this Committee that our chief export five years from now will be agricultural products. Are we regressing to the status of a developing nation?

APPENDIX III

EXCERPTS FROM SUMMARY AND ANALYSIS OF H.R. 10710—THE TRADE REFORM ACT OF 1973

(Prepared by Senate Finance Committee Staff for the use of the Committee on Finance—February 26, 1974.)

INTRODUCTION

The Trade Reform Act of 1973, passed by the House of Representatives by a vote of 272 to 140 on December 11, 1973, would delegate to the President greater tariff and trade authorities than the Congress has ever delegated before to any President. Under Article I, Section 8 of the Constitution, the Congress has the plenary constitutional authority to "lay and collect taxes, duties, imposts," etc., and to "regulate trade with foreign nations." Since 1934 Congress has periodically delegated specific and limited trade agreement authority to the President for the purpose of negotiating reciprocal tariff and trade concessions with foreign nations. The last major delegation of authority to the President to negotiate trade agreements was contained in the Trade Expansion Act of 1962.

Six long rounds of multinational negotiations have taken place in the post World War II era. Without question, these negotiations have whittled down tariff barriers to the point where, in most commodities and for most countries, tariffs are not considered to be the most significant form of protection. A comparison of tariff levels among major industrial countries is provided in Appendix A.

Since the end of the Kennedy Round the term "nontariff barrier" has been very much in vogue. A "nontariff barrier" or "distortion," as the more sophisticated experts term it, literally refers to any trade barrier or trade distorting device other than a tariff. Thus a quota would be a nontariff barrier (NTB). But the term is so broad, it can be construed to include automobile emission standards, health and safety codes, licensing and distribution systems, investment restrictions, competitive bidding procedures and restrictions, discriminatory taxes and a whole host of government or private actions which affect trade and investment. Each nation literally has thousands of practices which other nations consider "nontariff barriers." A summary of major tariff and nontariff barriers appears in Appendix B.

The Subcommittee on International Trade, following the lead of the full Committee in the stillborn Trade Act of 1970, requested the Tariff Commission to do a complete study on nontariff barriers by sector. That study is now available. It appears to be the most thorough study of its kind ever undertaken in this country.

The next round of multinational GATT negotiations are intended to attack nontariff trade barriers. Unquestionably, this is an ambitious undertaking as the negotiations are bound to get into the domestic laws and regulations of major nations which bear little or no relation to international trade. Any law or regulation which may affect trade (even though they might deal with an environmental or health matter) could be an object for negotiation. Thus the House bill grants authority to the President to modify U.S. laws and regulations as part of any trade agreement, subject to a congressional veto procedure.

As of this date, there seems to be little consensus among the major trading nations as to what the major nontariff barriers are or how they should be negotiated. The GATT secretariat has completed an inventory of nontariff barriers based on each member country's submission of complaints against other members. There was an attempt to categorize the complaints into five broad areas—(1) government participation in trade; (2) customs and administrative entry precedents; (3) standards; (4) specific limitations on trade; and (5) charges on imports. Each category is so broad it covers a multitude of practices deemed to be non-tariff barriers. Negotiating in sensitive areas will be slow and difficult.

The European Community still seems preoccupied with internal problems and

has not shown much enthusiasm for the GATT talks. The French have suggested that the trade negotiations should await a satisfactory renegotiation of the IMF rules, a twist on the U.S. position that a change in the monetary rules would be incomplete without a change in the trading rules. Thus, the negotiations may be very slow in getting off the ground. Based on previous rounds, one can expect a long period of jockeying for positions in the inner councils of governments with the critical tradeoffs coming in the last hours of the negotiations. There was an original hope that the round may finish by 1975 but few feel this is still possible.

In the two or more years that have transpired since the Trade Reform Act was conceived by the Executive and considered, amended, and passed by the House of Representatives, the world economy has suffered severe shocks. There have been two official devaluations of the American dollar, a new international monetary system (or nonsystem) of fluctuating exchange rates and an energy crisis that threatens the economies of the western world as well as the political cohesion of the major nations.

Traditional trade problems have usually been associated with rising imports and their effect on industries, firms and jobs. Such "traditional" problems often were caused by oversupply. Current trade problems are more typically due to shortages—food and fiber, energy, metals and many others. We have moved into an era of resource scarcity and accelerated inflation—an era in which producing countries are increasingly tempted to withhold supplies for economic or political reasons. It's a totally new ball game, which was not envisaged in the planning and conception of the Trade Reform Act.

STRUCTURAL CHANGES IN WORLD ECONOMY

The U.S. and world economies have passed through several phases since the last large grant of trade negotiating authority was delegated to the Executive in the Trade Expansion Act of 1962. During the early 1960's the U.S. economy moved from stagnation to respectable growth without significant inflation. Beginning in 1965 a deep rooted inflationary trend developed which has not abated. Indeed inflation in the United States has reached unprecedented proportions in peacetime. Underlying this inflation have been the largest budget deficits since World War II. The endemic inflation led to extraordinary balance of trade and payments deficits betwen 1970 and 1972 which in turn created massive runs against the dollar. After the U.S. could no longer maintain a fixed parity between the dollar and gold, the fixed exchange rate structure collapsed on August 15, 1971. Several dollar devaluations have occurred since that date. By making imports more expensive and exports relatively less expensive, the dollar devaluations probably added significantly to the inflationary pressures in the economy, creating shortages of raw materials and leading to the imposition of export controls on those products for which we had the largest comparative advantage (e.g. soybeans). Unquestionably, the imposition of such controls complicates the U.S. negotiating position in the forthcoming round of trade negotiations. While the last returns on the effects of the dollar devaluations are not yet in, there are some signs that the U.S. trade performance is improving. In 1973, U.S. exports buoyed by large agricultural sales reached $70.8 billion while U.S. imports (f.o.b.) were $69.1 billion. Since the second quarter of 1973, the dollar has gained strength in the foreign exchange market in relation to the yen, the deutche mark, the French franc, and the British pound. It is now valued at close to the parities established at the Smithsonian agreement. A historical statistical overview of the U.S. trade and balance of payments performance is provided in another staff briefing document.

As the U.S. economy underwent significant internal changes during the 1960's and early 1970's, the U.S. economic position in the world economy declined vis-a-vis Western Europe and Japan. The European Community, born in 1958 under the Treaty of Rome, has become the world's most important trading bloc, with exports and imports exceeding $300 billion. The Community's share of world GNP, world trade and world reserve assets has grown markedly since the 1960's and this trend has accelerated in the 1970's.

Japan's growth on all fronts has even outstripped that of the European Community. Real growth in Japan grew at the phenomenal rate of 10.5 percent a year for the period of 1960 through 1972, as compared with 5.0 percent in Italy, 4.5 percent in West Germany, 4.1 percent in the U.S. and 2.7 percent in the United Kingdom. In almost every international economic indicator of growth, Japan has been the leader. In terms of military or tax burden, however, Japan is at the

bottom of the list. Yet the achilles heel of the Japanese economy—its overwhelming dependence on foreign oil—may rupture the record of remarkable growth of the Japanese economy. Japanese economic planners are now forecasting a real economic growth rate of only 2.5 percent for the coming year.

Less developed countries as a whole have done fairly well in terms of economic growth, and trade and balance of payments performance. Between 1960 and 1972 real economic growth in the "LDC's" averaged over the 5 percent target set for the "decade of development." By the fall of 1973, these countries had accumulated $40.6 billion in international reserve assets compared to $10 billion in 1960. Of course, these overall figures mask wide divergence in performance. Some so-called LDC's—the Arab oil producing nations—are now in effect holding the Western economies at bay through selective boycotts and massive price increases. One of the most serious and challenging facts facing the world is that at present consumption levels, world imports of petroleum will jump from $45 billion in 1973 to about $115 billion in 1974, or by about $70 billion. Oil exporting countries' revenues will increase in 1974 to nearly $100 billion or three-and-a-half times the 1973 levels. Other LDC's sitting on other important mineral resources, may be tempted to form their own producers' cartel to seek a maximum rate of return on their assets. This bill does not deal with the problem of raw material shortages, export embargoes and price gouging by producer cartels. Rather, it grants LDC's "general tariff concessions" to improve their competitive position in manufactured goods.

INTERRELATIONSHIPS: TRADE, AID, INVESTMENT, MILITARY

There is a large body of opinion in this country, as well as abroad, that trade issues cannot be divorced from monetary, energy, and investment issues which have been considered by various subcommittees of the Senate Committee on Finance. For example, "multinational corporations" are the largest and most powerful force in the international movement of goods, services, money, technology. In short, they generate national wealth. Each nation seeks to maximize the advantages of having these corporations operate within its borders and minimize any dislocations created by the shifts of capital, goods and technology or the alleged disadvantages of foreign ownership and control. Such corporations are both coveted and condemned according to whether they meet the goals and rising expectations of the multiple nations in which they operate.

National conflicts have occurred and are likely to continue to occur when the multinational corporation satisfies the demands of one nation at the expense of another, or when the national policies of the sovereign nations themselves are at variance. For example, the United States forbids any of its citizens—including U.S. corporations operating from a U.S. base or a foreign subsidiary—from trading with certain nations, such as Cuba. We also have certain restrictions over the exportation of technology which is considered important for our national security. A conflict will develop when a U.S. foreign subsidiary, which may be jointly owned by a foreign person or state, has to satisfy U.S. laws and foreign laws when the laws themselves are in conflict. This is but one of the many issues raised by multinational corporations operating in a nation-state system. This document does not pretend to describe the other complex issues arising out of multinational corporations. That has been done in other documents published by the Senate Finance Committee and its subcommittees.[1] The salient point raised by H.R. 10710 is that the ground rules established as a result of a new multinational trade negotiation will determine how the players of the game will operate, and that means jobs, money flows, balances of trade and payments *et al.* for all countries.

Trade flows cannot be realistically divorced from money flows and investment. Nor can they be totally separated from military and aid burdens. Some would suggest that the assymetry between economic and trade growth on the one hand, and military and aid burdens on the other has been fundamentally responsible for the persistent structural imbalance in the world's monetary and trading system. The *net* government account deficit in the U.S. balance of payments since 1950 has been $135 billion, about equal to the growth in foreign country

[1] U.S. Senate Finance Committee, Subcommittee on International Trade, "The Multinational Corporation and the World Economy", Washington, D.C., February 26, 1973.

monetary reserve assets over this period. Thus, trade reform, monetary reform and burden sharing of aid and defense costs are interrelated issues which must be dealt with in a coordinated and comprehensive manner. The Trade Reform Act is intended to give the Executive authority to negotiate structural changes in the world trading system, which will be related to negotiated changes in the international monetary system. Presumably, there is, or will be high-level planning within the Administration on the coordination of trade, monetary aid, investment and military goals.

2. AUTHORITY WITH RESPECT TO NONTARIFF BARRIERS (SECTION 102)

General Authority.—Section 102 would authorize the President, during the five-year period beginning on the date of enactment of the bill, to negotiate trade agreements with other countries providing for the reduction or elimination of nontariff barriers and other distortions of international trade. The President would be urged to achieve equivalent reductions in each product sector for manufactured goods and within the agricultural sector as a whole. The President would be required to report to the Congress on the extent to which the objective is achieved.

No specific limits would be placed upon the President's authority to negotiate modifications in nontariff barriers and, in fact, no such barriers are delineated anywhere in the bill. It is understood that, except in those areas where the President has inherent international as well as domestic authority to negotiate and implement changes in nontariff barriers without legislation, any trade agreements negotiated under this section would be submitted to Congress along with any implementing proclamations and orders. What is not clear is precisely which alleged U.S. nontariff barriers would the President feel he has authority to change without submitting any agreement to Congress. Most alleged U.S. nontariff barriers are laws or regulations drawn to implement congressional intent. Under this bill, the President could negotiate changes in these laws and regulations subject to a congressional veto procedure described below.

Veto Procedure.—The President would be required to submit, not less than 90 days before the day on which he enters into any such trade agreement affecting nontariff barriers, notification to the Senate and House of Representatives of his intention to enter into such an agreement. There is no requirement in the bill that the notice include a substantial description of the proposed agreement itself. After he enters into the agreement, the President would be required to deliver to the Congress for appropriate referral, a copy of the agreement, a copy of the implementing proclamations and orders with an explanaton of how they would affect existing law, and a statement as to how the agreement serves the interests of the United States and why each implementing order is required to carry out the agreement.

The agreement, along with any implementing orders, would enter into full effect, with respect to U.S. domestic law as well as internationally, 90 days after submission to Congress, *unless* within the 90 day period either House adopts an affirmative vote of the majority of those present and voting, a resolution of disapproval with respect to the agreement. Sections 151 and 152 stipulate the procedural rules according to which such resolution would be introduced and dealt with in each House of Congress. The rules would be quite strict. If the committee to which the resolution had been referred has not reported it at the end of 7 days, it could be discharged of the resolution or of any other resolution which has been referred to the committee. There would also be strict limits on debate and amendments to the resolution.

The authority to negotiate and implement agreements on nontariff barriers would be by far the greatest delegation of authority which the Congress has ever made to any President in the trade area. Although the President did have the authority to negotiate agreements on import restrictions other than duties under section 201 of the Trade Expansion Act, it was never utilized, nor intended to be utilized, to the extent contemplated under section 102 of the proposed bill. Under this section, the President could negotiate agreements with respect to any and all nonduty measures affecting trade. Such measures could include, for example (1) ASP; (2) marketing provisions; (3) standards codes; (4) wine gallon/proof gallon; (5) final list; (6) health and sanitary requirements; and (7) customs classifications, etc.

APPENDIX IV

SOME RECENT TRADE TRENDS

In 1973 and 1974, the United States faces new problems as money and trade shocks continue to reverberate. The U.S. economy is now distorted from past trade deteriorations. The sudden surge of farm and raw material exports and inflows of added capital goods imports in 1972 and 1973 have compounded past problems. The facts show the need for a new look at the needs of the U.S. economy so that the U.S. can seek an effective route to negotiations about where it is going.

Despite the shift in the trade balance in 1973, the U.S. still failed to achieve a surplus in exports of manufactured goods over imports, according to government statistics. Imports of manufactured goods were $44.8 billion, while exports were $44.7 billion. Trade deficits in certain categories of consumer goods continued as the U.S. imported more than it exported—$1.9 billion more imports than exports in consumer electronics products, $3.4 billion in textiles, clothing and footwear, $3.8 billion in motor vehicles and parts, and $1.8 billion in steel products, according to official Administration reports.

Moreover, there are growing trade problems in categories of goods where the U.S. now has a trade surplus. For example, the import of the products needed to make an industrial nation grow—capital equipment—surged forward in 1972 and October 1973 stated that "the inflow of capital goods soared by one-third (in 1972) to $6.7 billion, a substantial acceleration from the 10 percent increase reported in 1971. Imports of machinery grew 82%, as imports of agricultural machinery, farm tractors and business machines increased. Aircraft and parts almost doubled in value in 1972 and continued up in 1973. Power machinery and switch gear imports increased by over one third.

Thus, despite the talk of dollar devaluation's making "America more competitive," despite trade restraints by Japan in 1973, and other national and international trade actions, the consumer goods industries are impacted, and the capital equipment industries are experiencing increasing import penetration. In fact, in 1973, according to the *President's International Economic Report*, "The only major category of imports from Japan which continued to increase rapidly was in capital goods."

Turning to exports in 1973, what America shipped abroad most rapidly was what America needed. Food prices soared in 1973. Part of the reason for this has been the fantastic rise of exports of farm products—up to a surplus of $9.3 billion more exports than imports in 1973. The total value of U.S. farm exports in the fiscal year ended June 30, 1972, was $8 billion. In June, 1974, farm exports are expected to reach $20 billion—or 2½ times as much, according to the U.S. government experts.

The value of U.S. farm exports almost doubled in 1973 over 1972, according to the *President's International Economic Report*—up 88% or twice as fast as the 44% rise in all exports. U.S. exports of non-farm crude materials—scrap steel and logs in the lead—rose 40% in the one year alone.

In 1972-73, the U.S. exported 72.3% of its wheat production, 20.5% of feed grains, 51.0% of oil seeks, 42.3% of cotton, and 61.0% of rice produced in this country. No nation can afford not to recognize that its own people must be fed and housed and clothed and find jobs in productive industry—and that all of these tasks are related. Thus American farmers who want foreign sales, also want fertilizer that was in short supply. American industries, clamoring for more government help to export, wanted the non-farm crude materials needed for them to produce.

The President has the power to curb these exports, but he has only applied panic controls and then sometimes taken them off in a panic reaction. It is not power he needs, but a program.

America did not gain economic strength from its increased trade and payments showing in 1973. America was weakened at home as she sent her products into the world like a developing nation in the theory books which ships primary products in return for imports ever more sophisticated manufactures.

The trade deficit with Japan was reduced, but not just because of the dollar and yen revaluation. The *President's International Economic Report* states: "Japan is by far the largest buyer of U.S. farm goods and raw commodities used by industry and these two categories *accounted for nearly all the rise in our exports to them.*"

Trade with the European Economic Community shifted into surplus from the deficit in 1972. But again, farm products showed the sharpest increase—75% and accounted for about one-third of the increased sales.

For the developing countries, U.S. agricultural shipments rose by 97%, accounting for a huge share of the improvement in these countries.

The U.S. is in greater deficit with Canada. However, as a result of the two governments newly agreed-on statistics, Canada's surplus in trade was reduced to $2.7 billion.

The new trade problems of the United States result from ever more complicated changes in the operations of the U.S. economy and the failure to link the operations of this economy together. America's farmers and consumers and industries share the need for supplies to produce within this country so that we can trade with other countries. Farmers who sell wheat need fertilizer and equipment in short supply; consumers who buy products need reasonable prices and industry needs raw materials, crude materials and new machinery to produce—as well as workforce whose skills are kept active through employment and not deteriorated by unemployment. Until there is a new analysis of what America has and needs, negotiations with other nations will continue to confuse the patterns of trade at home and abroad, contributing to inflation and weakening the United States. The need for a flexible mechanism to curb exports of materials in short supply, to regulate imports and to assure the production base of this huge nation with jobs for its citizens at decent wages is the only possible solution.

APPENDIX V

ANALYSIS OF H.R. 10710

H.R. 10710, the Trade Reform Act of 1973, is worse than no bill at all.

The new problems of international trade are ignored in the bill. What is missing in the proposals is more important than what is included. These ideas are missing:

A positive new set of U.S. rules is needed for promoting the United States interest at home so that this country can work out effective agreement with other countries—to benefit this country as well as others. The Congress is not asked in this bill to make it a matter of United States policy to assure the growth of all kinds of industry in keeping with the skills and resources and needs of the United States and its citizens at home. Instead, the Congress is asked to declare that trade barriers are wrong for the U.S., but that developing countries and developed countries should have assured access to thhe U.S. market. Thus the bill puts the cart before the horse. A strong America cannot continue to exist in a misdirected world. A mechanism is needed for regulating imports into the U.S. and exports of raw materials and other products in short supply so that the U.S. can have a strong, varied economy.

Investment, tax technology and other policies are crucial to the economic health of thhe United States in relation to every nation of the world. The bill does not contain effective provisions to remove tax breaks on overseas investment, to regulate the wholesale exodus of America's newest technology and production units, and to combat the rising prices in the United States caused by trade and investment problems.

Consumer protection and information are denied in this bill and consumer interests are ignored.

Employment of American workers at every skill level—the professional, the skilled, the unskilled and the job-seekers—with job opportunities available for a growing labor force should be promoted.

The Trade Reform Act (H.R. 10710) is therefore merely a patchwork of power for the President, a maze of technical escapes for negotiators and technicians. What is needed is a comprehensive modernization of U.S. laws and policies to promote America's economy at home so that America can deal effectively in negotiations with nations abroad.

The following are some of the features of the bill: The authority is designed not only to regulate foreign trade and to achieve international political objectives but also to use foreign trade and international objectives to regulate the domestic economy. But it does not answer the problem now facing the United States in a changing world. The bill has no clear direction even for trade policy. Its provisions can make America's deteriorating trade position even worse. The Presidential power in H.R. 10710 can affect almost every part of the American system—the Congress, the business community and the citizens of this nation.

THE BILL'S CONFLICTING AUTHORITY

The authority to change U.S. trade barriers up or down for different reasons and for different time periods is granted in the bill. Thus an American producer would be constantly in need of a team of specialists to make decisions on U.S. production.

The President would have five-year negotiating authority to make agreements to raise or lower tariffs or leave them intact for many international purposes. The bill provides for advice from public or government departments, from the Tariff Commission and from industry and public advisors. But the advice need not be heeded by the President's negotiators. (Title I)

The President could raise tariffs to grant "import relief" from competition temporarily, to meet "unfair competition," to retaliate for unjustifiable barriers abroad, for balance of payments reasons, for domestic inflation, to stop import disruption, to carry out international agreements, and for other purposes. In various provisions, the authority lasts for one year for 150 days, some has an indeterminate length, and some may be established for negotiating purposes. (Titles I, II, III, IV and V) He could remove tariffs for as many reasons.

The President could set quotas for some of the above reasons, sometimes temporarily, sometimes for an indeterminate period. Orderly marketing agreements with other nations may be reached to regulate imports. But even such quotas—on past, present and future agreements—may be removed.

The President could remove or reduce tariffs and quotas for balance of payments surplus reasons, for domestic inflationary reasons and for carrying out "compensation" under international agreements (i.e. if a product has its duty raised in order to relieve injury to the U.S., the President may reduce tariffs on another U.S. import to "compensate" our trading partners). He may also renegotiate tariffs on individual products and put them in effect, after negotiations are completed (Title I).

The President could reduce tariffs to zero on most semi-manufactured and manufactured products imported from developing countries. Only 27 countries are exempt from this treatment.

The President could reduce tariffs on imports from Communist countries to make them equal with tariffs for products from other countries ("most-favored-nation" status), as long as there is the right of emigration from those countries. Some Communist countries could also receive "developing country" status. (Most-favored-nation status means that imports from a country charged the lowest tariffs are given to imports from other countries under agreements).

The President would have new authority to remove U.S. non-tariff barriers through international agreements during the 5-year period.

(a) The Congress mandates the President to seek the end or harmonization of non-tariff barriers, both U.S. and foreign. Ther is no definition in the bill. Ironically one non-tariff barrier, specifically provided for in other sections of the bill, is a quota on U.S. imports. Most nations have quotas or licensing practices for imports more effective than U.S. regulations.

(b) Authority is granted to the President to negotiate only removal of U.S. "non-tariff barriers." Many laws are non-tariff barriers. Some important effects would be on product standards, labeling, consumer protection laws and the marking of foreign origin law. For example, the law now requires the marking or identification "Made in Japan, Mexico, England" or other country somewhere on the imported product. Consumer information would be even less available than it is now, because even the minimal requirement now in law to state where a product is made could be removed. Products with American brand names could be made totally behind the Iron Curtain or in Brazil or Mexico or Japan or Korea, and the American consumer would lose even the right to know where it is made. The product would be sold as an American product at American prices.

(c) The Congress would have 90 days notice and 90 days to veto agreements which affect non-tariff barriers the negotiators might change in international agreements. The President decides whether the agreement needs to be submitted to Congress. In effect, U.S. laws on standards, taxes, consumer protection, health and safely, environmental standards and other domestic protections are in jeopardy. This authority appears to begin the date the bill becomes law. Each Presidential agreement could require action by the Congress to preserve some law that has already been enacted for the benefit of the citizens of the United States. If Congress does not act in 90 days, the agreement becomes law.

Much of the authority specified in the above paragraphs already exists in international agreements or in domestic law. The basic changes from prior laws are the provisions for Presidential discretion almost without limit, the right to negotiate changes and impose them almost at will, and the authority to act without sufficient Congressional or public consideration to impose decisions reached abroad in secret—some of it not clearly subject even to a Congressional veto. Thus the authority is broad and conflicting.

INJURY TO U.S. EMPLOYMENT AND PRODUCTION COULD INCREASE

Injury to U.S. industry and employment could be increased under the Trade Reform Act of 1973. The fact of past, present and future injury is lost in a maze of provisions emphasizing why the injury occurred, temporary and long-range foreign, political and economic issues, and temporary domestic economic conditions. U.S. and foreign-based multinational firms and transfers of technology in a changed trading world are ignored. Action to prevent injury or to repair past injury is neither required nor emphasized. Even "relief" from injury is temporary, subject to removal without a hearing, and not related to the need of the U.S. economy for a strong, productive, diversified base.

(1) "Relief" from injury caused by "competition" is discretionary and temporary under the new "escape clause" section of the bill. The Tariff Commission has wide discretion to determine whether imports have caused injury. The Tariff Commission is directed to inform other agencies if anti-dumping and countervailing duty laws would apply. If injury is found by the Tariff Commission the President has complete discretion whether to grant temporary "relief." The President may remove this "relief."

The steps for such "relief" are steeper than in present law.

(a) The tests of injury from imports have been changed. The causal relationship between imports and injury is slightly less strict, but test for the actual injury is stricter. Thus the increase in imports need not be caused by a tariff concession, nor must imports be the "major" cause of injury, but only a "substantial" cause. That means not less than any other cause. Rapid changes in the world scene, such as the energy crisis, make this provision almost prohibitive in finding injury. A new test requires that unemployment be "significant," and "significant" number of firms must suffer economic problems in some injury findings.

Several other factors for consideration have been added, which could be used to explain Tariff Commission findings for or against injury. But there is no definition of U.S. industry. There is no requirement to separate out the U.S. production from foreign production of a U.S. firm. Thus U.S. multinational firms can continue to go abroad behind foreign barriers and join foreign exporters to send goods into the U.S. (The Tariff Commission report showed market penetration of 27% in the American radio and TV industry after U.S. radios were virtually nonexistent.) The U.S. production and employment may no longer exist, but "U.S." industry will not necessarily be considered injured under the tests of the Trade Reform Act.

(b) If injury is found there is no mandate to act to give help to industry. The President must decide whether adjustment assistance should be made available. The President may raise tariffs, put on tariff quotas, establish quotas, or negotiate orderly marketing agreements in that order. The Congress can veto his actions if he establishes quotas or negotiates orderly marketing agreements. Items 806.30 and 807 may be suspended. If he does act, the law states that the "relief" should be phased out in five years. It may be removed. These provisions are unrealistic. For example, orderly marketing agreements have taken more than five years to negotiate. Without clear authority and mandate for the U.S. to act, other nations would not want to negotiate or agree to U.S. action.

The repeal of items 806.30 and 807 was requested in 1967 by AFL–CIO because their use exported jobs, especially to the lowest wage countries, added to imports, and helped transfer huge parts of whole industries (consumer electronics production for example) out of the U.S. Under these provisions U.S. tariffs are not charged on U.S. parts of a product which have been exported for assembly or processing. This means preferential tariffs for imports with U.S. parts. These tariff items have lubricated the expansion of the multinational firm by adding a special advantage for foreign operations. The temporary repeal of these items is too little and too late for billions of dollars of lost U.S. production and hundreds of thousands of jobs. Between 1967 and 1972 imports under these items rose more than $2 billion while exports rose about $400 million. The first ten months of 1973 showed a 55% increase over the like period in the year before.

The operations of the world's largest firms (either U.S.-based or foreign-based) are not considered unfair competition for U.S. production and employment in the bill. Foreign state monpolies can "compete" with U.S. industry from abroad.

(2) Unfair Competition. The bill gives the President wider discretion to retaliate against unjustifiable foreign trade barriers than is now available in Section 252 of the Trade Expansion Act, but the provisions make action unlikely.

U.S. firms with plants abroad do not want their foreign subsidiaries, partners, licensees to press for removal of foreign barriers to U.S. products. Nor do they want the U.S. to raise barriers to exports from abroad to the United States. Neither is necessarily beneficial to the corporate interest. While the President would clearly have some authority to act against foreign barriers by raising U.S. barriers, past performance shows that such provisions are seldom used. Since the U.S. has seldom retaliated and since the Administration wants the law to make the action discretionary, there is no reason to expect such a requirement to be implemented.

Current provisions on other unfair trade practices—dumping, relief against subsidized imports, unfair trade restrictions—are changed in the bill. But the

results could be even more unfair and confusing than current practice, which largely ignores the existing provisions in law. For example, the President's message on United States Foreign Policy for the 1970s (May 3, 1973) stated, without evidence, "Enforcement of anti-dumping and countervailing duty laws, which protect American workers and industry from injury due to unfair import competition, has improved markedly." There has been much investigation, but little action. The bill's provisions would probably have the same result. U.S. producers and workers do not have a guarantee of redress even against unfair competition under this bill.

Antidumping provisions of current law are amended in the new bill. Dumping is the sale of foreign product to the U.S. at price below the price in the exporting country and injury to domestic industry there from. The bill's amendments:

(1) Limit the time for processing dumping cases, provide for public hearings, and reduce some dumping assessments. The time for cases can be extended to nine months—long enough to destroy an industry. The right to hearings is automatic only for foreign exporters and U.S. importers. Under present law, worker groups have participated in antidumping cases. Under the new bill, even their right to hearings is not automatic. Thus neither U.S. workers nor U.S. producers will have an automatic right even to present their case at hearings.

(2) Reduce the antidumping duty (difference between the foreign exporters' price and the price at which the product is sold to the U.S. importer) in some cases. Thus the provisions appear to make tiny steps forward, but actually would be even more discriminatory against U.S. production. Antidumping action has not often prevailed against foreign and U.S.-based multinational firms, which do not want to admit that their foreign operations can add to the destruction of U.S. industries. The imposition of dumping duties is a minimal action for such serious erosions of U.S. production. Too little is often too late. Thus foreign producers ("U.S." or others) can continue to dump from every nation of the world without speedy action. With countries trying to export to the U.S. to make up for rising world oil prices, this provision jeopardizes the entire U.S. economy.

Countervailing duties, seldom enforced now, would be even more difficult to obtain under the new bill. The countervailing duty concept is designed to meet unfair competition from imports which have been subsidized abroad. A countervailing duty is an added charge on an imported product which equals the amount of a foreign subsidy. Under current law the Secretary of Treasury must put on a countervailing duty automatically whenever a finding of a "foreign bounty or grant" is made. This provision was enforced only 13 times between 1967 and 1973.

The bill would (1) set a one-year time limit for investigation and decisions and (2) would make duty-free imports subject to such a duty. But it removes the requirement for automatic action, requires a finding of injury to U.S. industry, and gives the Secretary of Treasury discretion whether or not to apply the duty. Thus the unfair subsidies of imports into the U.S. can continue without U.S. government action. The effect on other trade negotiations—not the effect on the U.S.—becomes the test for action. The policy of the U.S. government would become: foreign subsidies of exports to the U.S. are all right; we are only going to take action if an industry can prove injury and if the foreign governments would not be made unhappy in world negotiations. This encourages U.S. production abroad and further destruction of U.S. industry from foreign imports. A U.S.-based multinational opposes countervailing duties on imports from its foreign plants. American importers do not want countervailing duties. Foreign exporters do not want countervailing duties. Therefore, the mere right of action is unlikely to result in effective relief.

The only protection that is clear in H.R. 10710 is the protection of U.S. patents against infringement from imports.

NEW TYPES OF AUTHORITY

Title I of the bill grants the President new authorities to take action for balance of payments, domestic inflation and other reasons. The Congress has power in the Constitution to regulate interstate and foreign commerce and to pass laws concerning changes in tariffs, etc. But this section of the bill would make much of this power subject to Presidential discretion and international decisions.

One example is the authority to impose new tariffs or take them off without going to the Congress for 150 days. Another is the authority to change tariffs to

"compensate" foreign nations for their claims of trade losses from higher U.S. barriers to trade without Congressional actions.

Such arbitrary powers are largely related to economic theory that has no relevance to modern problems. For example, the authority to remove tariffs (or to expand imports of products formerly under quota restraints) to reduce domestic inflation ignores the experience of recent years in American domestic production and markets. Prices for U.S. lumber, scrap steel, and hides have skyrocketed—not because if import restrictions, but because of additional exports. These raw material prices have made it impossible for some of American producers of furniture and steel products and shoes to stay in business. But the bill would grant the authority to increase imports of finished products made from these raw materials. Thus hides would continue to go out of the country and no barriers to imports of shoes would be applied. But hide prices are higher at home and revaluations makes imports more expensive. Shoe prices rose more rapidly than the overall cost of living during the 1960s, despite rising imports. Hide prices shot upward. U.S. shoe producers face not only competition from increases of shoe imports, but also higher costs for hides to make shoes at home.

The result is higher costs for producers and higher costs for consumers in the U.S.—more inflation. This effect is now felt in other industries as import prices and domestic prices rise. But this provision maintains the fiction that imports restrain price increases.

The authority to take temporary actions could therefore continue to disrupt and hurt U.S. production and worsen the condition of the U.S. economy. But the Congress and the public would have little knowledge of when or why such actions would be taken.

Title I also provides for an authorization of special funds to pay the expenses of the GATT and directs the President to renegotiate the GATT. Congress has never granted specal authorizations for GATT expenditures. The bill recognizes that GATT rules are outdated but also commits the U.S. to the current GATT rules (Title II). The President is directed to negotiate international fair labor standards with no criteria or protection for U.S. standards. (Title I)

TRADE WITH COMMUNIST COUNTRIES

The bill authorizes the President to change most-favored-nation status and to make commercial agreements with Communist countries if they grant emigration rights to their citizens.

(a) Most-favored-nation treatment (extending to imports from a country the lowest tariff rates that have been negotiated with other countries) could be granted to Communist countries which do not now receive it. The bill gives the President authority to negotiate bilateral 3-year commercial agreements with Communist countries. Safeguards are to be included in these agreements. The President may act to remove the mfn treatment at any time either by product or by country for the Communist or non-Communist countries under other provisions of this bill.

This provision would lower tariff on imports from countries with slave labor camps, countries which do not provide the right of workers to have unions, countries which have completely different systems of production and pricing from that of the United States. Thus a massive rise of imports from these countries could be expected.

The equal treatment for tariffs from these countries will not mean equal treatment for U.S. producers or for U.S. trading partners, because these countries do not engage in "business as usual," normal commercial trade relations.

(b) There is a market disruption provision in this section of the bill which does not require any action, but allows the President to impose special quotas on imports from these countries if the U.S. market is disrupted and material injury to U.S. industry is found.

(c) Commercial agreements with countries that will use the trade for political, military and other purposes, controlled by state monopoly do not make sense.

(d) U.S. firms, which have already shipped some of the newest U.S. technology to these countries, will be encouraged to transfer even faster out of the U.S. In these cases, the transfers are to countries who use trade for political purposes and whose goals are against the objectives of the United States. Thus, the newest technology will be available, often from U.S. firms, to produce goods with cheap, oppressed labor, behind state-controlled walls, with special rights into the United States markets for their exports.

At present, the U.S. has more imports than exports in its trade with many parts of the world. The largest surplus of U.S. exports with any areas last year was $1.9 billion with the Communist countries. The exports are largely financed with U.S. credits. But the subsidized exports and transfers of U.S. technology with special entry rights will make that surplus vanish too.

(e) Preferences (zero tariffs for 10 years) could be available to some Eastern European countries as developing countries if the President so decided. The oppressed labor of any Communist country could be used by U.S. firms who locate there or by foreign state-controlled industry to ship duty free to the U.S.

GENERALIZED SYSTEM OF PREFERENCES

For developing countries, the bill authorizes the President to give special benefits (zero tariffs) for imports from these countries to markets of the U.S. There are some restrictions on this authority. The bill allows the President to grant ten-year zero tariffs on most manufactured and semi-manufactured imported products from whatever developing countries the President chooses, except for 27 countries listed in the bill.

These special provisions imply that such countries have not had access to U.S. markets and that they are all needy. But the U.S. has had more imports than exports from some of these countries already. Future privileges would further distort our economy. Imports have risen rapidly. According to a World Bank publication, "Brazil is exporting clocks to Switzerland, refrigerators to the United States, furniture to Scandinavia, fashion garments to Italy, testing and measuring instruments to Germany and photoelectric cells to the Netherlands. Iran's exports consist not only of traditional goods such as textiles and footwear, but also sheet glass, trucks and buses. In 1969 intermediate and capital goods accounted for 10 per cent of Iran's exports and a major export program in machine tools and heavy equipment is planned." (*Prospects for Partnership*, pp. 11–12)

The "poor" countries are not all the same. Nor have rapidly growing economies and rising exports solved their problems. But the economic development and social well-being in these countries are not healthy. They have not necessarily improved their economic and social health despite the end of production of U.S. musical instruments, shoes, TV sets, radios, and auto parts in cities and towns across America.

The real beneficiaries of such special rights are often U.S.-based (or foreign-based) multinational firms, who are required to produce in some developing countries in order to sell there. Some developing countries also require the companies to export and subsidize these exports. The bill's special provisions for zero tariffs on imports into U.S. market would merely encourage more unfair disruption of more U.S. industry and further runaway plants from poor and rich countries.

Items 806.30 and 807 prove that preferential entry coupled with governmental help can force imports into and production out of the U.S. at a rapid rate. Now that such countries have attracted many U.S.-based firms whose expansion was lubricated by preferences, the whole product is made in those countries, and Items 806.30 and 807 are not needed.

The President's *International Economic Report*, March 1973, page 38, shows that preferences are expected to continue the export of U.S. production and jobs behind foreign barriers to send goods into the U.S. market: "Our exports will face higher import barriers than goods coming from participating countries. Moreover, rather than export goods from their U.S. plants our manufacturers may be forced to build plants abroad, behind the higher barriers, in order to remain competitive in those markets." In September 1973, the U.S. negotiated at Tokyo an agreement to allow all developing countries to maintain their barriers, and increase them while developed countries reduced their barriers through negotiations.

Since the fall of 1973, it has become clear that some developing countries have used selective boycotts and massive price increases in the oil embargo. Others have minerals and other resources which they may embargo. The bill does not recognize these changes or the rapid industrial growth of many so-called developing countries. It merely seeks to improve their competitive position in the U.S. market for manufactured goods.

Appendix VI

The Administration's Adjustment Assistance Proposals

The Administration's Trade Reform Act contains so-called "adjustment assistance" provisions to the present inadequate programs designed to aid workers who lose their jobs because of import competition.

The present program was established in the Trade Expansion Act of 1962. The idea of adjustment assistance was proposed by organized labor in 1954. The program was designed and viewed by its supporters as a stop-gap program for small groups of workers adversely affected by imports. It was not meant for use against the critical onslaught of imports the nation is now undergoing.

Adjustment assistance is at best burial insurance. What the AFL–CIO seeks is restoration of a diversified industrial society that provides jobs, not jobless pay.

The AFL–CIO conditioned its support for the Trade Expansion Act on the promise that adjustment assistance would be made to those adversely effected by imports. That promise was not kept.

H.R. 10710 includes so-called "adjustment assistance" provisions. These are too little too late. The record shows that adjustment assistance cannot solve modern trade problems.

Between 1962 and 1969, not one worker received adjustment assistance under the Act. Since that date, a total of 90 petitions have resulted in adjustment assistance for 44,139 workers. Between 1962 and 1973, millions of Americans lost their jobs from a rise in imports of manufactured products and parts of products at an accelerating rate. In 1962 manufactured imports were $7.6 billion and in 1973 they reached $44.8 billion. Total U.S. outlays for adjustment assistance have been $63.3 million.

The industries in which adjustment assistance has been received have been industries where the impact of imports has often been denied as a serious problem for the United States: shoes and leather products—where no U.S. action has been taken to stem imports; electrical equipment, where only a series of misguided attempts to look at dumping, countervailing duties, and other programs have been used, and textile products. Three fourths of the total spending has been in New England, the Middle Atlantic and East North Central States.

The BLS record shows that more workers have been denied adjustment assistance than have received it. Thus 49,384 workers got nothing—not even a short-term dole when they petitioned for help.

For industry, the adjustment assistance record has been one of similar failures. The outlays for firms has already reached 38 million for sheet glass, footwear, barber chairs, textiles and apparel, industrial electronics, pianos, consumer electronics and stainless steel flatware—industries with need for import restraints.

The Trade Reform Act merely patches up some technicalities and adds some more hurdles for receipt of adjustment assistance. There will not be any better performance from the new promises than in the past. In a changed world, the cruel hoax of yesterday will merely be perpetuated if H.R. 10710 becomes law.

Under Section 221 of the bill, the Tariff Commission would no longer be directly involved in adjustment assistance, and the Secretary of Labor would be the determining officer for these cases.

The Secretary of Labor would have to make three findings: (1) a "significant number or proportion of workers" is unemployed or threatened with unemployment; (2) sales or production or both of the firm has decreased absolutely and (3) that imports have contributed importantly to both the unemployment and the decline in sales or production.

The Trade Expansion Act required that the injury be linked to a trade concession and that increased imports had to be the major cause of the injury. Thus the causal step is changed, but there are far stricter rules in terms of the impact—two tests instead of one. And the injury test is stricter. Unemployment must be significant and imports must have caused both the unemployment and the decline in sales or production—or no benefits could follow.

Section 224 of the bill requires the Tariff Commission to notify the Secretary of Labor wherever there is an industry section under the "import relief" sections of the bill. The Secretary of Labor must then study the employment conditions of the industry and the possibilities of adjustment assistance. He must report to the President within 15 days of the time the Tariff Commission reports on the import relief findings.

The Secretary of Commerce has similar provisions for adjustment assistance to firms. The Secretary of Commerce, not the Tariff Commission, would make the determination and the test of cause that imports "contributed importantly" to the injury.

Thus adjustment assistance becomes a more complicated problem, with less prospect of usefulness under H.R. 10710. If there is an industry petition, the results of a positive finding would be almost nothing at all: Under current law, the President may give relief as he thinks it appropriate, or he may do nothing at all. Under H.R. 10710, the President must decide whether adjustment assistance is a possibility or he may do nothing at all, or he may provide relief in the following order: (1) tariff increases; (2) tariff-rate quotas; (3) quotas; (4) orderly marketing agreements. The quotas and orderly marketing agreement decisions would be subject to Congressional veto.

For worker petitions, if industry is determined, the benefits merely change as follows: Under current law, cash benefits equal to 65% of average weekly wages up to 65% of average weekly manufacturing wages for 52 weeks (with a few additional time provisions for older workers and training). Under H.R. 10710, cash benefits would equal 70% of the average weekly wage for the first 26 weeks, but 65% of his average weekly wage after that as under present law. The maximum for any week would be 100% of the average U.S. weekly manufacturing wage. Thus the maximum that a worker could collect in a year is estimated to be at $170 per week for 52 weeks in 1974—$8,840. How many Americans want to give up their jobs for $8,840 and a lifetime of unemployment?

In the year 1974, the proposal for adjustment assistance for workers is just one more false promise from those who have already done injury to the well-being of American workers, consumers or taxpayers.

In the year 1974, the proposal for adjustment assistance for firms is just one more give-away to American business.

APPENDIX VII

RETALIATION AND THE RIGHT OF AMERICA TO SELF-INTEREST

Fear slogans like "retaliation" and "trade war" are scare symbols when applied to the U.S. These slogans represent the claim that higher trade barriers might be raised by other nations if the U.S. takes legislative action in its own interest. Factually, other nations have been putting up new trade and investment barriers constantly to assure their own well being. They have been "retaliating" against the U.S. and others for years, and have erected many more such barriers than the United States. Furthermore, our government expects these barriers to continue to go up—with or without legislation.

The Arab embargo, the actions of Europeans and Japanese countries, the swift moves to assure self-interest of all other nations should have taught America that trade changes are a fact of life for other countries. The U.S. fails to act at home in its own interests.

Since these are recognized facts, it is time to stop the scare talk aimed at deterring the United States Congress from its right to pass laws in the interests of the people of this country. This is a constitutional obligation. The U.S. recognizes that other sovereign nations have rights and are exercising them. The U.S. has the same rights—free of scare slogans.

The U.S. faces very real trade barriers today—and tomorrow. No clear, detailed documented references are available to the Congress to illustrate the relationships of the trade, investment and other barriers to U.S. exports by foreign countries or their spurs to export to the U.S. Most of the detailed information is considered "foreign policy confidential" or "business confidential." What is available to labor unions is from published government documents, the statements by businessmen and the press. But even the available evidence shows that the threat of retaliation is a scare word.

Everyone knows that the U.S. is now confronted by complex governmental economic arrangements in other countries to spur exports (direct and indirect subsidies, etc.) and to bar or hold down imports (direct or indirect barriers). The examples usually given are Japanese quotas, licenses in European countries to import specific products and laws in many nations which require foreign subsidiaries to produce a certain amount of goods for exports, as in Mexico, Brazil and Spain. These countries also have controls on capital flows and technology flows—either by law or practice.

The *International Economic Report of the President*, February, 1974, states generally that "import barriers in virtually every other developed country are highest and most restrictive in many of those very products where our greatest competitive advantage lies. Moreover, these restrictive devices often take the form of quantitative restraints and other measures that effectively shelter foreign industries from the impact of currency adjustments (pp. 40–41). The report recognizes that "some developed countries impose restrictions long before imports reach so large a share of consumption" (page 41).

As for developing countries, the President's 1973 report stated, "Our exports will face higher import barriers than goods coming from (developing) countries."

Moreover, rather than export goods from their U.S. plants, "our manufacturers may be forced to build plants abroad, behind the higher barriers, in order to remain competitive in these markets," the 1973 report said, (page 38).

Thus the expectation of trade war is not realistic. The expectation of continued discrimination against the U.S. economy—if that is the issue—is accepted by U.S. government spokesmen. Even when the Arabs acted, the Europeans acted, Japan acted, the U.S. did not retaliate. The surrendered in the trade war without firing a single shot.

How does foreign "retaliation" work? That's the real question. Vague talks about quotas and licenses and retaliation really doesn't mean much. What are the current actions?

The European Economic Community, for example, is a barrier in itself, and it is going to be a larger barrier. The European Economic Community, the Common Market, is not a United States of Europe as most Americans believe. It is

a group of nine nations, with their own national governments, policies and practices and their own special relationships with third countries. Around and above the nine nations are a common outer tariff wall, a common agricultural policy for farm prices and growing common policies on products standards and internal taxes. The EEC also has a set of special trade arrangements with a growing number of other European and non-European countries—which exclude the United States. The Europeans have not compensated the U.S. for these actions as GATT requires. There is no need for "retaliation." It is a fact of life that foreign barriers are going to continue to rise, according to the U.S. government.

A European Community Information Service press release stated on March 26, 1973, "The European Community is not yet, in the strict sense, the common market which its popular name suggests. There are still some technical barriers to trade between the member states." That is a mild comment for a complex maze of barriers.

And the *Wall Street Journal* reports how the EEC reacts as a whole: "We're taking about all the Japanese imports we can," says an official of the European Communities Commission in Brussels." But the report goes on to report that "France and Italy" two of the Common Market countries "have imposed quotas on some Japanese goods." More recently, nation after nation has made specific arrangements or long-range plans with other countries.

Still another publication, *Common Market Reports, Euromarket News*, of April 25, 1973, adds that three other Common Market countries, the Benelux countries—Belgium, the Netherlands and Luxembourg—have ordered controls on imports of Japanese products in the field of home electronics. "In announcing the joint Benelux move, the Dutch economics ministry in the Hague confirmed that protection of domestic industry was the purpose." Now, the story continues, the governments are talking with the Japanese government. Meanwhile, they have acted, quite naturally in their own interest. There was no screaming of retaliation or trade war.

The way they have acted is to stop the "indiscriminate issue of import licenses." The U.S. has tariffs and quotas, but licensing of imports—a common practice in many countries of the world—is not even an issue in the U.S. because it is not generally known to the public.

Nor did the public know that Chrysler-Mitsubishi was producing the Dodge Colt in Japan in 1970 for the U.S. market, yet most U.S. cars still cannot easily surmount the maze of barriers into Japan. Japanese and U.S. brand cars can move into the U.S. The list could go on indefinitely but in 1973, the issue was still not solved. U.S. company after company met barriers to trade with Japan by finding a Japanese partner, a Japanese licensee or some other Japanese source to produce in Japan—behind the trade barriers. Meanwhile it claimed publicly that U.S. labor costs were too high, forcing the transfer of U.S. production and jobs abroad. The route to Japan is often virtually closed even in 1973. Quotas still exist for many products, including some computers and leather. But the route to the U.S. is still open. Where were the cries in the U.S. for retaliation?

In Europe, a business magazine *Vision* reported in April 1971 that "The major reason for manufacturing in Europe is that European governments prefer to place orders with a local U.S. subsidiary rather than going in for straight imports."

Country after country has non-tariff barriers to trade within the Common Market. Yet, U.S. companies which adjusted to the preferences forced upon them by European governments screamed "trade war" in full page newspaper ads when Congress tried to act in the U.S. interest in a 1970 trade bill.

Recent reports show that the situation has grown worse in many areas. In the so-called non-industrial countries like Spain, Brazil and Mexico, the law requires production in those countries for local sales and requires exports from these countries by foreign investors who produce there. In December, 1972, the *New York Times* reported that auto manufacturers were required to have "only 50% of their production with Spanish-made components provided that the original investment is more than $158 million of fixed assets and two-thirds of the production is exported." In April, 1973 the *Journal of Commerce* reported that Ford, Chrysler and possibly GM will make cars in Spain for the European market. The Ford project in Spain has been characterized as one of the biggest industrial investments ever made in that country. Reports have said the plant will turn out small, economical Ford cars; it will have a capacity of 250,000 cars a year, two-thirds

of which will be exported, according to an article in The *New York Times*. The article said "this high proportion of exports is a condition required by the (Spanish) Government for preferential treatment." There is no mention of whether or not these exports will become imports of small cars to the U.S. Why isn't someone in the U.S. crying for retaliation?

The Mexican government announced in October, 1972 that foreign investors would still be required to fit their investments into the Mexican government's national policy. For example, President Echeverria on October 23, 1972, issued an announcement on automobiles making it the "obligation of automobile manufacturers to employ a minimum 60% of Mexican-made components in car production."

The Brazilian government recently decreed that foreigners who wish to invest must bring into Brazil their fully-operating plants that have been producing efficiently in a developed country before the Brazilian government will permit investment. Then the production must be exported from Brazil except for the amount the Brazilian government allows to be sold in the Brazilian market under quota.

Trade rules are only part of the story of America's changing economic circumstances as foreign countries regulate investment in their country. Foreign nations are sovereign states. They have the right to pass new laws. U.S.-based firms must meet those regulations abroad and so must foreign firms. They create production incentives in those countries and thus affect the U.S. economy and trade.

When Mexico announced a 17-point program for foreign investors, the *New York Times* headlined its story on November 24, 1972, "U.S. Investors Accept Mexico's Policy." The Story began, "The Mexican Government is making it clear that it will want greater Government participation with foreigners who want to invest here. But after a month of major policy statements to that effect, key American business spokesmen say they still believe Mexico remains an attractive investment possibility." There were no full-page ads in U.S. newspapers about the problem, certainly no ads suggesting "retaliation" against Mexico.

Likewise, when Canada decided to screen foreign investments last year, no outcry greeted the move.

Australia recently announced new curbs on foreign investors. *Business Week* headlined its story, "Australia: the picnic is over for foreign business. Australia, with $12 billion foreign investment, one third from the U.S., has decided to make sure it owns it own future." *Business Week* reported that "U.S. multinational companies with interests in Australia profess to be unworried—although they are watching the new government carefully. The concern over local participation is reasonable and we welcome it," says a spokesman for American Metal Climax, Inc. AMAX has a 25% share of the vast Mt. Newman iron ore fields in Western Australia, where development is expected to cost $600 million.

Every study by and for multinational firms cites foreign trade barriers as the reason for investing abroad. What they do not show is the fact that *Electronic News* on Monday, March 12, 1973, pointed out:

"Multinational companies—supposedly avid free traders—often become protectionists overseas where they have plants flourishing behind foreign trade barriers. State Department negotiators and industry trade sources claim many U.S. firms with overseas operations do not welcome increased trade in foreign markets where they may enjoy some edge today . . .

"Purely domestic American firms—those screaming loudest for greater protection—often are the first to grab a quick buck by selling their technology to foreign competitors. For a cheap investment, overseas firms frequently leap-frog years of costly research and development to come back shortly to this country with price-undercutting imports . . .

"Unfortunately, some leading State Department officials say, multinational officials overseas tend to take on the trade prejudices of the countries in which they are located. This becomes especially true with the growing trend of multinationals to hire foreign citizens to head plants in their countries."

Look at the behavior of the U.S. companies that signed the full page advertisements in 1970 which raised the threat of a trade war if new trade legislation was passed. Many of the companies which signed the ad were even then operating behind complex trade barriers erected by other nations. In Japan, for example, Caterpillar Mitsubishi was producing in 1970 behind a multiplicity of administra-

tive controls on imports . . . and a licensing system covering all imports. It produced in Japan for the Japanese market. Now Caterpillar plans to send a small tractor, made by Caterpillar Mitsubishi to the U.S. It is to their corporate advantage to keep Japanese barriers high and ours low.

IBM—a signator to the ad—was one of the few firms with 100% ownership in its Japanese subsidiary in 1970. Computer exports from the U.S. met barriers to trade requiring import certificates for quotas from MITI, according to *Forbes* magazine in May of 1971. IBM was comfortably behind Japan's barriers.

American Smelting told an Australian Senate select committee last year that Australian participation in its holding company had grown from 5% to 39% in the past 20 years. "And the company has no U.S. directors," a spokesman adds. (*Business Week*, January 20, 1973.)

Time magazine reported on November 13, 1972, "Country after country is imposing or contemplating restrictions on American investment that it was once pleased to get."

In 1974 the Economic Report of the President published a list of only 1973 actions. (attached)

Every country in the world, it seems, has a right to have a sovereign government, to change its regulations on investment or imports from abroad or to abroad, but any suggestion that the U.S. change its rules is greeted by howls of dismay by the U.S. multinationals. Multinationals have not emphasized these problems for the U.S. because they oppose new U.S. legislation. But for the U.S. not to act, in the fact of this sweeping change, is to make the American economy a helpless giant, pummeled by adverse changes.

Companies abroad have to conform to local rules, of course. Among the more enjoyable rules are investment incentives through taxes. Some nations have tax free holidays to attract investors, others have special programs for areas with high unemployment. The *Wall Street Journal* on November 19, 1973 stated "Inducements offered by government partners can be seductive, if somewhat unAmerican sounding. In return for conforming to a national five-year plan and accepting export targets, insiders say, a company may well be offered a domestic monopoly, tax holidays, fixed prices and stiff barriers against competing imports. In police states of the far left and right alike, the bonus-repression of wage demands may be tossed in."

The U.S. has various investment incentives, too, just as it has regulations. But every proposed restrictive change in U.S. law is opposed by the same companies that have been able to adapt to the massive changes now occurring around the world. Each company has a different problem—and each company represents its individual view to the Congress. But the U.S. economy at home is not treated as an entity in their statements, except as an extension of their multinational corporate interest.

The American workingman believes—as do the people of other nations—that we have the right to our own future.

Even the basic statistical argument used for years to "prove" that retaliation would cost U.S. jobs has changed completely. The sloganeers used to explain that if foreign countries put up barriers to U.S. exports, the U.S. would lose jobs and retaliation would start a trade war. Inasmuch as the U.S. had more jobs related to exports than to imports, this was a serious threat, they claimed. They did not explain that U.S. companies would merely surmount the barriers abroad and join the foreigners to ship goods into third markets from abroad or back to the U.S. markets as they chose.

Now that the U.S. has had recurring deficits in trade and in our balance of payments, the time has come to stop the scare talk about retaliation and ask our friendly trading partners to remember that trade is a two way street.

International forums for talks exist. International mechanisms still need to be worked out. But the United States needs to have a framework for mutual negotiations. That framework is in the recommendations for new trade legislation contained in Appendix I.

MAJOR CHANGES IN CAPITAL CONTROLS, 1973

Country	Control on banks and other financial intermediaries	Controls on portfolio investment	Controls on direct investment
Australia	February—broadened coverage of restrictions on borrowing abroad. October increase from 25 to 33⅓ percent in noninterest-bearing deposits required on borrowings from abroad with a maturity in excess of 2 years.		March general ban on foreign investment in Australian real estate.
Belgium	March to early September—negative interest rate of ¼ percent per week on nonresident convertible franc holdings exceeding the daily average in the last quarter of 1972. Late September—negative interest rate reimposed.		
Canada			December—act calling for screening of new foreign direct investments in Canada passed.
France	March to early October—prohibition of interest payments on nonresident franc deposits of less than 180 days; increase (to 100 percent) in mandatory reserve requirements on excess of these deposits above their Jan. 4 level. March—restriction on banks' forward exchange transactions with nonresidents. April to late October—banks allowed to impose a negative interest rate of 0.75 percent per month on the increase in nonresident frac deposits above the January 4 level. September—banks prohibited from lending francs to nonresidents.	March to early October—nonresident purchases of short-term securities prohibited.	
Germany	Feb. 4—prior authorization required (and as a rule not given) for contracting of foreign loans and credits in excess of DM50,000. Feb. 24—Government empowered to raise the cash deposit requirement against foreign borrowing from 50 to 100 percent (authority not yet invoked). July 1 to Oct. 1—minimum reserve requirements against foreign liabilities effectively increased to 90–100 percent, as opposed to 8–20 percent on domestic liabilities.	February—new restrictions on sale of domestic securities to nonresidents.	February—authorization requirement for nonresident direct investment valued in excess of DM500,000.
Italy		July—blocked non-interest-bearing deposit of 50 percent (25 percent for mutual funds) required on portfolio investments abroad.	July—similar deposit required on direct investments abroad.

Japan	May—increase from 70 to 90 percent in allowable foreign currency financing of external operations, including direct investments overseas, purchases of real estate abroad, and prepayments for imports.	May—relaxation of controls governing acquisition of Japanese securities by foreign investors, and acquisition of foreign securities by Japanese investors.	May—continued relaxation of controls on direct foreign investment in Japan. With some exceptions, virtually all industries will be fully open to foreign ownership by the end of 1975.
	Oct. 25—relaxed requirement that foreigners floating yen loans must immediately convert 90 percent of the proceeds into foreign currency.	November—banned resident purchases of foreign bonds within 6 months of their maturity; ended requirement that security houses should balance foreign purchases and sales of Japanese stocks.	
	Nov. 21—Government announced that it would make no further additions to its dollar financing of ½ of Japanese banks' importloans.	----------	
	December—marginal reserve requirement on free yen deposits by nonresidents lowered from 50 percent to 10 percent.	December—foreigners allowed to purchase Japanese bonds without restrictions.	
Netherlands	March to May—non-interest-bearing reserve requirement levied on increases in banks' net foreign guilder liabilities; special commission levied against increases in balances in convertible guilder accounts.	January—residents allowed to subscribe for new Euroguilder notes issued by residents.	
Switzerland	Jan. 29 to Oct. 29—banks prohibited from having net liabilities in foreign currencies (spot and forward together).	----------	
	Oct. 1—National Bank revoked the 2 percent per quarter negative interest rate on banks' franc deposit liabilities to nonresidents.		
United States	May 16—Federal Reserve Board (FRB) lowered reserve requirements against Eurodollar borrowings in excess of the reserve free base (from 20 to 8 percent), and took steps to eliminate gradually the reserve free bases.	April—interest equalization tax (IET) extended through June 1974.	Continued liberalization: export credits extended by direct investors to their affiliated foreign nationals exempted from controls.
	Dec. 26—Federal Reserve Board announced effective Jan. 1, increased foreign lending and investment ceilings for banks and other financial institutions subject to the voluntary foreign credit restraint program ceilings raised on foreign loans by U.S. banks, by U.S. agencies and branches of foreign banks, and by U.S nonbank financial institutions.	Dec. 26—Treasury Department announced reduction of the IET from an annual rate of ¾ to ¼ percent per annum effective Jan. 1, 1974.	Dec. 26—Commerce Department announced, effective Jan. 1, increased minimum allowable direct investment abroad by U.S. firms from $10,000,000 to $20,000,000 per year. In addition, various other regulations were relaxed.
	January 1974—Controls on foreign lending by financial institutions suspended.	January 1974—IET reduced to zero----------	January 1974—Controls on foreign investment by U.S. corporations suspended.

Source: International Monetary Fund, and Board of Governors of the Federal Reserve System.

APPENDIX VIII

ANSWER TO ARGUMENT THAT U.S. CONSUMERS WILL BE HURT IF IMPORTS AND EXPORTS ARE REGULATED

World trade has been expanding more rapidly than output for many years. In 1971 world exports rose 18% and in 1971 world exports rose 12%. As world trade has expanded and become much freer, world inflation has continued to rise as country after country faced new and serious problems.

Few American consumers can put much faith in international trade as the solution to their price problems in 1974. They know that U.S. trade has expanded rapidly—both exports and imports—and that prices have gone through the roof. U.S. consumer prices have risen more rapidly in the past year than at any time since World War II. U.S. trade flows were the highest in its history. "In December 1973, the Consumer Price Index was 8.8% higher than a year earlier," according to the Bureau of Labor Statistics. And food prices rose 20.1% in that period. Every analysis shows that both the price of imports and the price of exports rose rapidly. International trade in 1973 and 1974 creates higher prices for Americans.

Quotas, which are usually blamed for rising prices, seemed to have less impact than the lack of quotas. The world sugar prices were higher than U.S. prices. World oil prices were higher than U.S. prices. As food prices shot upward, most analysts talked about the rise of foreign demand. That means more exports added to pressures on prices upward. As the price of lumber, steel scrap and other products needed to produce in this country were affected by zooming exports, prices went up. The consumer is affected by exports as well as imports. While the U.S. was regulating prices at home to some extent, the old theories of free trade were used to explain policies that allowed exports to be without price controls and imports to have few effective control mechanisms to reduce prices.

The *Wall Street Journal* on March 13, 1974 (attached) showed that the U.S. increase in prices has been "by far the sharpest" of 18 countries. The U.S. has freer trade policies and freer internal non-tariff barrier policies than almost any other country in the world.

But despite this new ball game, one of the most persistent of arguments voiced by proponents of "free trade" is that imports are good for the consumer and any move to regulate them is bad.

To bolster this argument, experts trot out the textbook theory, no matter how old it may be, that imports automatically mean a greater choice of products for the consumer, more competition and hence lower prices. Regulation of imports the theory goes, reduces the selectivity of the consumer, lessens competition among U.S. businessmen, and permits American manufacturers to charge higher prices.

In the vastly changed world of the Seventies, this theory is no longer valid. The U.S. has been providing a wide-open door to imports. The result has been rapidly rising prices, lessening competition, and a narrowing of selectivity for the consumer. Few of the opponents of quotas seem to realize even in 1974 that almost every price is now higher. Both imports and exports have raised prices.

For example, the market in home electronics has been all but taken over by imports, or by "American" products which have been produced and assembled abroad—and prices have often headed upward. The consumer has the "choice" of buying a television set which may be made—even though it bears a U.S. label—in Taiwan, Hong Kong, Japan, Mexico or some other low-wage country. And the consumer pays the American price for the product, not the foreign price. Competition? Try to find a truly American-made set. Selectivity? Only among foreign-made sets.

Imported shoes, the bulk of them once from Italy then from Spain and increasingly from Brazil and elsewhere in Latin America, have taken over half the U.S. shoe market. What has happened? Shoe prices in the decade from 1961 to 1971 rose a whopping 41 per cent—and were increasing at an annual rate of

5.5 per cent at the end of that decade. Despite U.S. price controls, prices have continued to go up.

The fact is that the American consumer, as a result of America's deteriorating trade position and the outmoded and unrealistic government trade, is paying through the nose.

The costs to the consumer run far beyond the price paid for a product at the store counter. Go into a community where a plant has closed because it has been suffocated by imports. The jobs are gone. The payroll is gone. The tax base of the community is eroded. The taxpayers who still have jobs must pay more to support the services still needed by the community, or see those services diminished. They must pay more to support the welfare costs of those thrown out of work.

The loss of local purchasing power and the loss of taxes has a "ripple out" effect on the local service economy, further decreasing the jobs which depend on the industrial base. So there is a substantial hidden cost to the nation's present policy on foreign imports.

Further, the nation's import and export policy in important cases has helped contribute directly and substantially to the present inflation. Recently, this has affected almost every type of product. But again, the shoe industry is a clear example.

When the shoe industry saw that imports were going to be allowed to flood the nation without any move by the government to provide safeguard for domestic producers, many of them relocated abroad, leaving behind empty factories, unemployed workers, decimated communities, depleted tax rolls. Now these formerly American producers are using foreign nations as a base from which to send shoes made by low-cost foreign labor back to the U.S., competing with domestic producers. In addition, the overseas producers are bidding up the price of hides, thereby influencing the flow and supply of U.S. hides to go into export markets. This makes the domestic price of hides for domestic shoe and leather goods manufacturers, higher, and these increased prices are passed along to the American consumer.

The inundation of the American market from imports has been a large factor in the huge U.S. balance of international payments deficits over recent years which were at the heart of two devaluations of the dollar within a 14-month period. These devaluations, according to Federal Reserve Board estimates, cost the American consumer some $8 billion.

One purpose of a currency devaluation is to "cheapen" a currency against other currencies. The U.S. devaluations made the dollar worth less in international trade; that is, Americans had to pay more dollars for the same amount of imports as a result of devaluation. The theory of a devaluation is that it tends to curb imports because they will be higher in price. Americans, the theory goes, would then turn to U.S. products, where the devaluation would not affect the price of goods.

However, the pace of import purchases by Americans seems so far to have had little affect by devaluation. The *President's International Economic Report* explains that the trends in imports from developing countries did not change much "because except for minor adjustments, these countries' currencies continued to follow the dollar." (p. 37) In many cases, consumers have little or no choice but to go on buying the imported products, paying higher prices. This is because, certainly in the field of home electronics, imports have so taken over the market that there is little or no choice; the consumer can't "Buy American" because the American products are not there. Imports dominate the market not only in home electronics but in typewriters, 35 mm cameras, radios, phonographs, shoes, just to name a few. And foreign prices of many of these and other items are heading still higher.

To put restrictions on these imports, according to the textbook theory, would send prices even higher because American producers would face less competition and thus would be able to charge what they wanted. However, facts don't always follow the theory. For example, a study of automobile prices by Stanley H. Rutenberg & Associates, a Washington economic consulting firm, shows that between 1958 and 1963, when the number of foreign auto sales in the U.S. stayed fairly level—and declined as a portion of the total sales market—auto prices in the U.S. went down by as much as 5 percent. Between 1966 and 1971 the share of foreign cars in the U.S. more than doubled, from 10 percent to 24 percent. Rather than falling, as theory says they should, price movements of autos was just about identical with that of all other industrial commodities.

The economists' studies of the impact on consumers are usually based not only on theory, but also on certain assumptions which are no longer valid. Thus, a free import policy is no guarantee of lower prices for consumers. And the im-

position of quotas to curb imports does not automatically lead to lighter prices. The following table shows a lesser price increase on items for which there were quotas than on those for which there were no quotas:

Percentage increase, from 1967 average to 1973 average

	Percent
Price rise of imported goods not subject to quotas:	
Fish, fresh or frozen	88.9
Ladies casual shoes	30.1
Handbags	29.6
Suits, year round weight	33.1
Cola drinks	31.7
Paper napkins	38.6
Price rise of imported goods subject to some quotas:	
Undershorts, cotton	23.6
Shirts	13.9
T-Shirts	22.0
Sugar	24.9
Butter	10.7
Overall consumer price index: All goods	29.9

American consumers are aware of the damage that the flood of foreign imports is causing to the U.S. economy. In a 1973 poll, the Louis Harris organization found a distinct sense among the American people to rally in support of their economy. The survey, taken among a national cross-section of 1,472 households, found that the proposition "if our people don't 'Buy American' more in the products we purchase, the U.S. economy will be in real trouble here at home" met with 65–17 percent agreement.

One of the dangers in the administration's proposed Trade Reform Act of 1973 is that it would deny consumers the chance to know whether the product they were buying was American. This is because the administration measure could remove the "marking of origin" requirement. Present trade law says that every product coming into the U.S. must be clearly marked as to its origin; if it is made in Hong Kong, or Japan, or Taiwan, it must say so.

Without this marking, the consumer who wanted to "Buy American" would have no way of knowing whether the product he was purchasing was American made. Indeed, because there would no longer be any requirement for such identification, it is likely that more U.S. manufacturers would switch to foreign production for profit purposes, and consumers would have a choice of even fewer American-made goods.

Consumer protection laws are non-tariff barriers. So are product standards. These could be removed any time after date of the enactment of the Trade Reform Act by international agreement. Congress would have 90 days to veto the agreement or it would have the force of U.S. law.

[From the Wall Street Journal]

AMERICA FIRST—U.S. INFLATION RATE NOW EXCEEDS INCREASE IN MANY OTHER LANDS

(By Alfred L. Malabre Jr.)

Prices have recently begun to rise faster in the U.S. than in many other countries.

The development marks a major turnabout in world price trends. Until recently, Americans concerned over steep U.S. inflation rates could at least derive a bit of comfort from the fact that prices were going up even more sharply almost everywhere else. Indeed, as recently as a year ago there wasn't a major country where inflation rates didn't exceed the U.S. pace.

Today, in bleak contrast, there are seven countries in Western Europe alone—plus another 11 in other parts of the globe—where prices are rising at a more moderate rate than in America.

Analysts at the International Monetary Fund in Washington, as well as other private economists, hesitate to predict whether inflation will continue to be more feverish in the U.S. than in many other lands. Oil is among the imponderables. The latest price statistics generally available don't reflect the full inflationary impact of the Arab oil squeeze, which has tended to be harsher in Western Europe and Japan than in the relatively self-sufficient U.S.

LOSING THE EDGE

In any event, the consensus view is that the U.S. in recent months has clearly lost its enviable edge in inflation-fighting. Moreover, it's widely felt that a continued sagging in the U.S. position could ultimately lead to renewed economic troubles quite apart from the price arena.

An economist at the International Monetary Fund warns, for instance, that "unless the U.S. can set a firm example in keeping inflation in check, it will be difficult for the U.S. to take the lead in working out arrangements for a lasting reform of the international monetary system." Without U.S. leadership, he adds, the likelihood of reforming the system seems "dim."

Another analyst, at Chase Manhattan Bank in New York, worries that, unless the U.S. can maintain a relatively effective rein on prices, "It's entirely possible that U.S. goods could encounter fresh difficulties in world markets, where only recently they have started to compete effectively again." He notes that in January, the latest month for which figures are available, the U.S. exports topped imports by nearly $644 million, a dramatic improvement from January 1973, when U.S. trade was in deficit to the tune of about $290 million.

The table below shows how good, in relative terms, America's inflation record seemed as recently as last March and how the U.S. position has deteriorated since then. The first column lists the average increase in consumer prices in various West European countries and in the U.S. during the most recent 12-month period available, generally through January or December. The second column shows the consumer price rise in the same lands for the 12 months ended last March.

	Percent	
	Latest 12 months	Year ago
United States	9.4	4.7
Austria	7.8	7.6
Belgium	7.5	7.0
France	8.4	6.4
West Germany	7.8	6.9
The Netherlands	8.2	7.7
Norway	8.5	7.7
Sweden	8.0	6.0

In every case, the rate of inflation has accelerated. But the U.S. speedup, as the table indicates, has been by far the sharpest. Indeed, International Monetary Fund statistics show that only Britain, Italy and Switzerland within industrial Western Europe have steeper inflation rates now than America. The only other major industrial country whose price spiral remains more severe than that in the U.S., in fact, is Japan, where inflation was a fat 20.4% in the past year. Other places where inflation a year ago exceeded the U.S. pace but now is more moderate include such disparate lands as Iraq, Malta and Tunisia.

Many analysts cite the expansionary direction of U.S. economic policies in recent months as a fundamental cause of the country's deteriorating price performance, compared with the record elsewhere.

International Monetary Fund statistics show, for instance, that the U.S. money supply—defined as private checking accounts and currency in circulation—has grown more swiftly over the past year, while monetary expansion in most key countries has tended to slow. Economists generally hold that accelerating monetary expansion tends to bring a speedup in inflation and slowing monetary growth tends to foster more moderate price increases.

COMPARING MONETARY GROWTH

In the 12 months ended last March, U.S. monetary growth came to only 3%, IMF figures show. This was far more moderate than monetary expansion in any other major nation. Increases during the same span amounted to 11% in France, 14% in West Germany, 15% in Belgium, 16% in the Netherlands, 18% in Canada and a frenetic 27% in Japan.

Since then, however, U.S. monetary growth has sharply accelerated, while monetary expansion in almost every other key country has moderated, in some cases dramatically. In a recent 12-month period, according to the IMF, the U.S.

money supply rose about 6%, twice the March 1973 rise. In the same period, monetary growth in West Germany and the Netherlands amounted to about 1%. Other countries where monetary expansion has slowed markedly since a year ago include France, Canada, Japan and Belgium. The only major nations, besides the U.S., where monetary expansion has accelerated are Britain and Italy. In each, it's noteworthy, inflation has begun to soar at double-figure rates.

A relatively rapid buildup of inflationary pressures in the U.S. also can be seen in statistics that compare factory operating rates in various countries. Inflation is more likely at a time when factories are operating at or close to capacity than when a substantial portion of facilities stands idle.

As recently as the start of 1972, according to a Commerce Department analysis, U.S. factories, using 88% of their capacity on the average, operated at clearly lower rates than factories in the European Common Market, where plant operations averaged 91% of capacity. Recently, however, the analysis shows that U.S. operating rates, averaging a hectic 95% of capacity, actually exceed the Common Market average of 92%.

Hefty gains in labor productivity, of course, tend to ease inflationary pressure that might overwise build up from pay increases. Unhappily, a soon-to-be-released Labor Department study shows that productivity gains in the U.S. have recently been shrinking while increases elsewhere have been expanding.

PRODUCTIVITY IN PERSPECTIVE

Between 1972 and 1973, the study shows, productivity gains in the U.S. slipped from 5.2% to 4.7%. In the same two years, in contrast, productivity gains increased in Canada from 4.4% to 5.1%, in Japan from 10.1% to 18.9%, in France from 7.2% to 8% and in West Germany from 7% to 7.3%.

The lackluster U.S. productivity record, some analysts note, has come at a time when U.S. labor unions appear increasingly vocal about the need for big pay boosts to help workers regain purchasing power eroded in recent months by accelerating inflation.

U.S. workers generally remain by far the best paid in the world, even after repeated devaluations of the U.S. dollar and vastly larger annual pay boosts in such lands as Japan, where hourly pay went up an average of 21% last year, nearly triple the average U.S. gain. An unpublished Labor Department analysis places average hourly compensation for U.S. production workers last year at $5.25. This compares with $4.79 in Canada, $2.12 in Japan, $2.77 in France, $4.32 in West Germany, $2.72 in Italy and $1.99 in Britain. The analysis uses currency exchange rates prevailing in the middle of last month to arrive at the foreign pay rates.

OTHER IMPONDERABLES

The cost and availability of oil isn't the only imponderable that analysts cite when attempting to assess whether U.S. price increases will continue to be relatively steep. Another uncertainty involves the question of U.S. economic policies in the months ahead. Will U.S. planners adopt a more conservative stance for example, on the monetary front? And will the recent monetary stringency so evident in West Germany and elsewhere remain in effect?

There are still other uncertainties. How much does the progressive removal of controls in the U.S. alter America's relative prices? To what extent will wage-price restraints persist abroad? How may the current "floating" of currency exchange rates affect price patterns in the U.S. and elsewhere?

With regard to the last question, some economists contend that the advent of floating exchange rates has begun to make it harder for the U.S. to "export" inflation elsewhere. Under the old fixed-rate system, which fell apart in 1971, foreign governments were obliged to issue local currency for inflowing dollars at fixed rates of exchange. Foreign officials often complained that this arrangement forced them to issue more marks or whatever than was healthy for their particular economies.

Such transmission of U.S. inflation is far less probable with exchange rates that move around in response to supply and demand forces, it's claimed. The upshot, some analysts contend, is that the U.S. economy today is less likely than several years ago to escape the full inflationary impact of, say, a highly expansionary monetary policy.

APPENDIX IX

ANSWERING THE ARGUMENT THAT MULTINATIONAL FIRMS' OPERATIONS ABROAD SPUR JOB GROWTH HERE

One of the most widely utilized arguments by multinational corporations is that their foreign investments over the past years have not resulted in the export of jobs but, in fact, are responsible for America's job growth. The extension of this argument, directed specifically against the Burke-Hartke bill, is that if the overseas activities of multinationals are curbed, a shrinkage of jobs in the U.S. will result.

Because this argument is so crucial to the problems of U.S. multinationals, it is worth closer examination.

The claim of job creation in relation to foreign investment made by multinational corporations stems partly from a set of statistics compiled by the Department of Commerce. These hold that the firms most active in direct foreign investment in the years 1966 to 1972 showed a greater gain in employment in their U.S. facilities than did other U.S. corporations. The multinationals and their organizations also have studies of their own, which not surprisingly reach the same conclusion.

It can be completely true that those corporations which invested most heavily in foreign investment showed the greater gain in U.S. employment, but that does not make it true, as the multinationals would have everyone believe, that foreign investment is thus responsible for the faster job growth at home. To maintain that is so is the most dangerous sort of nonsense.

The multinationals examined by the Commerce Department are not just corporations which invest overseas. They include America's largest concerns, which are the largest employers, the largest defense contractors, the largest recipients of government contracts at all levels and those most heavily involved in mergers and acquisitions.

These firms are not a cross-section—a slice—of America. They are the commanding heights of our industrial structure. This was pointed out in a Tariff Commission report to Congress in early 1973. "The multinational firms are neither minor employers nor a special case which can be analyzed independently of the national economy. They are the backbone of the demand side of the labor market, the firms which ... have the biggest quantitative punch in terms of the numbers of people they hire."

Rather than foreign investment creating jobs in the U.S., a closer look at the broad evidence available from government statistics is that employment growth from domestic influences is masking job losses resulting from direct overseas investment and from imports. Unfortunately, the evidence in some cases is presented in such a way that it is subject to selective interpretation. The President's report to Congress on international economic policy, for example, cites the Tariff Commission report as providing "a realistic set of assumptions that U.S. multinational corporations created a net gain in U.S. employment of about one-half million jobs."—while ignoring two other sets of assumptions in the Tariff Commission report that led to the conclusion that between 400,000 and 1.3 million job opportunities were lost to Americans because of investment and trade changes in which the firms' activities were a factor.

In addition, claims of net job creation by the multinationals from overseas investments are highly vulnerable. As well as being active in direct foreign investment, multinational concerns during the 1960s were heavily engaged in domestic mergers and acquisitions. Subtract the employment additions to these concerns as a result of these activities from the claimed job growth statistics, and a different picture emerges. Furthermore, foreign investment activities of large U.S. corporations have the impact of wiping out the jobs and businesses of American firms. For example, the vendor firms, the service firms and the spinoff firms all lose heavily when a firm abandons a U.S. community or fails to locate its expansion here.

The Emergency Committee for American Trade claims, from its own studies, an employment growth among multinationals in the decade from 1960 to 1970 of 36.5 percent compared with an employment growth of 30.8 percent for all industries to prove its point that foreign investment creates U.S. jobs. But without the job additions to these concerns as a result of mergers and acquisitions, the multinationals' growth is 21.6 percent—considerably less than the all industries figure.

APPENDIX X

ANSWERING THE ARGUMENT THAT IF THE U.S. ACTS IN ITS OWN BEHALF IMPORTS AND EXPORTS WILL BE REDUCED AND TRADE DIMINISHED

The argument is made that if the U.S. acts to limit imports, both imports and U.S. exports will suffer, thus causing a shrinking of world trade. If this argument were valid, Japan would have become a poor bankrupt nation instead of a world leader. It was only after Japan began to liberalize trade that her troubles began. Japan, as with most nations, still strongly limits access to its markets.

Americans are naive if they believe that other nations do not move to protect themselves when they feel threatened in world trade. Throughout the world it is government policy to act at once without the rhetoric of "free trade" or the straw man of "retaliation" where problems arise. The Arab embargo should have taught the United States a lesson.

Regardless of what comes out of trade legislation this year, every nation in the world will continue to act in its own self-interest. They intend to keep their industries, their productive capabilities and will continue to expand them. They will not shut them down nor will they give them to us. They will not negotiate away any favorable trade stance, nor will they open their markets to a torrent of goods from this or any other nation that would threaten to overwhelm their productive capacity. They can agree to new international rules because they already have national rules. The proposed trade law asks the Congress to remove U.S. laws when negotiations require it.

In the world of today, tariffs are only the tip of the trade iceberg. It is the above-water area of gentlemanly negotiations where long standing trade exchanges are "fine tuned." But when a nation is threatened it will move immediately to other, more protective, means of guaranteeing their international positions.

Everyone now knows that other nations are increasing, not lessening, the barriers to their markets. The need for energy will cause them to seek to maximize exports wherever they can penetrate markets.

Tariffs, non-tariff barriers, licensing restrictions, quotas, protective government purchasing policies and other restraints are increasing daily throughout the world. This was occurring before the oil crisis. For example, reports show that the situation had grown worse in many areas in the 1970s. In the so-called non-industrial countries, like Spain, Brazil and Mexico, the law requires production in those countries for local sales and requires exports from those countries by foreign investors who produce there. In December, 1972, the New York Times reported that auto manufacturers were required to have "only 50% of their production with Spanish made components provided that the original investment is more than $158 million of fixed assets and two-thirds of the production is exported."

The Mexican government anuounced in October, 1972 that foreign investors would still be required to fit their investments into the Mexican government's national policy. For example, President Echeverria on October 23, 1972 issued an announcement on automobiles making it the "obligation of automobile manufacturers to employ a minimum 60% of Mexican-made components in car production."

The Brazilian government recently decreed that foreigners who wish to invest must bring into Brazil their fully-operating plants that have been producing efficiently in a developed country before the Brazilian government will permit investment. Then the production must be exported from Brazil except for the amount the Brazilian government allows to be sold in the Brazilian market under quota. Even the most industrial countries have similar arrangements.

The list could be longer, but much of the information needed is available only to companies and governments—not to labor unions. But the facts are clear, U.S. firms, producing in other countries, for reasons that seem pressing in their own interest, expand in those countries behind foreign trade barriers and follow

those countries' rules requiring exports to the U.S. Thus they operate as both a sword and a shield against expansion of U.S. trade.

These walls to genuine trade will not bend to "negotiations" or the so-called authority in the Administration's trade bill. The U.S. enters negotiations with the least barriers to bargain away.

The U.S. can expand its exports in non-agricultural products only if it has a manufacturing capacity with which to produce the goods. If the U.S. market is inundated and smothered and its raw materials exported, it is unlikely to produce the goods necessary for export. For example, how is the U.S. going to export typewriters, bicycles, black and white TV sets, home radios or cameras? We are virtually out of the business of producing these products other products like aircraft and machinery have begun to follow. At the moment, the U.S. policy is to allow this nation to give up producing industries and service industries. So what will we produce for export? We are ready to give up computer hardware and computer software; we are prepared to give up aircraft manufacture and aircraft operations; we are prepared to give up electronics manufacturing; we are prepared to give up service printing; we are prepared to give up all but those few industries where we have made voluntary trade agreements or where we have statutory quotas—a slender list of goods and products. This course can only cause fewer exports—and fewer imports.

APPENDIX XI

ANSWERING THE CLAIM THAT PROVIDING THE PRESIDENT WITH OPTIONS WILL MEET THE U.S. TRADE PROBLEMS

Existing legislation contains many provisions, seldom used, to enable the United States to keep imports from destroying domestic industry. Legislation exists to regulate exports and to strengthen bargaining power with other nations. This legislation has seldom been used although the President has the authority to use it. Now the Administration claims that the President needs new authority for "bargaining" weapons to bring foreign tariff and non-tariff barriers down. What he actually proposes is only to reduce United States non-tariff barriers. The record shows he has not often used the power he has.

RETALIATION

Section 252(a) of the Trade Expansion Act of 1962 allows the President to "retaliate" whenever any foreign country maintains "unjustifiable" restrictions against U. S. agricultural products. He can put barriers on manufactured imports as well as farm products. This has not been put into force in response to the many barriers which have been mounting abroad. The Administration has claimed that section 252 applies only to illegal barriers under the GATT and asks new authority in the bill. Thus they concede that the U. S. now can act under 252(a) on barriers abroad. But the U.S. has not acted except on rare occasions, such as chickens and more recently some kinds of citrus. So we have had the U.S. claiming (a) that it has no authority to act and (b) foreign barriers are its major problem in expanding exports.

252(b) and (c) give the President authority to withdraw tariff reductions whenever he believes foreign trade barriers unjustifiably affect U. S. exports. Thus, in addition to agricultural products, the law applies to manufactured products and to so-called "third country" competition (that is, where a country makes an arrangement for special preferential trade with another country and cuts out U. S. exports to the third country.) The Arab embargo was obviously both illegal and unjustifiable. No "withdrawal of concessions" occurred.

The President's bill would widen all of this authority and make it more difficult to apply. But the President has not even used the authority he has. Why give him more authority not to act?

ESCAPE CLAUSE

The Trade Expansion Act of 1962 contains an "escape clause," which, in effect, says that whenever imports are increasing in major part as a result of a tariff concessions at such a rate as to be the major cause of import injury, the President may put on tariffs, negotiate orderly marketing agreements and take other steps. How has this been used? The U. S. shoe industry has been asking for help for over a decade. The U. S. shoe industry went to the Tariff Commission. The Commission found in January, 1971 by a 2–2 vote that the shoe industry had been injured. The President therefore has the tie-breaking authority—absolute right— to redress the injury by using the authority of the escape clause to aid the workers and businessmen in the U. S. shoe industry. No overall action has been taken as of March 1974. Some efforts to negotiate "orderly marketing agreements" with a few countries were ineffective. Now the President is saying he needs authority to act when U. S. industry is injured. Can anyone question that the shoe industry has been injured? Shoe imports now account for one out of every two years sold here. Joblessness has mounted in the past decade. Towns in New England and many other parts of the country have been adversely affected. But no action has been taken by the Administration. Why give more authority?

The ball bearing industry shows a similar history. For an industrial nation, the decline of the ball bearing industry should be grim evidence of the danger of merely giving the President discretion to act. The ball bearing industry has shown erosion for years. In 1973, the Tariff Commission finally found injury to

the domestic industry. The Tariff Commission report on July 30, 1973, received no Presidential action. On September 28, the President merely asked for a new set of figures about the industry because 1973 data had not been made available. There had been no action as of March, 1974.

The Tariff Commission reported in January that imports increased 23 percent in quantity and 39 percent in value—a higher penetration in the new figures in the period of 1973 where figures had been requested by the President. Thus delay worsens problems. Since 1973 showed some production rises in the huge U. S. output gain, little action is contemplated.

Nowhere has there been an analysis of the urgent need to promote an industry for the well-being of the United States. There has been a series of delays and a series of considerations of what will please domestic producers. There has been no measure of the details of production of some major multinational firms here and abroad. Instead, the United States ball bearing industry continues to be in jeopardy, as some companies import from their foreign subsidiaries. There is no analysis potential impact to the United States in the 1970s and 1980s as it needs to import ball bearings, while other nations have been helped to produce them. Dependency on ball bearing imports could be even more serious than dependency on oil.

The fact that U.S. producers have profits is used as a reason for importing more by analysis. The fact that foreign producers have profits is ignored. The President does not act.

COUNTERVAILING DUTIES

The Tariff Act of 1930, Section 303 requires (mandatory) the U.S. to apply a countervailing duty (tariff) whenever a foreign country subsidizes exports to the U.S. with a "bounty or grant." This is automatic and mandatory in the law, It has not been invoked, except on rare occasions. Now the President is asking for new discretionary authority as well as the right to delay action if negotiations would be affected. The shoe industry applied for relief under this proposal. Nothing happened.

Both the Export Administration Act and the DISC legislation (a special tax break for exports) give the President the authority to take action to restrain exports of products in short supply. In fact, as lumber exports zoomed until the prices zoomed, as demand pressed on already short domestic supply, the President failed to take effective action either to restrain the export of logs or to remove the DISC provision which gives a special tax break to log exporters who have DISCs. (PL 92–178 Sec. 993(c)(3).) Here consumers have had to pay the price for the President's failure to use the discretionary legislation already on the books.

These are just a few examples. The Administration should be asked to supply a list of the many existing statutes which enable the Administration to take action in the interest of the American producer and consumer by assuring a large enough domestic supply of all kinds of goods. Further, the Administration should explain why, since it has not used this authority, it now needs new authority.

Credibility is important in the United States today. No businessman, industry worker or housewife will believe that the purpose of new legislation is to help people in the United States unless it is proved that existing authority under prior laws is used effectively to protect America.

APPENDIX XII

U.S. LABOR PRODUCTIVITY REMAINS HIGH, LABOR COSTS LOW

One of the most frequently heard reasons from U.S. businessmen as to why they transfer plants, technology, operations—and American jobs—abroad is that U.S. labor costs are too high and productivity is too low to meet foreign competition. But now foreign firms are locating in the United States at a rapid pace.

Statistics are cited, such as those in the President's international economic report, to show that while American productivity is growing, that of other industrial nations of the world is growing faster. The conclusion drawn from this set of statistics has usually been that America cannot keep up in the modern world. The new changes in trade and money rates have dampened this argument, because companies have begun to move into the U.S. more rapidly. But the American worker is still given the credit for many problems despite rising productivity and controlled wage rates.

The fallacy in this conclusion is that it is analogous to comparing the growth of an infant over a period of a year with the growth of a teenager. The baby will win on percentages every time.

Productivity and hourly wage rates are important in relation to price as they combine to determine unit labor costs of a product. America's traditional prowess in world competition has been based on the fact that while U.S. hourly wage rates are high by comparison, their combination with high productivity has enabled unit labor costs to be kept low.

This is still the case. A 1973 Tariff Commission report to Congress on the direct investments of some U.S. multinationals in seven nations in relation to overall U.S. productivity showed that "all firm data for the U.S. showed unit labor costs to be generally lower" than in five of the nations studied. In addition, the Organization for Economic Cooperation and Development's publication Economic Outlook for December of 1972 shows that American unit labor costs have risen less rapidly than in many competing nations in the past few years. The international economic report of the President declares: "In most industries (the U.S.) still is more efficient—that is, U.S. labor produces more units of output per man-hour than any other labor force in the world." From 1970–73, U.S. unit labor costs in manufacturing rose an average yearly rate of 2.4%, in Canada 3.7%, in Japan 6.0%, West Germany 7.5%, France 6.3%, United Kingdom 8.1% and Italy 11.4%. The experts in Productivity, however, know that easy international comparisons can be misleading. Leon Greenberg, formerly of the Bureau of Labor Statistics has explained the problem as follows in "The Economics of Productivity," published by the Joint Council on Economic Education.

"It has been extremely difficult to compare the productivity of different countries because of differences in patterns of production and consumption, in monetary exchange rates and in purchasing power and particularly because of the lack of available statistics. Most comparisons which have been made tend to concentrate on the one industrial sector, manufacturing, and on the industrialized nations.

"It has been roughly estimated that output per man-hour in manufacturing in Western European countries ranged from about 40 to 60 percent of the level in the United States in 1960. Countries such as West Germany and the United Kingdom were at the higher end of the range, Italy at a lower end. Manufacturing productivity in the U.S.A. was about twice that of the U.S.S.R. and Japan.

"The gap was narrowed somewhat in the decade of the 1960's, particularly during the last half of the decade when the growth of U.S. manufacturing productivity fell to an average annual rate of 2.1 percent. During that time, output per man-hour rose at least 5 percent a year in most European countries and 14 percent per year in Japan. The phenomenal rise in Japan accompanied her rapid rise in output and her expanding position in international trade.

"The differences between the U.S.A. and other countries are not uniform among industries. It is believed, for example, that Japan, West Germany and other countries have just about closed the gap in the manufacture of certain steel

products if not for the steel indusry as a whole. In other industries the gap has remained wide. No other industrialized country has yet matched the performance of the U.S. industry as a whole, and the productivity of many developing countries is only about one-tenth that of the United States. The U.S. productivity advantage cannot be expected to last indefinitely. In this age of rapid communications the transfer of technological know-how is also speeded up and the rest of the world is eager to achieve the benefits that an efficient industrial society is capable of producing."

American productivity, statistics show, have not been laggard. Government figures show that productivity shot up to a yearly rate of increase of 3.1 percent in the 1947–71 period as against a 2.2 percent yearly gain in the previous 28 years.

What has happened, and has affected the relationships of productivity, wage rates and unit labor costs, is the emergence of an entire new set of factors.

Chief among these, in impact on U.S. and foreign productivity, is the accelerating transfer abroad of U.S. technology. The return flow has not been great enough to change the balance. The heavy movement began in the sixties and is snowballing into the seventies. The effect of these technology transfers, through licensing, shipments of entire plants abroad, is to transplant sophisticated American productivity capability onto the productivity base of the nation so benefitted. The result of this process is to enable these foreign nations to use American productivity not only to increase their own productivity rates, but to compete more effectively with U.S. produced goods. It is this which has enabled these nations to show sharp advances in productivity advances which in some cases have substantially reduced America's clear lead.

The fact that the productivity of foreign nations started from such a low base makes the increases, in comparison with that of the U.S., all that much more dramatic.

Along with the increasing transfer of technology, a major factor affecting foreign trade has been the rise in prominence of the multinationals, which through rapidly rising direct foreign investment have been the chief purveyors of technology abroad. Through their foreign subsidiaries, the multinationals have been able to take maximum advantage of the sophisticated productivity they have transferred to foreign nations in combination with lower foreign wage rates and their ability to manipulate the locations of their operations depending on labor costs, taxes and foreign exchange rates from one country to another—all within the corporate structure. As long ago as 1968, Fortune Magazine pointed out that "when (the multinational) operates in many different markets with varying labor conditions, market demands, money market rates, tax laws, etc., the corporation finds multiplying opportunities to buy cheap and sell dear if it can closely coordinate all parts of its operation. Carrying multinationalism to its logical extreme, a corporation will concentrate its production in the area where costs are lowest and build up its sales where the market is most lucrative. Thus, some U.S. electronics manufacturers are using plants in the Far East to make components for equipment sold in the U.S. market and the apparel industry is, for the first time, hinting at farming out some of its production."

The combination of the maximum use of low-wage labor in combination with modern U.S. technology operated at or close to U.S. productivity levels is an unbeatable formula for high profits. This point was touched on by Professor Peggy Musgrave in a paper prepared for the Joint Economic Committee in 1972, in which she remarked that "it should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and export. The principal difference lies in the effects on labor productivity and shares of national income. Foreign investment may enhance private profitability of U.S. capital, but it is likely to reduce the real wage to U.S. labor as well as the government's tax share in the profits."

With the U.S., it is the high productivity of the worker which helps permit a level of wages which is sufficient to supply the market for the output resulting from that productivity. Abroad, however, the efforts of the multinationals appears to be to manipulate productivity in combination with low wages for the maximum of profit. The Tariff Commission study in 1973 notes that "in setting wage rates, the (multinational) companies almost invariably approximate local standards . . . but they always show greater productivity than for all firms in the host country. Theoretically, the higher productivity of the foreign worker

in the MNC-owned plant should justify a higher wage than the national average for his trade or industry." If indeed this were the result, the improvement in well being of the people of those countries would be sufficient enough to create markets for American exports.

It is indeed ironic that the American worker is exhorted to improve productivity so that his wages can improve—and so that the goods he makes can compete in world markets—but at the same time the American concern abroad does not—for a variety of reasons—even pay the lowest wage workers as much as their gains in productivity have earned. With the export of technology and the use of its high productivity in competition with American output, the U.S. based worker and industry is fighting a losing battle. No amount of attention to productivity and unit labor costs will solve America's problems as long as multinationals operate with different rules. Since the U.S. controls started, the U.S. worker has been told to keep his wages low *and* his productivity high.

Without the expansion of consumer purchasing power through a rising wage level afforded by higher productivity, the goods produced must seek markets where they can be afforded. These markets are either where they come in competition with U.S. produced exports, or within the U.S. itself. Professor Musgrave, in the earlier noted paper for the Joint Economic Committee of Congress, notes that "it is possible that production by U.S. affiliates abroad, particularly in manufacturing, may serve to displace U.S. exports and even domestic sales in the U.S. This displacement effect is the more likely since those corporations accounting for the bulk of manufacturing investment abroad are also major exporters. Moreover, sales of manufacturing subsidiaries abroad are now two to three times the level of U.S. exports of manufactured products."

The effect on trade from the operations of multinationals has been only partially explored. But the Tariff Commission report states that there is "prima facie evidence of an erosion of U.S. markets by foreign sales of MNC affiliates abroad."

In some of the nations where U.S. direct investment and licensing have expanded rapidly, exports showed fantastic growth in the sixties in manufactured goods; Germany's exports rose more than 200 per cent; French exports rose 160 per cent; Belgium and Luxembourg and the Netherlands more than 200 per cent; Italy 450 per cent; Japan almost 500 per cent—while U.S. exports climbed only 128 per cent.

Putting it mildly, the Tariff Commission report states that "an immense amount of world trade is generated outside the U.S. by the MNCs. As an indicator of how important these flows are, available data show that majority-owned affiliates exports to countries other than the U.S. were an estimated $33 billion, compared with exports to the U.S. of $10 billion and local sales of $118 billion."

This $43 billion of exports (including exports back to the U.S.) by U.S. based multinationals is more than U.S.-generated exports. The conclusion is inescapable, from all of this, that efforts to expand exports from the U.S. are meeting increasing competition not only from foreign firms—but from the foreign affiliates of U.S. based multinationals.

Despite all of the changes in the dollar, the rapid rises of wages and productivity abroad, the improvement in U.S. living costs. America still had a dificit in trade with Germany, with Japan, with Canada in 1978.

Appendix XIII

Item 807 and 806.30 of the Tariff Schedules of the United States

The Items 807 and 806.30 of the U.S. Tariff code are examples of the way U.S. law helps export jobs, expand industry abroad, and add to America's import at the expense of the U.S. economy. The so-called "trade" under these items expanded from $953 million imported in 1966 to $3.4 billion in 1972 to $3.6 billion in the first ten months of 1973. The principle involved is that a nation should not tax its own products when re-imported. Therefore Item 807 provides that no tariff will be charged on "exports" of U.S. components which are assembled abroad when the product is re-imported. The tariff charged is only on the value added in the other country—which may be only 3 cents an hour, 10 cents an hour or 50 cents an hour assembly labor. For example, the components of a TV set may be sent to Mexico, Hong Kong, Korea, Taiwan and re-imported as TV sets—with the duty charged only on the foreign content (often only low-wage labor). Item 806.30 applies the same principle to mental processing. Thus metal chips used in electronics are procesed and re-imported duty free.

In 1972, $2.5 billion worth of foreign production was imported while U.S. "exports" were $868.8 million.

However, there is no real export—the "U.S." product must come back or Items 807 and 806.30 do not apply. In practice, the same product is not re-imported, because the component has been incorporated into a complete new product. Other countries naturally try to have as much production in their countries as possible, so that, over time, 807 and 806.30 often account for less of the imported products. Eventually, as in Taiwan, the whole TV set (originally U.S. parts were returned) is made in Taiwan, for example. Then 807 no longer shows a rise, but imports continue to rise.

In 1967, the AFL–CIO began to seek repeal of Item 807, which provides a special tariff break for imports from countries which use exported U.S. components for assembly into final products for export back to the U.S. The tariff charged on the imported product is only on the value added in the other country—often merely low-wage assembly labor. Thus companies get a double break—the use of foreign low-wage labor and special tariff exemptions. The companies use this section to expand their multinational enterprises, as many countries insist on more and more production of more and more parts of the product within their borders. What began as a trickle has become a raging river of imports.

The flight of U.S. companies to northern Mexico's low-wage "border zone" to us cheap labor with this provision shows how multinationals operate under present tariff loophols at the expense of working Americans. In 1967, the AFL–CIO called attention to the fact that 33 plants with 4,000 employees had taken advantage of a Mexican government decision to set up a zone for luring U.S. plants to establish assembly operations just south of the U.S.-Mexican border. By mid-1972, there were 350 plants with at least 40,000 employees. In the fall of 1972, the Mexican government decreed that Item 807 operations could be used throughout Mexico. In 1973, 426 firms employing 58,000 Mexican workers were reported. Exports from Mexico rose from $19.2 million in 1967—when $12.3 million was in so-called U.S. exports returned to the U.S. or 64% so-called "U.S." contnt—to $396.8 million in 1972 with 59.3% so-called "U.S." content. The Treasury Department has found that the U.S. "exports" are sometimes not made in the U.S., but are imported from Far Eastern or other countries. Since the product must come back to the U.S. to qualify for 807, there are really no exports under this item.

Since the Mexican-content is largely labor, dollar values and percentage comparisons of content are misleading indicators of job exports. Thus $100 of U.S.-content may involve only one employee and $100 of Mexican-content may mean 200 Mexican employees at 50 cents a hour. As Mexican production of parts becomes possible, Mexican production is used. Then the content shifts to more advanced equipment.

Job losses have occurred as production has been transferred from cities and towns in many parts of the U.S.—New York, Ohio, Illinois, Pennsylvania, California, Wisconsin, South Dakota, Tennessee, etc. The production involved includes almost every type of manufacturing—clothing, toys, electronics, aircraft parts, shoes, sporting goods, wooden material and advanced machinery.

Mexico is merely the closest and clearest example of this problem. Item 807 is used world-wide, in developed as well as developing countries. Some Item 807 examples from the Far East: Singapore exported $6.8 million in 1969, and $80.1 million in 1972. Hong Kong exported $90.7 million in 1969 and $125.4 million in 1972. Taiwan exported $68.1 million in 1969 and $209.8 million in 1972.

The transfer of total production is particularly clear in the record of Taiwan's use of 807. By the early 1970s, companies announced that 80% content from Taiwan was used. This year, the Taiwanese announced that, like Singapore, Taiwan expects to become a "brain-service" center and closely restricts new investment to emphasize totally integrated advanced electronic equipment. Average wages are $50 a month. Exports to the U.S. were greater than imports from the U.S. in 1972 for all goods.

The companies have recently stepped up the use of Item 807 in the Dominican Republic, in Haiti, and other Caribbean nations. Brazil is beginning to be a larger user of this item. The supply of low-wage labor in the world is endless, and benefits to the labor abroad and the labor in the United States have been difficult to find. U.S. tariffs are among the lowest in the world.

"Developing" countries sent $368.1 million to the U.S. in 1969 and $923.5 million in 1973 under Item 807. During this time, the "U.S." content changed from 56.6% of the reported value to 47% of the reported value. Recently imports of refrigerators and sewing machines and similar products from Yugoslavia show a growth from $1.0 million in 1969 to $1.7 million in 1972. There is 15% so-called "U.S." content in these imports. The Communist countries have a small volume of trade in 807.

Recently the exports from Brazil, which were less than $50,000 in 1969, have begun to be reported; 1972 imports were up to $200,000. Also Haiti and the Dominican Republic and other Caribbean import sources have been reported—sometimes by units of the world's largest international firms, which assemble sporting goods or electronic equipment with the use of low-cost labor, reportedly at less than a dollar a day in Haiti.

The experience with Item 807 in developed countries illustrates the fallacy of the argument that "U.S." jobs are created in the U.S. economy by continued encouragement of foreign expansion. The total value of imports under 807 from developed countries was $2.2 billion in 1972, with $1 billion of that from West Germany. The so-called "U.S." content in the imports amounted to $13.4 million worth of components exported from the U.S. and re-imported. West Germany, which is the largest exporter in the world, used so few parts from the U.S. that it is hard to understand why U.S. labor could not have integrated the $13.4 million worth of components into the product shipped to the U.S. and saved the shipping cost of sending the components back and forth across the ocean.

Much of the Item 807 trade is in automobiles. Canada was the second largest supplier with $447 million total, of which $159 million was in "U.S." content. For the large firm which use Item 807 in these countries, the expansion abroad has been at a breakneck race in rich countries—often these which have full employment. Tariffs on autos imported into the U.S. are now 3% while tariffs on autos imported into Germany (the European Common Market rate) are 11%. Thus, the manufacturer abroad gets a special advantage for producing in the foreign country—the tariff advantage, plus the duty-free portion of the so-called U.S. export which is incorporated into the car.

Item 806.30 is similar to Item 807, but it involves duty-free entry of metals exported from the U.S. processed abroad and re-imported. This has become particularly important in the electronics industry, where silicon chips are used in production. However, like Item 807, the use of 806.30 is in many parts of the tariff Schedules of the U.S.—for aluminum processing, grinding wheels of products and returning them, in aircraft, internal combustion, steam turbines, etc.

The values reported are much smaller than for Item 807—although they are accelerating rapidly, particularly from less developed countries. For example, in 1969 (first data available) $192.6 million was imported, with $103.2 million in U.S. content. In 1972 the total was $317.5 million with $130.2 million in U.S. content. In the first ten months of 1973, the total was $396 million with $183 million in U.S. content. From developing countries in 1969 the total value imported was $26.7 million of which $9.1 million was "U.S." content. In 1972, the total was $108.2 million with $65.6 million in U.S. content.

The AFL–CIO effort to get Congressional repeal of this kind of lubricant for the expansion of multinational firms abroad repealed has not been answered by any study. After several years of study by the Executive Branch, President Nixon directed the Tariff Commission to study the impact of 807 and 806.30 in August of 1969. In 1970 the Commission report found:

U.S. employment related to trade—both 806.30 and 807—was 37,000 and foreign employment was 121,000 (p. 163).

No other country had an identical provision in its tariffs. The removal of the items would not impair any U.S. trade agreements, even though there would be more duty collected.

The amount of trade in this item was large among subsidiaries of U.S.-based multinational firms by 1969—40% of the imports (by value) in 807 and 85% of the 806.30 imports.

When Congress passed 806.30 its Congressional sponsor believed, "there is no possibility that these particular products would ever be shipped to such countries as Belgium, Spain, Portgual and so forth, because of high transportation costs."

The Tariff Commission had opposed the adoption of Item 807 in 1963.

"A large part of the trade (in Item 807) is by U.S. firms and their foreign affiliates that operate and transfer goods on a manufacturing cost basis rather than on the basis of values established in the market place" and therefore most of the values are estimated.

Because much of the trade is not in arms-length transactions (that is, the "trade" is mainly a shipment from one branch of a multinational firm to another) Treasury and Customs did not require much reporting of these items.

"Ascertainment of the relevant facts is almost wholly dependent upon extrinsic paper proof rather than physical examination of imports by customs officers. By reason of the large volume of trade under these provisions and the intricacy and mass of detailed information involved in each transaction, customs officers are, in particular obliged to accept entries as submitted with only a limited opportunity for verification of their factual content."

Duties-saved would decrease from developed countries as tariffs were reduced—from an estimated $13 million in 1969 to $8.6 million in 1972.

Labor payments by companies (wages plus supplementary compensation) were the only reports made by the Tariff Commission. Foreign workers' actual earnings were not reported. However, for labor payments, in most instances, U.S. payments were "many times higher than the hourly earnings of foreign workers engaged in comparable assembling or processing operations." The smallest differential was with Canada! The largest with Taiwan. Variations in product groups were quite large. Some examples: U.S. wages were 1.1 times the level of those in Canada and 18.2 times those of Taiwan. Average hourly earnings (wages plus compensation) were 14 cents in Taiwan and $3.50 in Canada. In office machinery, earnings in countries not located in Western Europe varied with a narrow range from 28 cents in Korea to 48 cents in Mexico.

Thus the Tariff Commission, in 1970, despite its failure to examine the labor issue in detail and its lack of competence in labor-related problems, found that there were more jobs abroad, at lower wages, that production abroad was rising and that the U.S.-based multinationals were the largest beneficiaries of Items 807 and 806.30.

Since then, the problem has grown rapidly and the value of imports both under these items and under the Tariff Schedules themselves have shot forward. Labor rates in some of the countries, like Haiti and the Dominican Republic

are reportedly even lower. Countries with highly sophisticated exports to the U.S. and the world, such as Brazil, have begun larger uses of Items 807 and 806.30. Communist countries are beginning to have the advantage of the use of these items.

TARIFF ITEMS 806.30 AND 807.00: U.S. IMPORTS, 1966-73

[Value in millions of dollars]

	Total value			Import value [1]			U.S. exports reimported [2]		
	806.30	807	Total	806.30	807	Total	806.30	807	Total
1966	63.2	889.8	953.0	29.0	776.5	805.5	34.2	113.3	147.5
1967	103.5	931.6	1,035.1	52.2	785.0	837.2	51.3	146.6	197.9
1968	122.4	1,432.0	1,554.4	57.5	1,206.2	1,263.7	64.9	225.7	290.6
1969 [3]	192.6	1,649.2	1,841.8	89.4	1,309.8	1,399.2	103.2	339.4	442.2
1970	204.0	2,008.7	2,212.7	101.3	1,572.3	1,673.6	102.6	436.4	539.0
1971	199.4	2,568.8	2,768.2	75.1	2,031.5	2,106.6	124.3	537.3	661.5
1972	317.5	3,091.3	3,408.7	130.1	2,410.3	2,540.4	187.4	680.9	868.3
1972 January to October	159.0	2,162.0	2,322.0	61.0	1,723.0	1,785.0	98.0	439.0	537.0
1973 January to October	396.0	3,207.0	3,603.0	183.0	2,566.0	2,748.0	213.0	640.0	854.0

[1] Tariffs were charged to this amount.
[2] No tariffs were charged to this amount.
[3] Data on 806.30 for 1969 are estimated; they were compiled from an analysis of entry documents supplied by the Department of Commerce and responses to U.S. Tariff Commission questionnaires.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Note: Because of rounding, the figures may not add to the totals shown.

U.S. IMPORTS FROM INDUSTRIALLY DEVELOPED AND LESS DEVELOPED COUNTRIES, 1969-72, ITEMS 806.30 AND 807

[In millions of dollars]

	1969			1970			1971			1972		
	Total value	Duty-free value	Dutiable value	Total value	Duty-free value	Dutiable value	Total value	Duty-free value	Dutiable value	Total value	Duty-free value	Dutiable value
ITEM 806.30												
Total	[1] 192.6	[1] 103.2	[1] 89.4	204.0	102.6	101.3	199.4	124.3	75.1	317.5	187.4	130.1
Developed countries	[1] 165.9	[1] 94.1	[1] 71.6	164.7	82.3	82.4	144.6	93.8	50.8	209.2	121.8	87.5
Less developed countries	[1] 26.7	[1] 9.1	[1] 17.7	39.3	20.3	19.0	54.8	30.5	24.3	108.2	65.6	42.7
ITEM 807												
Total	1,649.2	339.4	1,309.8	2,008.7	436.4	1,572.3	2,568.7	537.3	2,031.5	3,091.2	680.9	2,410.3
Developed countries	1,280.9	130.9	1,149.9	1,506.3	161.2	1,345.1	1,907.9	229.4	1,741.6	2,167.5	245.9	1,921.6
Less developed countries	368.1	208.5	159.6	502.2	275.2	226.9	597.7	307.9	289.8	923.5	435.0	488.5

[1] Data for 1969 are estimated; they were compiled from an analysis of entry documents supplied by the Department of Commerce and responses to U.S. Tariff Commission questionnaires.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Note: Data in table on item 807 have been adjusted to exclude imports erroneously reported as having been entered under TSUS item 807. Due to rounding, figures may not add to totals shown.

APPENDIX XIV

TRANSFER OF TECHNOLOGY

The AFL–CIO urges that clear provisions should be written into new trade legislation to regulate exports of capital and new technology. Other nations are demanding the newest kind of U.S. technological facilities, and U.S. firms are licensing or producing America's newest inventions abroad with the help of the U.S. and foreign governments.

" 'We're interested in one, your technology, and two, your markets,' " said the Saudi Arabian oil minister Yamani, quoted in *The Wall Street Journal* on January 7, 1974. It summarizes the view of most nations.

The same desire has been expressed by the Soviet Union and Communist bloc countries and has led to the expressions of concern by the Department of Defense, the Office of the Special Representative for Trade Negotiations and even private business concerns who are worried that America is losing its prominence and exporting technology at fire-sale prices. The AFL–CIO Executive Council noted extensions of credit to the Soviet Union on February 22, 1973. It stated:

"American workers, taxpayers and consumers are paying to export these productive facilities to the Soviet Union at bargain-basement interest rates and fire-sale prices. U.S. businessmen, consumers and homebuyers are paying much higher interest rates than those extended to the U.S.S.R. And, while America needs jobs and production, the U.S. government is helping to export equipment and know-how to build the competitive strength and military power of the Soviet Union.

Government agencies and private businesses have been spending an estimated $23 billion yearly to develop America's technology. Some U.S. government and business spokesmen have recently warned of the dangers and costs of these technology transfers to Communist countries. According to *Business Week* of January 12, 1974, Defense Department officials say the Communist countries are acquiring "U.S. technological know-how that has important military applications under what are supposed to be commercial agreements. The areas involved in the recent sales range from computers and communications to shipbuilding and aircraft."

Electronic News of February 4, 1974, reported that the President's trade negotiator, Ambassador William Eberle, and U.S. company officials were concerned that U.S. electronics firms might be "selling high technology rights at 'bargain basement prices'." They warned, "foreign customers, especially astute Communist bloc nations, are learning how to play one U.S. firm against another to auction off potential offers for American technology."

But most countries, unlike Saudi Arabia, want and receive U.S. credits for buying the technology. Thus the U.S. citizen pays and pays and pays.

Nation after nation has long followed policies of attracting new technology and improving technology within its borders. In 1971 AFL–CIO President George Meany called attention to this problem in his statement before the Subcommittee on Multinational Trade. In 1973, Andrew J. Biemiller, director of the AFL–CIO Department of Legislation, appeared before the Subcommittee on International Trade to reveal that the plans and technology for a number of modern weapons systems as well as non-military technology—were being exported to a number of foreign countries. We noted the regulations of other countries to attract technology and develop it. So this is not a new problem for the AFL–CIO.

In 1973, for example, we pointed out that one-time sales that benefit the balance of payments will adversely affect the U.S. balance of payments for years to come. We said that the aerospace industry—America's newest—was accelerating its export of technology. Our worst fears have been verified. America's taxpayers support research and the benefits are exported.

Since then, of course, nation after nation has adopted even more careful practices to assure their prominence and their industrial and technological strength.

Taiwan recently announced it no longer welcomes investment except in advanced equipment. As of February 1974, however, the United States still had no policy and emphasized the need to "consider the benefits the United States derives from technology transfer." (*International Economic Report of the President*, February 1974, p. 70.) Thus even in 1974, the U.S. does not recognize that action by the U.S. would be a first step toward neutrality in a world where the technology transfer has been assisted by foreign government policies to attract technology and U.S. government policy to help its "free" flow.

Though America now imports technology, the "balance" is uneven. The only measures of actual licensing and patent and transfer of know-how in the form of fees shows a better than 10 to 1 advantage for the United States. Royalties and fees paid to the U.S. totaled $3.5 billion, while payments to the foreigners for their technology in these forms were $300 million in 1973.

But the measure of this form of technology transfer ignores the accelerating pace of the measure of basic and best known transfers of technology—the direct investment abroad of U.S. firms. The AFL–CIO has clearly urged effective supervision and restraints on this outflow since 1963. U.S. long-term capital flows for direct investment have shown a steady and rising pattern from 1950 to 1973. In the early 1950s, the range was —$600 million to —$800 million yearly; in the late 1950s and early 1960s, it stepped up to —$1 billion to —$2 billion yearly. In 1965 to 1973 the range was between —$3 billion and —$4 billion yearly, according to the President's International Economic Report for 1974 (table, page 95).

The AFL–CIO has emphasized the fact that plant and equipment outlays abroad have shown a similar annual rise from about $3.8 billion in 1960 to $15.4 billion in 1973. Now the Commerce Department has revised the data, so that only majority-owned affiliates of U.S. firms' operations are surveyed. These data show that between 1966 and 1974 the rise has been from $8.7 billion to an expected $21.4 billion in 1974—with the growth from the 1968 level of $10.2 billion doubling by 1973's $21.4 billion.

The United States has in effect exported its capital, its know-how, and its most sophisticated industrial production to every nation on earth. Where new production develops, new technology will develop. And as each nation adopts more and more restrictive and self-interested policies, the response from the Administration and from the proponents of the status quo is that other nations will retaliate if the U.S. takes any steps at all or that it is "counterproductive" for the U.S. to act.

The Wall Street Journal of January 1, 1974 stated: "Many U.S. corporations, unable to get enough fuel for their factories, are planning to build factories where the fuel is—in the Mideast.

"Given the delicate political situation in the Mideast, however, few companies are eager to discuss their plans . . ." The *Journal* continued, "But the State Department had seen 30 proposals for joint-venture projects in the Mideast. (The Arab governments insist that any projects be jointly-owned.)"

Thus U.S. foreign direct investment abroad held a new meaning, made clearly evident with sharp attention focused after the energy crisis—for the United States and for its foreign direct investors.

In the face of this massive transfer, the United States Administration merely warns against U.S. policy or action that would inhibit even the outflow of direct investment. Instead of acting to regulate the flow, the U.S. government frees direct investment, as it had already freed technology. Instead of recognizing the fact that other nation's overall policies already assure the inflow of technology, the United States continues theoretical and short-sighted analysis geared to the private interests of private corporations' perceived advantage wherever in the world they might wish to locate. But the health of America and the jobs of Americans today and tomorrow depend on action by the Congress.

FOREIGN DIRECT INVESTMENT IN THE UNITED STATES

Reverse flows of investment into the U.S. have been emphasized in many recent reports. The latest government estimates presented to the Congress by the President's International Economic Report of 1974 show that by 1972, some $14.4 billion was invested in the U.S. for foreign direct investors—as uneven as the technology transfers through licensing. U.S. investments abroad totaled $94.0 billion in 1972. Investment inflows in 1973 were estimated at $1.9 billion (page 61).

There are many current questions now being asked by the Congress and other concerned citizens about the implications for this "reverse" flow. However, in a Chase Manhattan Bank publication, "Business in Brief," in December 1972, some interesting suggestions were made about the impact of import and export regulations on such investments. The Bank stated:

"The Japanese are investing in U.S. plants to surmount the high tariff and non-tariff barriers to their goods." (No description of these was given.) "But they are also concerned about the growth in U.S. export curbs. Kikkoman Shoyu, Ltd. built its soy sauce plant in Wisconsin just before the U.S. government put a temporary ban on soybean exports in the summer. Japanese textile companies—Toyobo Company, Ltd., Kanebo, Ltd. are moving to the Southeast to avoid U.S. restrictions on imported textiles to be sure. But another motivation is the desire to secure uninterrupted access to cotton supplies. Controls on cotton exports might be possible if shortages continue."

U.S. MERCHANDISE TRADE

[In billions of dollars]

Year	Exports[1]	Imports	Balance of trade	Year	Exports[1]	Imports	Balance of trade
1960	19.7	15.1	4.6	1967	31.0	26.9	4.1
1961	20.2	14.8	5.5	1968	34.1	33.2	.8
1962	21.0	16.5	4.5	1969	37.3	36.0	1.3
1963	22.5	17.2	5.3	1970	42.7	40.0	2.7
1964	25.8	18.7	7.1	1971	43.5	45.6	−2.0
1965	26.7	21.4	5.3	1972	49.2	55.6	−6.4
1966	29.5	25.6	3.9	1973	70.8	69.1	1.7

[1] Totals include reexports, as well as shipments under AID and Food for Peace programs, but exclude military grant-aid shipments. Details will not necessarily add to totals because of rounding.

Note: Imports and exports are f.o.b.

Source: "Economic Report of the President," January 1974, p. 352.

U.S. TRADE IN MANUFACTURED GOODS

[In billions of dollars]

Year	Exports	Imports	Year	Exports	Imports
1960	12.6	6.9	1967	20.8	15.8
1961	12.8	6.5	1968	23.8	20.6
1962	13.7	7.6	1969	26.8	23.0
1963	14.3	8.1	1970	29.3	25.9
1964	16.5	9.1	1971	30.4	30.4
1965	17.4	11.2	1972	33.8	37.8
1966	19.2	14.4	1973	44.7	44.8

Source: "Economic Report of the President," January 1974, p. 352.

ANNUAL PERCENT CHANGE IN U.S. EXPORTS AND IMPORTS, 1960-72

[In percent]

Year	Exports[1]	Imports	Year	Exports[1]	Imports
1960-61	2.9	−2.1	1967-68	9.8	21.6
1961-62	3.8	11.5	1968-69	9.6	8.5
1962-63	7.1	4.5	1969-70	14.3	10.9
1963-64	15.0	9.0	1970-71	2.1	14.0
1964-65	3.5	14.3	1971-72	12.8	21.9
1965-66	10.3	19.6	1972-73	44.0	24.3
1966-67	5.2	5.0			

[1] Totals include reexports as well as shipments under AID and Food for Peace programs, but exclude military grant-aid shipments.

Source: "Economic Report of the President," January 1974, p. 352.

PERCENTAGE CHAGES IN U.S. EXPORTS AND IMPORTS 1972–73

Commodity group	U.S. exports	U.S. imports
Food, beverages, and tobacco	97.0	24.7
Crude materials and fuels	51.4	51.0
Manufactured goods	32.4	18.5
Total	44.0	24.3

Source: "Economic Report of the President," 1974, p. 352.

U.S. IMPORTS

[Dollar amounts in millions]

Commodity description	Imports, January to October 1972	Imports, January to October 1973	Percent change
Food and live animals	$5,285.6	$6,451.7	22.1
Beverages and tobacco	792.8	972.5	22.7
Crude materials, except fuels	3,151.8	4,126.7	30.9
Mineral fuels, lubricants and related materials	3,906.3	6,159.5	57.7
Animal and vegetable oils and fats	147.8	178.6	20.8
Chemicals	1,670.8	2,013.0	20.5
Manufactured goods classified chefly by material	9,380.8	10,888.2	16.1
Leather	115.1	118.1	2.6
Plywood veneers and other wood-worked	377.6	453.8	20.2
Paper, paperboard and manufactures thereof	1,040.5	1,204.8	15.8
Textiles, excluding fibers and apparel	1,270.5	1,325.4	4.3
Glass, glassware, pottery and china	376.6	438.5	16.4
Gem diamonds	529.6	716.7	35.3
Iron and steel including pig iron and ferroalloys	2,355.2	2,469.7	4.9
Nonferrous metals, excl. ores and scrap	1,591.7	1,924.5	20.9
Metal manufactures, not elsewhere specified	937.3	1,177.1	25.6
Machinery and transport equipment	14,214.2	17,467.4	22.9
Machinery, electrical and nonelectrical	6,402.1	8,195.1	28.0
Machinery nonelectrical	3,641.9	4,493.3	23.4
Power generating machinery, including engines	1,004.6	1,213.1	20.7
Tractors and agricultural machinery	314.4	404.2	28.6
Office machinery and computers	581.9	751.0	29.1
Metalworking machines and machine tools	110.2	147.8	34.1
Textile, sewing and shoe machinery	537.1	529.7	−1.4
Other machinery, nonelectric	1,093.8	1,447.6	32.3
Machinery, apparatus and appliances, electric	2,760.1	3,701.8	34.1
Radio, TV and other telecommunications equipment	1,376.5	1,713.5	24.5
Transport equipment	7,812.1	9,272.3	18.7
Automobiles, buses, trucks including special purpose vehicles	5,240.1	5,958.2	13.7
Passenger cars, new	4,654.4	5,442.1	16.9
Automobile, bus, truck and special purpose vehicle parts	1,200.0	1,774.7	47.9
Agricultural tractor parts	108.2	149.8	38.4
Motorcycle, motor scooters and parts	605.4	196.3	−18.0
Aircraft and parts (excluding tires, engines and electrical)	321.5	455.2	41.6
Miscellaneous manufactured articles	5,726.2	6,803.5	18.8
Clothing, excluding footwear	1,570.9	1,811.1	15.4
Footwear, rubber, leather and other	766.2	906.4	18.3
Scientific, medical, optical, photographic measuring and controlling instruments	417.7	554.7	32.8
Watches, clocks and parts	194.8	265.5	36.3
Musical instruments and parts, including phonographs, tape recorders, etc	660.7	780.1	18.1
Printed matter	182.4	188.6	3.9
Toys, sporting goods and amusement equipment	474.9	544.7	14.7
Artworks collector's items and antiques	232.1	289.5	24.7

Source: U.S. Bureau of Census; "Highlights of the U.S. Export and Import Trade," report FT 990, October 1973, U.S. GPO, Washington, D.C.

U.S. EXPORTS

[Dollar amounts in millions]

Commodity description	Exports, January to October 1972	Exports, January to October 1973	Percent change
Food and live animals	$4,387.0	$9,228.8	110.4
Beverages and tobacco	723.1	785.3	8.6
Crude materials, except fuel	3,898.1	6,642.2	70.4
Mineral fuels, lubricants and related material	1,278.3	1,338.8	4.7
Animal and vegetable oils, fats and waxes	424.3	546.5	28.8
Chemicals	3,415.0	4,653.0	36.2
Manufactured goods classified chiefly by materials	4,037.1	5,721.8	41.7
Tires and other rubber articles	135.8	180.9	33.2
Paper, including newsprint	600.0	743.0	23.8
Textiles, excluding fibers and clothing	631.3	949.3	50.4
Nonmetallic mineral manufactures (cement, brick, glass, gems, etc.)	468.7	684.2	46.0
Iron and steel	688.5	1,013.9	47.3
Nonferrous, base metals and alloys, wrought or unwrought	468.4	741.6	58.3
Metal manufactures (containers, wire cable, nails, etc.)	685.2	904.2	32.0
Machinery and transport equipment	17,691.4	22,636.7	28.0
Machinery, electrical and nonelectric	10,854.8	14,004.8	29.0
Aircraft engines and parts	468.0	558.5	19.3
Automotive engines	250.1	290.3	16.1
Auto, engine parts	149.7	190.3	27.1
Other power generating machinery and parts	636.1	783.6	23.2
Agricultural machinery and parts and tractors, excluding tractor parts	628.6	838.7	33.6
Office machinery and computers	1,320.8	1,684.9	27.6
Metalworking machinery, including metalworking machine tools	335.0	388.7	16.0
Textile, sewing and leather machinery	221.0	298.1	35.0
Machines for special industries	279.1	385.8	38.2
Construction, excavating and mining machines	1,322.6	1,725.6	30.5
Construction, maintenance, excavating and leveling machines, and parts	385.2	475.3	28.6
Coal cutting, mining and well-drilling machines and parts	321.0	441.5	37.5
Industrial trucks, tractors, portable elevators and parts	83.2	122.9	47.7
Other nonelectric machinery, appliances and machine parts	2,224.9	2,759.4	24.0
Pumps for liquids, parts and attachments	219.0	270.9	23.7
Air and gas compressors and parts	130.4	169.9	30.3
Centrifuges, filtering and purifying machines for liquids, air and gases and parts	119.1	150.6	26.4
Air-conditioning and refrigerating equipment	385.7	474.9	23.1
Electric power apparatus and switchgear (generators, transformers, etc.)	649.5	877.4	35.1
Radio, TV and other telecommunications equipment	684.4	854.1	24.7
Household electrical appliances	131.3	178.1	35.6
Transport equipment	6,436.6	8,631.9	28.3
Railway vehicles and parts	180.6	184.4	2.1
Automobile and other road motor vehicles and parts (exclude tires, engines and electrical parts)	3,922.0	4,964.3	26.6
Aircraft and parts (exclude tires, engines and electrical parts)	2,501.7	3,178.8	27.1
Ships and boats	155.4	206.2	32.7
Miscellaneous manufactured articles	2,648.5	3,231.2	22.0
Plumbing, heating and lighting fixtures	69.7	87.4	25.4
Furniture	56.0	78.9	40.9
Clothing (exclude footwear)	203.5	223.5	9.8
Scientific, medical, optical, photographic and measuring and controlling instruments	810.4	998.1	23.2
Photographic supplies (film, etc.)	279.4	353.3	26.4
Musical instruments and parts (including phonographs, tape recorders, phonograph records, etc.)	225.1	281.4	25.0
Books, periodicals, other printed matter	292.3	327.0	11.9
Miscellaneous plastic goods	136.7	186.0	36.1
Toys, sporting goods and amusement equipment	265.5	251.2	-5.4
Office cabinets and files, stationary supplies	43.6	65.0	49.1
Jewelry, watches and clocks	72.2	123.8	71.5

Source: U.S. Bureau of Census, "Highlights of the U.S. Export and Import Trade," report FT990, October 1973, U.S. GPO, Washington, D.C.

PRIVATE CAPITAL OUTLFOWS FROM THE UNITED STATES FOR DIRECT INVESTMENT IN FOREIGN OPERATIONS

[In billions of dollars]

	Outflows for U.S. direct private investment (net)		Outflows for U.S. direct private investment (net)
Year:		Year:	
1950	0.6	1967	3.1
1960	1.7	1968	3.2
1961	1.6	1969	3.3
1962	1.7	1970	4.4
1963	2.0	1971	4.9
1964	2.3	1972	5.4
1965	3.5	1973[1]	3.4
1966	3.7		

[1] 1st three-quarters 1973, seasonally adjusted.

Source: Economic Report of the President, February 1970, p. 277; Economic Report of the President, January 1972, p. 150; and Survey of Current Business, Department of Commerce, September 1973.

CHANGE IN INDUSTRIAL PRODUCTION BY SELECTED INDUSTRIES: SEPTEMBER 1969-SEPTEMBER 1973

[Seasonally Adjusted: Index 1967=100]

	September 1969	September 1973[1]	Percentage change
All manufacturing	111.6	126.3	+13.2
Durable goods	111.3	123.3	+10.8
Lumber and wood products	107.0	128.9	+20.5
Primary metals	116.5	127.8	+9.7
Fabricated metal products	115.2	131.5	+14.1
Electrical equipment	109.9	129.8	+18.1
Machinery, except electrical	107.4	130.0	+21.0
Transport equipment	111.2	107.3	−3.5
Instruments, related products	117.3	141.5	+20.6
Miscellaneous manufacturing	117.3	145.3	+23.9
Nondurable goods	112.1	130.7	+16.6
Food and kindred products	109.0	123.2	+12.1
Tobacco manufacturing	96.2	109.1	+13.4
Textile mill products	112.7	130.2	+15.5
Apparel and other textile products	101.4	115.4	+13.8
Printing and publishing	105.9	113.6	+7.9
Chemicals and allied products	123.2	153.0	+24.2
Petroleum and coal products	108.0	126.0	+15.7
Rubber, plastics products	120.6	163.6	+35.7
Leather and leather products	92.7	86.4	−6.8

[1] Index as of January 1974, subject to revision.

Source: "Basic Economic Statistics," November 1973 vol. XXVII No. 11 and "Survey of Current Business," January 1974, vol. 54 No. 1.

CHANGE IN NONFARM EMPLOYMENT, 1969–73

	Number	Percentage
Industry total	5,286,000	7.5
Goods producing	−131,000	−.5
Mining	6,000	1.0
Construction	214,000	6.2
Manufacturing	−346,000	−1.7
Durable goods	−261,000	−2.2
Nondurable goods	−85,000	−1.0
Service producing	5,411,000	11.7
Transportation and public utilities	181,000	4.1
Trade	1,655,000	11.3
Wholesale trade	349,000	9.3
Retail trade	1,306,000	12.9
Finance, insurance and real estate	489,000	14.7
Services	1,636,000	13.7
Government	1,450,000	11.9
Federal	−134,000	−4.8
State and local	1,584,000	16.8

NONSUPERVISORY WAGES—WEEKLY IN DECEMBER 1973

	Amount
Average weekly earnings in manufacturing	$173.06
Average weekly earnings in services	118.32
Average weekly earnings in retail trade	97.57
Average weekly earnings in wholesale trade	159.15
Average weekly earnings in finance insurance and real estate	137.27

Source: "Monthly Labor Review," February 1974.

U.S. EMPLOYMENT IN MANUFACTURING

[In thousands]

	September 1969	September 1973	Change	
			Number	Percent
All manufacturing	20,480.0	20,132.0	−348.0	−1.7
Durable goods	12,035.0	11,801.0	−234.0	−1.9
Lumber and wood products	612.6	642.6	+30.0	+4.9
Primary metals	1,378.3	1,331.0	−47.3	−3.4
Fabricated metal products	1,457.1	1,467.4	+10.3	+.7
Electrical equipment	2,068.2	2,028.1	−40.1	−1.9
Machinery, except electrical	2,041.4	2,066.3	+24.9	+1.2
Transport equipment	2,086.0	1,881.6	−204.4	−9.8
Instruments, related products	476.8	503.9	+27.1	+5.7
Miscellaneous manufacturing	455.8	451.2	−4.6	−1.0
Nondurable goods	8,445.0	8,331.0	−114.0	−1.3
Food and kindred products	1,921.3	1,840.7	−80.6	−4.2
Tobacco manufacturing	99.6	81.7	−17.9	−18.0
Textile mill products	1,002.9	1,026.5	+23.6	+2.4
Apparel and other textile products	1,416.5	1,349.3	−67.2	−4.7
Printing and publishing	1,099.3	1,095.2	−4.1	−.4
Chemicals and allied products	1,062.5	1,038.9	−23.6	−2.2
Petroleum and coal products	190.9	191.9	+1.0	+.5
Rubber, plastics products	602.9	688.8	+85.9	+14.2
Leather and leather products	331.1	295.7	−37.4	−11.2

Source: Bureau of Labor Statistic, Employment and Earnings, 1909–72, Bulletin No. 1312–9 and vol. 20, No. 6, December 1973.

EMPLOYMENT CHANGE FROM JUNE 1969 TO JUNE 1973, BY INDUSTRY

[In thousands]

SIC		June 1969	June 1973	Change: June 1969	Change: June 1973 percent
	All manufacturing:				
	Production	14,957.0	14,739.0	−218.0	−1.5
	Nonproduction	5,428.0	5,623.0	−165.0	−3.0
	Durable goods:				
	Production	8,796.0	8,665.0	−131.0	−1.5
	Nonproduction	3,258.0	3,090.0	−168.0	−5.2
	Nondurable:				
	Production	6,161.0	6,074.0	−87.0	−1.4
	Nonproduction	2,170.0	2,173.0	+3.0	+.1
24	Lumber and wood products:				
	Production	551.0	561.3	+9.5	+1.7
	Nonproduction	80.0	87.2	+6.3	+7.8
241	Logging camps and logging contractors:				
	Production	85.4	74.0	−11.4	−13.3
	Nonproduction				
242	Sawmills and planning mills:				
	Production	217.1	202.1	−15.0	−6.9
	Nonproduction	21.0	20.8	−.2	−1.0
243	Millwork, plywood, and related products:				
	Production	153.5	187.1	+33.6	+21.9
	Nonproduction	27.6	35.4	+7.8	+28.3
25	Furniture and fixtures:				
	Production	404.4	436.4	+32.0	+7.9
	Nonproduction	83.2	91.2	+8.0	+9.6
32	Stone, clay, and glass products:				
	Production	540.3	569.0	+28.7	+5.3
	Nonproduction	130.6	139.3	+8.7	+7.0
33	Primary metal industries:				
	Production	1,110.6	1,074.1	−36.5	−3.2
	Nonproduction	275.1	257.7	−17.4	−6.8
34	Fabricated metal products:				
	Production	1,123.1	1,136.3	+13.2	+1.2
	Nonproduction	332.2	332.2	0	0
35	Machinery, except electrical:				
	Production	1,400.5	1,390.7	−9.8	−.7
	Nonproduction	651.9	663.4	+11.5	+1.8
351	Engines and turbines:				
	Production	80.3	77.4	−2.9	−3.6
	Nonproduction	36.2	40.4	+4.2	+11.6
354	Metal working machinery:				
	Production	253.8	242.1	−11.7	−4.6
	Nonproduction	87.1	83.6	−3.5	−4.0
355	Special industry machinery:				
	Production	138.9	128.7	−10.2	−7.3
	Nonproduction	69.3	64.4	−4.9	−7.1
356	General industrial machinery:				
	Production	194.9	199.2	+4.3	+2.2
	Nonproduction	97.6	90.8	−6.8	−7.0
357	Office and computing machines:				
	Production	143.8	121.2	−22.6	−15.7
	Nonproduction	130.9	143.3	+12.4	+9.5
359	Miscellaneous machinery (nonelectrical):				
	Production	181.0	185.4	+4.4	+2.4
	Nonproduction	49.7	49.5	−.2	−.4
36	Electrical equipment and supplies:				
	Production	1,362.0	1,388.8	+26.8	+2.0
	Nonproduction	677.1	618.7	−58.4	−8.6
361	Electric test and distribution equipment:				
	Production	143.4	152.4	+9.0	+6.3
	Nonproduction	66.4	65.5	−.9	−1.4
362	Electrical industrial apparatus:				
	Production	161.5	166.7	+5.2	+3.2
	Nonproduction	68.0	65.0	−3.0	−4.4
363	Household appliances:				
	Production	154.4	174.9	+20.5	+13.3
	Nonproduction	39.3	43.1	+3.8	+9.7
364	Electric lighting and wiring equipment:				
	Production	159.6	173.8	+14.2	+8.9
	Nonproduction	47.3	48.1	+.8	+1.7
365	Radio and TV receiving equipment:				
	Production	117.0	111.0	−6.0	−5.1
	Nonproduction	39.9	37.5	−2.4	−6.0
366	Communication equipment:				
	Production	255.3	225.0	−30.3	−11.9
	Nonproduction	270.2	211.2	−59.0	−21.8
367	Electronic components and accessories:				
	Production employees	278.2	277.4	−.8	−.3
	Nonproduction employees	117.6	120.4	+2.8	+2.4
369	Miscellaneous electrical products:				
	Production	92.6	107.6	+15.0	+16.2
	Nonproduction	28.4	28.4	0	0

EMPLOYMENT CHANGE FROM JUNE 1969 TO JUNE 1973, BY INDUSTRY—Continued

SIC		June 1969	June 1973	Change	
				June 1973	June 1973 percent
37	Transportation equipment:				
	Production	1,472.2	1,360.2	−112.0	−7.6
	Nonproduction	609.3	522.1	−87.2	−14.3
371	Motor vehicles and equipment:				
	Production	717.8	746.6	+28.8	+4.0
	Nonproduction	203.9	209.2	+4.3	+2.1
372	Aircraft and parts:				
	Production	461.9	280.0	−181.9	−39.4
	Nonproduction	341.8	233.7	−108.1	−31.6
3722	Aircraft engines and engine parts:				
	Production	113.0	79.0	−34.0	−30.1
	Nonproduction	91.9	65.6	−26.3	−28.6
373	Ship and boat building and repairing:				
	Production	157.7	146.6	−11.1	−7.0
	Nonproduction	35.0	36.8	+1.8	+5.1
374	Railroad equipment:				
	Production	40.4	40.1	−.3	−.7
	Nonproduction	11.4	12.5	+1.1	+9.6
375.9	Other transportation equipment:				
	Production	94.4	146.9	+52.5	+55.6
	Nonproduction	17.2	30.9	+13.7	+79.7
38	Instruments and related products:				
	Production	296.8	306.8	+10.0	+3.4
	Nonproduction	183.8	188.0	+4.2	+2.3
381	Engineering and scientific instruments:				
	Production	38.5	35.7	−2.8	−7.3
	Nonproduction	41.4	33.7	−7.7	−18.6
382	Mechanical measuring and control devices:				
	Production	73.9	72.6	−1.3	−1.8
	Nonproduction	42.2	39.4	−2.8	−6.6
383.5	Optical and ophthalmic goods:				
	Production	38.7	44.7	+6.0	+15.5
	Nonproduction	15.7	17.7	+2.0	+12.7
387	Watches, clocks, and watchcases:				
	Production	29.6	27.1	−2.5	−8.4
	Nonproduction	6.7	5.7	−1.0	−14.9
39	Miscellaneous manufacturing:				
	Production	348.6	344.0	−4.6	−1.3
	Nonproduction	96.4	95.4	−1.0	−1.0
20	Food and kindred products:				
	Production	1,188.5	1,155.8	−32.7	−2.8
	Nonproduction	595.4	569.6	−25.8	−4.3
21	Tobacco manufactures:				
	Production	59.6	56.3	−3.3	−5.5
	Nonproduction	13.1	12.2	−.9	−6.9
22	Textile mill products:				
	Production	896.7	911.3	+14.6	+1.6
	Nonproduction	119.2	124.5	+5.3	+4.4
23	Apparel and other textile products:				
	Production	1,259.0	1,186.6	−72.4	−5.8
	Nonproduction	172.9	179.1	+6.2	+3.6
26	Paper and allied products:				
	Production	559.3	565.1	+5.8	+1.0
	Nonproduction	160.7	162.1	+1.4	+.9
27	Printing and publishing:				
	Production	680.3	663.4	−16.9	−2.5
	Nonproduction	412.1	436.8	+24.7	+6.0
28	Chemicals and allied products:				
	Production	630.8	605.3	−25.5	−4.0
	Nonproduction	441.4	432.8	−8.6	−1.9
29	Petroleum and coal products:				
	Production	120.4	120.8	+.4	+.3
	Nonproduction	71.9	69.0	−2.9	−4.0
30	Rubber and plastics products, n.e.c.:				
	Production	467.4	546.8	+79.4	+17.0
	Nonproduction	134.0	144.8	+10.8	+8.1
301	Tires and plastics products, n.e.c.:				
	Production	84.3	98.3	+14.0	+16.6
	Nonproduction	35.2	38.1	+2.9	+8.2
302	Other rubber products:				
3,6	Production	145.1	155.8	+10.7	+7.4
	Nonproduction	39.5	38.3	−1.2	−3.0
302	Rubber footwear:				
	Production	22.5	24.3	+1.8	+8.0
	Nonproduction	4.0	3.8	−.2	−5.0
307	Miscellaneous plastics products:				
	Products	238.0	292.7	+54.7	+23.0
	Nonproduction	59.3	68.4	+9.1	+15.3
31	Leather and leather products:				
	Production	299.4	262.9	−36.5	−12.2
	Nonproduction	49.3	42.6	−6.7	−13.6

Source: "Employment and Earnings: United States 1909-72" (Bulletin No. 1312-9) and "vol. 20, No. 3, September 1973" Department of Labor Bureau of Labor Statistics.

AFTERNOON SESSION

The CHAIRMAN. The next witness will be Mr. Simon Katz, president of the American Importers Association.

STATEMENT OF SIMON KATZ, EXECUTIVE VICE PRESIDENT OF NEW YORK MERCHANDISE CO., PRESIDENT OF AMERICAN IMPORTERS ASSOCIATION, ACCOMPANIED BY GERALD O'BRIEN, EXECUTIVE VICE PRESIDENT, AIA, AND DAVID PALMETER, DANIELS & HOULIHAN

Mr. KATZ. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, it is not easy to follow a witness like Mr. George Meany, but we will do our best.

My name is Simon Katz. I am executive vice president of the New York Merchandise Co. of New York City. My company is an importer of variety store merchandise. I appear here in my capacity as president of the American Importers Association, New York City. I am accompanied today by Gerald O'Brien, executive vice president of AIA, and David Palmeter of the law firm of Daniels & Houlihan of Washington, D.C.

I will refer to our association as AIA. It is a nonprofit organization formed to foster and protect the importing business of the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is the recognized spokesman for importers throughout the Nation.

We welcome this opportunity to present our views on the Trade Reform Act of 1973. I ask at this point that my complete testimony be accepted for the record, and that I be permitted to summarize.

The CHAIRMAN. We will print your entire statement.

Mr. KATZ. Thank you.

We generally support the bill as passed by the House. We believe it is far superior to the original administration bill, particularly in the area of establishing standards and criteria to guide, and limit, Presidential action. However, we believe there are serious defects in the bill, and we propose changes. During the course of this brief testimony I will be able to stress only a few of the most important recommendations. And I will dwell mostly on the safeguard provisions and the Countervailing Duty Act.

With regard to the safeguard provisions, first, there is no question that requiring petitioning industries to show that increased imports were caused in major part by tariff concessions has been the stumbling block to escape clause relief. While the complexity of some of the Tariff Commission cases makes precise calculation impossible, it can fairly be stated that in at least 18 of the 25 escape clause cases decided since 1962, negative votes were cast by members of the Tariff Commission based on this principle.

We believe that some relaxation of this principle is in order, but that total elimination of the causal link is not justified. Accordingly, we recommend that the link to prior tariff concessions be retained, but that phrase employed prior to 1962, "in whole or in part," be substituted for the term "major."

Second, there is another major cause test in the present law, and this one we believe should be retained. It is the requirement that the imports

involved be the "major cause" of actual or threatened injury. The Trade Reform Act would require that the increased imports be only a substantial cause of actual or threatened injury.

Clearly, if the concession linkage has been the main hurdle facing industries petitioning for relief, then its removal, or reduction, from "major" to "in whole or in part" eliminates any justification for any further changes in the statute.

The weakening of this criterion, when combined with the removal of the link to tariff concessions, would in fact open the gates to import restrictions even in cases where it could be demonstrated that such restrictions would be little or no help to the complaining industry.

Now, with respect to the Countervailing Duty Act:

The amendments to the Countervailing Duty Act contained in the Trade Reform Act are the most far-reaching, significant, and unwise provisions of the bill. We refer specifically to the inclusion of time limits and judicial review for domestic producers of determinations by the Secretary of the Treasury that a bounty or grant exists.

The committee is well aware of the arguments in favor of these provisions. They deal primarily with the notion of fairness. Particularly in the case of judicial review, it is said that if one side can appeal, why should the other side be denied a comparable right?

The surface appeal of these arguments grows out of a fundamental misconception of the nature of the Countervailing Duty Act in American law. Implicit in these arguments is the erroneous notion that the Countervailing Duty Act, like the Antidumping Act or the escape clause, is a remedy for private injury.

To the contrary, the Countervailing Duty Act is not, and should not be, a remedy for private injury. It is, and it should be, a conferral of authority to the executive in order to empower Government to deal flexibly with the complicated problems caused by the impact of governmental programs on international trade—the programs of the U.S. Government as well as those of foreign governments.

All governments obviously need the power to react with countervailing duties to "unfair" subsidization of exports by other countries. Furthermore, because the programs involved can be so varied and subtle in both their operation and their effect, the power to countervail must be, and is, phrased in extremely broad terms. But the very necessity of phrasing the power in extremely broad terms creates a parallel necessity that the executive have the discretion not to countervail against programs even though technically within the ambit of the law.

The Countervailing Duty Act is invariably directed at the programs of sovereign governments. Consequently, its implementation raises questions of international relations not present in proceedings under other laws, such as the Antidumping Act or the escape clause.

Such a decision should not be subject to interference by private parties.

The Trade Reform Act, by imposing a decisional time limit and expanding judicial review, invites private interference on a large scale. These provisions of the bill fail to distinguish between needed governmental power and private remedy. They ignore the right, indeed the obligation of the political arms of government to determine the proper

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adjustment between foreign, economic, and domestic policy in light of the national interest. These provisions constitute an ill-advised prescription for diplomacy by litigation. They amount to an invitation to a trade war.

For these reasons, we believe that the decisional time limit and judicial review provisions should be stricken from the bill. We recognize, however, that to some the seeming inequity of the importer having the right to appeal somehow requires a comparable right for the domestic producer.

First, we would note that the importer's right to judicial review is grounded in the fundamental right of any party required to pay a tax to challenge the authority of the tax collector. There is nothing novel or unusual about this. Viewed simply as a tax matter, we submit that there is no rational basis for the proposed alteration in the relative rights of judicial review.

But we believe that much more is involved. Determinations under the Countervailing Duty Act, as we have said, are an exercise of political power involving delicate government-to-government relations. Such decisions should not be subject to interference by private parties, whether they be domestic producers or importers.

Consequently, while we oppose the extension of the right of judicial review of the Secretary's determination to domestic interests, we suggest that it would be appropriate to remove the importer's right of review on this question as well.

This position applies only to the question of the Secretary's determination as to the existence of a bounty or a grant, for this is the important question. This position does not extend, however, to the determination of the amount involved in a particular shipment.

Accordingly, we suggest that the appropriate sections of the Tariff Act of 1930 be amended to make clear the importer's right of review of the Secretary's determination of the amount of a countervailing duty on particular shipments, and to extend this right to domestic interests.

In conclusion, Mr. Chairman, our testimony submitted for the record contains a more detailed discussion of these and a number of other important points. But we would like to emphasize the overall thrust of the position we have taken. AIA has recommended that relief from import competition be easier to obtain than it presently is, especially under the escape clause provisions.

AIA also has suggested that a portion of the importer's right to judicial review of determinations under the Countervailing Duty Act be eliminated, and that domestic interests have an equal right to judicial review of determinations of the amount involved.

The recommendations of the American Importers Association are based on our belief that the broader national interest requires the exercise of responsibility on the part of everyone. Just as it is no time for nations to act for their own short-term benefit, we believe that it is no time for the various sectors of our economy to consider themselves alone.

We believe that the answer to the problems we face lies in policies that would reduce inflation, overcome shortages, and wasteful misallocations of resources, and promote international cooperation and understanding. A liberal trade policy furthers these essential ends. We are not advocating unilateral free trade overnight.

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But we are advocating recognition of the necessity of moving toward the goal of liberal trade. To the extent that that goal is not reached, there are inevitable costs to the consumer, to the economy, to all of us. To the extent that these costs are necessary, they should be borne. But as with any costs, they should be minimized.

The bill reported out by this committee and passed by the Senate will in large measure determine whether the United States is to sustain its world economic position and insure a better standard of living for all its citizens. This means that international trade must be increased, not reduced. Nobody has to lose by this policy. All Americans will lose, however, if we resign ourselves to protecting our weaknesses at the cost of abandoning our strengths.

Thank you very much.

The CHAIRMAN. Thank you very much, sir; for a very good statement.

[The prepared statement of Mr. Katz follows. Hearing continues on p. 1238.]

PREPARED STATEMENT OF SIMON KATZ, PRESIDENT, AMERICAN IMPORTERS ASSOCIATION

SUMMARY

I. The "Safeguard" provision

A. The "causal link" to part concessions should be changed from "major" to "in whole or in part," the pre-1962 language.

B. Increased imports should be the "major" cause of injury, not merely a "substantial" cause, in order for an industry to be eligible for relief.

C. Before import restrictions are resorted to, an "industry," and not just a portion of it should be found to be suffering serious injury.

D. The existing economic test for actual and threatened injury should be retained.

E. The segmentation provision should be stricken.

F. Congress should not delegate to the President authority to increase tariffs more than 150 percent above Column 2 rates.

G. Tariff rate quotas should be subject to the same standards as other quotas.

H. The adjustment assistance provisions should be improved and extended to employees of importers.

II. Countervailing Duty Act

A. 1. The time limit provision should be stricken.

2. Judicial review of the Secretary of the Treasury's determination of the *amount* of a bounty or grant should be available to both domestic producers and importers; neither domestic producers nor importers should have judicial review of the Secretary's determination of the *existence* of a bounty or grant.

B. The Act should be extended to nondutiable items, but the injury test should cover dutiable as well as nondutiable items.

III. Section 337

This anachronism should be repealed, or amended substantially.

IV. Other Provisions

A. Presidential authority to raise duties as part of a trade agreement should be limited to the Column 2 rate.

B. Section 606 is not germane to trade and should be deleted.

V. Trade Relations with Countries Not Enjoying Most-Favored-Nation Tariff Treatment

Whatever resolution is made regarding Soviet trade, MFN treatment should be extended to those countries that are not involved in the emigration problem, on a negotiated basis as originally requested by the Administration.

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Statement

Mr. Chairman and Members of the Committee:

My name is Simon Katz, Executive Vice President of New York Merchandise Co. of New York City and Los Angeles. My company is an importer of variety store merchandise. I appear here in my capacity as President of the American Importers Association (AIA), 420 Lexington Avenue, New York City. I am accompanied by Gerald O'Brien, Executive Vice President of AIA and N. David Palmeter of the law firm of Daniels & Houlihan, Washington, D.C.

The American Importers Association is a non-profit organization formed in 1921 to foster and protect the importing business of the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is the recognized spokesman for importers throughout the nation. At present, AIA is composed of nearly 1,000 American firms directly or indirectly involved with the importation and distribution of goods produced outside the United States. Its membership includes importers, exporters, import agents, brokers, retailers, domestic manufacturers, customs brokers, attorneys, banks, steamship lines, airlines, insurance companies, and others connected with foreign trade.

We welcome this opportunity to present our views on the Trade Reform Act of 1973.

Introduction

We address ourselves to the Trade Reform Act because we understand that this is the Committee's main concern. Other bills calling for import quotas have been referred to this Committee. AIA is opposed to all of them because quotas are a drastic remedy, to be imposed only in extreme circumstances. Legislated quotas confer unmerited windfalls on those industries which obtain them, with no requirement that they meet the standards and criteria for protection that apply to all other sectors of our economy. Those industries that are the subject of special quota bills should be governed by the standards of the general legislation this Committee and Congress enacts for everyone else.

We generally support the Trade Reform Act as passed by the House of Representatives. We believe the bill is far superior to the original Administration bill, particularly in the area of establishing standards and criteria to guide, and limit, Presidential action. However, there are serious defects in the bill, and we will therefore propose changes during the course of this testimony.

The past three years have been difficult years for the American economy, and for the international trading system. We have witnessed two devaluations of the dollar, the first balance of trade deficits of this century, unprecedented inflation, and the first peacetime wage and price controls in our history.

The Arab oil boycott has heightened our awareness of the economic interdependence of nations in the modern world. Shortages of oil supplies are leading some nations to look out for themselves in complete disregard of the impact of their actions on other nations. Moreover, there are indications that countries controlling a number of other essential products are considering attempts to copy the Arab technique in order to force higher prices. There is disagreement as to whether cartels in other products would work, absent the special considerations present in the Middle East. Nonetheless, the mere fact that nations are seriously considering such action is an ominous reminder of the beggar-thy-neighbor policies and atmosphere that contributed so significantly to the Great Depression of the 1930's.

The Smoot-Hawley Tariff Act of 1930 began the process of protective action and reaction among nations that led to disaster. We hope that history will not record that it was the unilateral imposition of export controls on vital agricultural products by the United States that began the downhill slide in the 1970's. Certainly this precipitant action—some would say panic-stricken action—does not help any efforts to persuade other nations to abide by the rules, and to consider the international consequences of unilateral policies.

The acute shortages and inflation that have plagued the world in the past few years demand wise, calm, rational policies if they are to be overcome, and if a slide into another world-wide depression is to be avoided.

First among these policies, we submit, is a recognition of the fact that much of the world is economically interdependent, and that selfish, unilateral measures, provoking as they must, selfish, unilateral counter measures, mean disaster for everyone. Second among these policies is recognition of the wisdom of the

classic case for liberal trade. The problems of shortages and inflation are in great part caused by misallocation of resources. Protectionism in any form is a misallocation of resources, a misallocation that unnecessarily consumes precious resources, and adds to overall inflation.

The classic case for a liberal trade policy is based upon the doctrine of comparative advantage, the fact that more goods and services are produced if each nation concentrates on doing what it does best, and trades with others for what it needs. This is, of course, an ideal, and in our imperfect world its attainment is for the future, if at all. Considerations of national security and other interests on the part of all countries often quite properly interfere with the attainment of the ideal.

Nonetheless, we believe that the events of the past few years have dramatized the wisdom of forty years of United States trade policy in striving for that ideal. To the degree that the ideal of the doctrine of comparative advantage is not reached, there is a cost to the economy—to the taxpayers and consumers of the United States. Some of these costs may be legitimate and necessary, but that does not change their nature as costs.

Traditionally, the rhetoric of foreign trade mistakenly has reversed the elementary economic principle of the doctrine of comparative advantage. This traditional rhetoric has viewed imports as an evil that must be tolerated in order to enable, or induce, foreigners to buy American exports. Recent events have demonstrated that the reverse is true: we do not import in order to export; rather, we export in order to pay for the imports we need and want.

The fact that exports are the price we, as a nation, pay for imports does not mean that export growth should be discouraged. On the contrary, increased exports from the many strong and efficient sectors of the American economy provide not only the wherewithal to pay for the imports Americans increasingly need and want, but also, by increasing employment and investment opportunities, assist in the transitions and adjustments necessary within the total economy.

In short, expanded trade—on both the export and import sides—yielding the maximum benefit to all of our citizens should be the goal of any new trade legislation. Only by approaching as nearly as possible the ideal of maximum efficiency in the allocation of resources can we hope to produce more from these finite resources, for the benefit of all of us.

The Trade Reform Act, we believe is a step in the proper direction: it authorizes the United States participation in international trade negotiations, aimed both at reducing tariffs and the trade distorting effects of nontariff barriers; it makes explicit a preference for adjustment assistance as the preferred form of import relief; it requires that consumer interests be considered in the decision-making process regarding import restrictions, and that the effect of imports on domestic competition be taken into account; limits are imposed on the President's authority to restrict imports for balance of payments purposes, and exemptions are provided from such restrictions for a variety of reasons, including articles already subject to import restrictions, goods in transit, or goods under binding contract; it further provides for the temporary suspension of import restrictions in order to insure sufficient supply at reasonable prices. (We note and endorse the Administration's proposed amendment to include temporary suspension of antidumping and countervailing duties where appropriate, and to extend the maximum period of suspension for all restraints from 150 days to one year.)

Despite these generally salutory provisions, the bill is far from perfect. We believe that changes are needed in several areas, particularly in the "safeguard" and countervailing duty provisions.—

I. THE "SAFEGUARD" PROVISION

The Trade Reform Act would make important changes in import relief provisions of the Trade Expansion Act of 1962, the "Escape Clause." We agree that the statutory criteria of the 1962 law have proved to be too rigid. One consequence of this rigidity has been to make the Escape Clause a non-viable alternative to other forms of protectionism in many cases. Another consequence has been to tempt some members of the Tariff Commission, in a well-meaning but ill-conceived attempt to make the statute more workable, to adopt the so-called "but for" test, a distortion of the statute in no way justifiable either by its language or its legislative history.

AIA believes that a fair, workable mechanism to provide time for seriously injured industries to adjust to import competition is a vital part of a sound trade policy. We also agree that changes are needed in existing law, but the changes that would be made by the Trade Reform Act are, in our view, far too drastic. They represent a swing from one extreme to the other. What is needed is neither extreme—neither the rigid, essentially unworkable provision of existing law, nor the over reaction embodied in the changes that would be made by the Trade Reform Act. What is needed is a moderate, fair, reasonable provision that meets the needs of United States industry, but, at the same time, avoids the granting of windfalls, at the expense of consumers, importers and exporters, to many industries that neither need nor deserve them.

Under present law, in order to qualify for relief from import competition an industry must show that:

1. Imports are increasing;
2. The *major cause* of the increased imports is past tariff concessions;
3. The industry is suffering actual, or threatened, serious injury;
4. The *major cause* of the serious injury, or threat thereof, is the increased imports that in turn have been caused in *major part* by past concessions.

The stumbling block to relief for possibly otherwise eligible U.S. industries under existing law has been the second item listed above—the need to show that the *major cause* of the increased imports is past tariff concessions. This is often referred to as the "causal link" or "link to concessions." While the complexity of some of the cases makes precise calculation impossible, it can fairly be said that in at least 18 of the 25 escape clause cases decided since 1962 under the Trade Expansion Act, negative votes were cast by members of the Tariff Commission based on this principle.

The Trade Reform Act passed by the House responds to this difficulty in a drastic way. It not only eliminates the requirement of a causal link to past concessions, but reduces unnecessarily the causal link between imports and serious injury.

In order to qualify for relief from import competition under the proposed legislation, an industry need only show that:

1. Imports are increasing;
2. It is suffering actual, or threatened, serious injury;
3. The increased imports are a substantial cause of the actual or threatened injury.

A. The causal link to past concessions

The rationale for the causal connection between increased imports and tariff concessions has been the view that the last legislated tariff, the Smoot-Hawley Tariff of 1930, provides enough protection for any industry. Based upon the premise that the 1930 rates constituted the Government's tariff protection "ground rules", any industry that suffered, or was threatened with, serious injury as a result of a Government change in these "ground rules"—i.e., duty reductions—was entitled to relief. In other words, an industry was allowed to "escape" from reductions in duties that caused or threatened serious injury.

American importers have no quarrel with the sound principle that if Government alters the ground rules under which an industry operates, and inadvertently causes serious injury, the industry is entitled to a temporary restoration of the status quo to allow adjustment. But the Trade Reform Act would abandon this principle entirely. The result is that it need not be Government action that causes or threatens serious injury, but merely the inability of an industry to compete in a normal market. At a time when the consumer's need for imports has been so dramatically shown in the marketplace, we believe that the abandonment of any need to show that increased imports have been caused by tariff concessions is a violation of the spirit (and probably the letter) of Article XIX of the GATT, and is an unfair burden to place on the American consumer who must pay for it all.

It may well be that the requirement that increased imports be caused in major part by concessions is too onerous, but it does not follow that the principle should be abandoned entirely. The problem did not exist until the 1962 Act. Accordingly, we recommended that the operative statutory language in use prior to 1962 be substituted for this part of the Escape Clause. Under this standard, an applicant for relief would meet the casual link requirement if it could show that increase imports were caused "in whole or in part" by tariff concessions.

Use of the test of "in whole or in part" would preserve the basic rationale of the Escape Clause—that it is Government action in reducing duties that is the

foundation of the need for relief. At the same time, it would provide a more relaxed standard of measuring the degree to which that Government action is responsible for the increased imports. Moreover, maintenance of a causal link that existed pre-1962 clearly would comply with GATT, whereas total elimination of the requirement would be at best of dubious legality under GATT standards.

In an era in which international economic cooperation is so vitally necessary, we submit that it ill behooves the United States to flout GATT standards for any reason—particularly when, as in the matter of the causal link between tariff concessions and increased imports, the domestic problem is capable of solution in conformity with GATT.

B. "Major" cause and "substantial" cause

There is a second "major cause" test in present law and this one we believe should be retained. It is the requirement that the imports involved be the "major cause" of actual or threatened injury. The Trade Reform Act would require that the increased imports be only a "substantial cause" of actual or threatened serious injury.

We are unaware of any sound reasons advanced in justification of this change in statutory standards. Unlike the "major" test linking imports to concessions, this "major" test linking imports and injury is, in our view, eminently reasonable and sound. We submit that it is only common sense that before import restrictions are imposed, it first should be determined that increased imports are the major cause of actual or threatened injury.

Clearly, if the concession linkage has been the main hurdle facing industries petitioning for relief then its removal, or reduction, from "major" to "in whole or in part" eliminates any justification for any further changes in the statute.

The weakening of this criterion, when combined with the removal of the link to tariff concessions, would in fact open the gates to import restrictions even in cases where it could be demonstrated that such restrictions would be of little or no help to the complaining industry. If increased imports have not been the major cause of injury, then what good would import restrictions be for an industry that is suffering injury due far more to other causes, such as mismanagement, or labor difficulties, than to import competition? Such relief should at least have the virtue of being as directly related as possible to the needs of the industry, since American exporters may suffer retaliation, American importers may lose their businesses, and American consumers must pay the bill.

This Committee, and all of us concerned with trade, know that there is a strong propensity on the part of industries in every country of the world to put an undue emphasis on the difficulties they face from import competition. If the industry believes that it is being injured, and there are imports in the market for whatever reason, there is a strong tendency to blame the imports without further ado. American exporters suffer from this prejudice in many markets of the world. We do not believe that the trade legislation of the United States should further the growth of this prejudice by making it the policy of the greatest trading nation in the world.

To summarize these two points, therefore, the American Importers Association submits that the so-called "major-major" test be modified, but not eliminated. Specifically, in order to obtain relief under the Act, we believe that an industry should be required to show that:

1. Imports are increasing;
2. The cause, *in whole or in part*, of the increase is tariff concessions;
3. The industry is suffering actual, or threatened, serious injury;
4. The major cause of the serious injury, or threat thereof, is the increased imports that in turn have been caused *in whole or in part* by past concessions.

C. Effective import relief

That import-restricting relief be directly related to the needs of the industry seems to us a reasonable proposition. Yet the Trade Reform Act, Section 201 (b) (2) (A) moves in the opposite direction. This provision requires the Tariff Commission, in making its determination regarding serious injury or threat thereof, to consider, among other elements, "the inability of a *significant* number of firms to operate at a reasonable level of profit." This provision would divert the Tariff Commission's inquiry from the effect of imports on an entire industry to only a portion of an industry. It is a rare industry which does not include some

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unprofitable firms and a significant proportion which are not operating "at a reasonable level" of profit, whatever that may mean. In a vigorous competitive environment, it is not uncommon for a single firm or a small group of firms, through marketing innovations or technological breakthroughs, or simply superior management, to obtain a disproportionate share of an industry's profits, while a substantial proportion of firms, perhaps even a majority, operate at far below desired or expected levels of profitability. Indeed, in any given year, approximately one-third of the nation's manufacturing corporations earn no profit. The Internal Revenue Service reports that from 1961 to 1970, from 35 to 41 percent of all manufacturing corporations reported no profit.

Even in situations where one-third of an industry is suffering serious injury from import competition, restrictions on imports would amount to a windfall for the other two-thirds. Moreover, in most industries, import relief often would not be of much aid to the injured third. While import competition may exacerbate the weaknesses of the marginal companies, the real difficulty of these firms is their inability to compete successfully with their domestic counterparts.

We submit, therefore, that before import restrictions are invoked, an industry, and not just a portion of it, should be found to be suffering serious injury. The word "significant" should be deleted, and existing statutory language maintained: "inability (of an industry) to operate at a reasonable level of profit."

D. Actual and threatened injury

Section 201(b)(2)(A) and (B) deal, respectively, with actual and threatened injury. Perhaps inadvertently, the factors that the Tariff Commission is directed to take into account in determining whether actual or threatened injury exists make the test for threatened injury easier to satisfy than the test for actual injury.

We believe that this is an extremely unsound approach. Actual injury is a demonstrable phenomenon. The factors are present and ascertainable. Persons of goodwill may differ as to their interpretation and relative importance, but generally would agree as to their existence. Threatened injury, on the other hand, is of necessity an exercise in speculation—an exercise that should be undertaken, to be sure, but no less speculative for that.

If import restrictions are to be invoked on the basis of what might occur, we submit that a petitioner should be required to show that what might occur is indeed ominous.

Present law makes no distinction in the economic factors relevant to actual or threatened injury: ". . . the Tariff Commission shall take into account all economic factors which it considers relevant, including idling of productive facilities, inability to operate at a level of reasonable profit, and unemployment or underemployment." (Trade Expansion Act of 1962, § 301(b)(2), 19 U.S.C. 1901(b)(2)). The Commission considers these factors to determine whether serious injury exists, or is threatened. The threat of injury implies the future, but the indicia of injury are identical.

We are unaware of any alleged, let alone established, deficiencies in this provision, nor of any shortcomings in its implementation by the Tariff Commission. In the absence of even an alleged inadequacy in existing law, we submit that there not only is no reason to amend, but, to the contrary, every reason not to amend. Predictability and consistency are important elements of any legal system. These should not be sacrificed without good course, and, in this instance, no good cause exists. Accordingly, AIA submits that the existing provision of law outlining the economic factors that the Tariff Commission is to take into account in making its determination as to actual or threatened injury should remain unchanged.

E. Segmentation

The concept of segmentation is unfortunately and unnecessarily made part of the Trade Reform Act by Section 201(b)(3). This section provides that in defining the industry that purports to be injured the Tariff Commission "may" in the case of a domestic producer which also imports, consider only its domestic production and ignore imports by the industry, and "may . . . treat as part of such domestic industry only that portion or subdivision of the producer which produces the like or directly competitive article." The provision is unfortunate because it introduces a highly protectionist, and economically unrealistic, element into U.S. trade law; it is unnecessary because segmentation is already permitted by existing law when appropriate.

Whether segmentation is appropriate depends upon the circumstances of a particular case and the industry involved. We are aware of no serious objections to the employment of this concept by the Tariff Commission in the cases that heretofore have been decided. For this reason alone, sound policy dictates no change be made.

Beyond this, however, subsection (B) of Section 201(b)(3) is particularly unwise. This is the portion of the segmentation clause that would permit the Commission to concentrate only on that portion of a domestic producer which produces articles like or directly competitive with the imports in question. This provision is contrary to the philosophy of adjustment to import competition that underlies the granting of import relief.

If a producer successfully has diversified out of an article subject to import competition, without the idling of productive facilities, iwthout loss of the ability to operate at a reasonable level of profit, and without unemployment or underempjloyment of its labor force, then no reason exists to grant import relief—for by definition there is no injury. Such circumstances are to be encouraged, for the very purpose of providing relief from import competition is to provide a temporary period within which U.S. producers can make just such adjustments. If these circumstances exist in the first instance, then we are indeed fortunate, for consumers have the benefit of imports, while, by definition, no injury has occurred to the domestic industry.

AIA therefore submits that the segmentation provision should be stricken.

F. Temporary tariff increase

Section 203(d)(1) permits the President to raise a duty by 50 percentage point *ad valorem* above the current rate as temporary protection to industries suffering serious injury from import competition. This is far greater than the increase permitted under existing law, which is 150 percent of the Column 2 or Smoot-Hawley rates, and far too much authority to be delegated to the President.

For example, if the present rate of duty on an article were 5 percent *ad valorem*, and the Column 2 rate 20 percent, present law would permit a temporary increase to a rate of 30 percent *ad valorem* (150% of the 20% rate), clearly a significant increase in the level of protection. The Trade Reform Act, however, would permit the President to raise the level to a rate of 55 percent (50 percentage points above the 5% rate). We submit that there is no need for the Congress to delegate such enormous power to the President in this area. He has ample flexibility in his existing authority to impose a rate equal to 150 percent of Smoot-Hawley. Such a rate is enough protection for anyone.

G. Tariff rate quotas

Section 203 provides a preferred order of forms of import relief for Presidential application: (1) duty increases; (2) tariff-rate quotas; (3) quantitative restrictions; (4) orderly marketing agreements. AIA agrees with this order of preference. We further agree with subsection (d)(2) which provides that no quantitative restriction of orderly marketing agreement will limit imports to a quantity below the amount entered during the most recent representative period.

We believe that this provision should be extended to tariff-rate quotas as well. Tariff-rate quotas can be equivalent to regular quotas, for all practical purposes, depending upon the level at which the overquota rate is set. For this reason, AIA believes that the provisions of Section 203(d)(2) should apply to tariff-rate quotas, as well as quantitative restrictions and orderly marketing agreements.

H. Adjustment assistance

Since the late 1950's, it has been recognized that Government has a special responsibility to workers who suffer hardship as a result of increased imports. The 1962 Act contained the first legislative acknowledgment of this responsibility But to the disappointment of all concerned, the 1962 provisions did not live up to expectations.

The Trade Reform Act considerably relaxes the criteria for eligibility for Adjustment Assistance, and, particularly in the case of workers, improves the benefits somewhat. We believe this definitely is a step in the right direction, but are concerned that the provisions do not go far enough.

We do not pretend to be experts in the area of manpower retraining and unemployment compensation, but we are aware that many responsible experts believe that the provisions of the Trade Reform Act are inadequate. There is no need for any inadequacy to exist. The nation as a whole benefits from increased imports, and, in our view, no group of workers should be made to bear the full burden of the costs of a policy that benefits all.

The United States needs increased international trade, but it does not need sacrificial victims to achieve that increase. We therefore suggest that the Committee improve substantially the adjustment assistance provisions of the bill.

Finally, American workers who lose jobs because of import competition are not the only workers who suffer through the dislocations caused by Government action in the field of international trade. American importers also have many employees. When import restrictions are imposed as a result of Government action, these workers suffer just as much as do American production workers when the impact is the other way. Accordingly, AIA submits that adversely affected employees of importers should also be covered by the adjustment assistance program.

II. COUNTERVAILING DUTY ACT

AIA submits that the amendments to the Countervailing Duty Act contained in the Trade Reform Act are the most far-reaching, significant, and unwise provisions of the bill. We will, therefore, discuss this heretofore relatively obscure statute in some detail.

The Countervailing Duty Act, first enacted in 1897, empowers the Secretary of the Treasury to determine whether imports of dutiable merchandise benefit from a "bounty or grant" in their production or exportation. If the determination is affirmative, the Act further empowers the Secretary to "estimate" the net amount of such "bounty or grant." The Secretary is then required by the Act to levy an additional "countervailing" duty on the merchandise in the amount of the estimated "bounty or grant."

There are several extremely significant aspects of this statute:

1. The term "bounty or grant" (akin to, but not identical with, the term "subsidy") has been construed in very broad terms by the Supreme Court. Under the language of the Court's decisions, for practical purposes, virtually any governmental program conferring an economic benefit upon an export industry is a "bounty or grant."

2. The extreme prohibitions of the Act have not been a significant impediment to trade in the past because of administrative policies. The statute provides no time limit within which the Secretary must act. Therefore, for a wide variety of sound policy reasons, many complaints that met the technical requirements of the Act were not acted upon.

3. Even if the Secretary does not act upon a complaint, but publicly denies it, the Court of Customs and Patent Appeals has held that the complaining U.S. industry has no right to obtain judicial review of the Secretary's determination. *Hammond Lead Products, Inc.* v. *United States*, 440 F.2d 1024 (1971), *cert. den.*, 404 U.S. 1005 (1971). Importers do possess the right of judicial review.

A. Time limits and judicial review

The Trade Reform Act, as passed by the House of Representatives, would make a number of important changes in the Act. Most significantly, the Secretary would be required to make a public finding within a year, and domestic interests would be given the right to judicial review of negative determinations. The bill would authorize the Secretary to refrain from imposing a countervailing duty for a period of four years following the bill's enactment, if imposition would seriously jeopardize trade negotiations. This four year postponement would be reduced to one year if the article is produced by "facilities owned or controlled by a developed country."

On the surface there is much appeal to these provisions: (1) American jurisprudence has been moving constantly toward administrative due process (i.e., fairness) and away from governmental practices that arbitrarily and capriciously thwart legitimate private rights; an official's refusal to act, to make a determination one way or the other, on a complaint alleging violation of a statute quite clearly could be characterized as an arbitrary and capricious use of power; (2) administrative authority can be abused not only by refusal to act, but by the exercise of that authority in utter disregard of the evidence, or in accordance

with manifestly unfair procedures; for this reason, administrative decisions traditionally have been subject to judicial review to ensure their conformance with both statutory and constitutional standards; (3) finally, fundamental fairness would seem to dictate that if one side (the importer) may obtain judicial review of the Secretary's decision, the other side (domestic producers) should have the same right.

The surface appeal of these arguments grows out of a fundamental misconception of the nature of the Countervailing Duty Act in American law. Implicit in these arguments is the erroneous assumption that the Countervailing Duty Act, like the Antidumping Act or the Escape Clause, is a remedy for private injury. To the contrary, the Countervailing Duty Act is not, and should not be, a remedy for private injury. It is, and should be, a conferral of authority to the executive in order to empower government to deal flexibly with the complicated problems caused by the impact of government programs—its own, as well as those of others—on international trade. The proper statutory analogue to the Countervailing Duty Act is Section 252 of the Trade Expansion Act, which empowers the President to retaliate against unfair foreign import restrictions.

All governments obviously need the power to react with countervailing duties to "unfair" subsidization of exports by other countries. Furthermore, because the programs involved can be so varied and subtle, in both their operation and their effect, the power to countervail must be, and is, phrased in extremely broad terms.

The very necessity of phrasing the power in extremely broad terms, however, creates a parallel necessity that the executive have the discretion *not* to countervail against programs technically within the ambit of the statute. This discretion has been, and should be, exercised for any number of sound policy reasons, such as (1) the maintenance of identical or similar programs by the United States, or any state or locality; (2) use of the program in question by a developing, as opposed to a developed, country; (3) progress, or lack of progress, toward international codes dealing with particular varieties of subsidies—e.g., preferential export financing, government-funded research and development, tax rebates, or regional development programs.

Unlike the Escape Clause, which provides a remedy to U.S. industries suffering injury because of import competition from foreign *commercial* interests, or the Antidumping Act, which protect U.S. industries from a form of unfair trade practices committed also by foreign *commercial* interests, the Countervailing Duty Act invariably is directed at the programs of *sovereign government*. Consequently, its implementation raises questions of international relations not present in proceedings under other laws. A decision to enforce, or not to enforce, the statute is a political decision involving government-to-government relations. Such a decision should not be subject to interference by private parties. The fact that the bill provides for a four-year (or in some cases, one-year) postponement does not affect the underlying unsoundness of the basic amendments.

The Trade Reform Act, by imposing a decisional time limit, and expanding judicial review, invites private interference on a large scale. These provisions of the bill fail to distinguish between needed governmental power and private remedy. They ignore the right, indeed the obligation, of the political arms of government to determine the proper adjustment between foreign economic and domestic policy in light of the national interest. By imposing time limits, and, more importantly, by expanding judicial review, these provisions of the Trade Reform Act constitute an ill-advised prescription for diplomacy by litigation. They amount to an invitation to a trade war.

For these reasons, AIA believes that the decisional time limit and judicial review provisions should be stricken from the Trade Reform Act. We recognize, however, that to some the seeming inequity of the importer's right to appeal somehow requires a comparable right in domestic producers. We suggest that (1) the importer's position with regard to judicial review is fundamentally different from that of domestic interests; and (2) it would be far sounder policy, if symmetry of judicial review is required, to limit the importer's right than to create a right in domestic producers to obtain judicial review of the Secretary's determination of the question of the existence of a bounty or grant.

The importer's right to judicial review is grounded in the fundamental right of any party required to pay a tax to challenge the authority of the tax collector. There is nothing novel or unusual about this right. What is novel and unusual is the suggestion that third parties should have the right to compel

Governmetn to collect a tax that neither Government nor the prospective taxpayer believes is due.

Viewed simply as a matter of a tax due, AIA submits that there is no rational, nor fair, basis for the proposed alteration in the relative rights of judicial review. But we must admit—indeed, we believe we have demonstrated—that much more than a simple tax is involved. Determinations under the Countervailing Duty Act are an exercise of political policy involving delicate government-to-government relations. Such a decision, we repeat, should not be subject to interference by private parties, whether domestic producer or importer.

Consequently, while we oppose the extension of the right to judicial review of the Secretary's determination to domestic interests, we suggest that it would be appropriate to remove the importer's right to review of this question as well. No private party, including importers, should have access to the courts to compel action in their private interest that the responsible political officers of government have decided is not in the national interest because of a variety of valid international considerations.

This position applies only to the question of the Secretary's determination as to the *existence* of a bounty or grant, for this is the important political question. The position does not extend to the determination of the *amount* involved on a particular shipment, which we suggest is, for practical purposes, virtually the same as the questions presented in a routine assessment of normal duties. This question does not involve government-to-government relations in any significant degree, if at all. Accordingly, we suggest that the appropriate sections of the Tariff Act of 1930, including Sections 514, 515 and 516, be amended to make clear the importer's right to review of the Secretary's determination of the amount of a countervailing duty due on particular articles, and to extend this right to domestic interests.

Finally, we would emphasize that these recommendations would not affect the administrative measures employed by the Secretary in reaching his determination. It would be highly desirable, in our view, for both domestic interests and importers to participate administratively at the Treasury level through the furnishing of economic data and the opportunity to present argument. Our recommendation would mean simply that one portion of the Secretary's determination—whether a bounty or grant exists—would be final.

B. Extension to nondutiable items

Section 331 would amend the Countervailing Duty Act to extend its coverage to non-dutiable merchandise. Countervailing duties would not be imposed on non-dutiable merchandise, however, unless the Tariff Commission finds that an industry in the United States is suffering material injury as a result of bounty-fed imports.

To this extent, the amendment to the Countervailing Duty Act is consistent with United States international trade obligations, and with sound trade policy. If subsidized exports are causing material injury to a United States industry, AIA believes that countervailing duties normally should be imposed.

However, the proposed amendments to the Countervailing Duty Act do not extend the "material injury" finding requirement to dutiable items. AIA believes that there is a serious question as to whether failure to extend the material injury requirement to dutiable items is not a violation of our GATT obligations. At present, the United States is excused from complying with the GATT requirement that material injury be found only by reason of our "grandfather rights." We believe that so significant an amendment to the Act, to cover goods not otherwise covered, brings those "grandfather rights" into serious question.

However this may be, we believe the absence of a material injury requirement for dutiable goods is not sound trade policy. Just as there is no sound reason for *not* imposing a countervailing duty on nondutiable, bounty-fed imports that are causing material injury to a United States industry, there is no sound reason to impose such a duty on dutiable goods *if no material injury is being caused*. To the extent that non-injurious United States imports receive subsidies from foreign governments, the citizens of the United States receive the benefit of lower prices. In these days of inflation and serious shortages, the United States should not require American consumers to pay more of imported goods than they otherwise would, when those imports are in no way causing material injury to a United States industry. Accordingly, AIA believes that the material injury requirement should apply to all countervailing duty actions, regardless of the dutiable status of the goods involved.

III. SECTION 337

The House-passed bill makes changes in Section 337 of the Tariff Act of 1930 which make a bad statute even worse! This existing law now provides for the exclusion of articles the importation of which is found to be unfair and injurious to an efficient U.S. industry, by decision of the President upon Tariff Commission recommenation, and with an appeal from the Tariff Commission to the Court of Customs and Patent Appeals on questions of law. It has been utilized almost entirely in cases of alleged patent infringement. It is seriously defective for many reasons. The most important are:

1. The issues of patent infringement and patent validity are inextricably related, since the scope of the patent's claims must be construed in light of the prior art in order to avoid invalidity, and any narrowing of those claims directly affects the question of infringement. However, the Court of Customs and Patent Appeals has held that the Tariff Commission has no authority to pass on validity.
2. The application of the law has discriminated against imports by conclusively presuming patent validity whereas the courts in proceedings involving the same patent would insist on determination of the patent issues, including validity before granting even preliminary relief.
3. The Tariff Commission will not suspend proceedings pending a court case and the importer is required to try cases at the same time in both the Tariff Commission and a court.
4. Judicial review is probably unavailable under a 1962 Supreme Court decision that the Court of Customs and Patent Appeals cannot pass on cases which are subject to further administrative review.
5. Neither the Tariff Commission nor the President is an appropriate authority to determine rights and resolve disputes that are purely private. These should be left to the courts.
6. Entry under bond, where a preliminary exclusion order is issued, bears no relation to damages for infringement.

As amended by Section 341 of the House bill, Section 337 would remove the President's role in patent cases and place final responsibility in the Tariff Commission, subject to an appeal by either side to the Court of Customs and Patent Appeals. Importers would have the opportunity at the Tariff Commission hearing to "present legal defenses", but it is not clear that the Commission would consider and decide those defenses in the same manner as a court in a patent infringement suit.

These changes represent little if any improvement over the existing situation. They would remedy only the absence of judicial review, and leave the matter of legal defenses in an unclear state. The proper course would be to repeal Section 337 altogether. In view of the remedies available under the patent and antitrust laws, its marginal usefulness is far outweighed by its defects. However, if it is not repealed, the following changes are urged:

1. It should be made explicit that the Tariff Commission shall consider and rule upon all defenses that are available to defendants in patent infringement suits. This change is indispensable if the discrimination against importers is to be removed, but it would also highlight the inappropriateness of placing this jurisdiction in the Tariff Commission, which is a fact-finding body that is not equipped to resolve what are, in reality, purely private legal disputes.
2. No relief, including a temporary exclusion order, should be granted if the patent's validity is challenged but has never been adjudicated and upheld by a court or by the Tariff Commission.
3. The Tariff Commission should suspend its proceedings pending the outcome of a court case on the same patent, and should treat the court's decision as dispositive of the issues raised in the case.
4. Where goods are imported under bond after issuance of a temporary exclusion order the bond should be in the amount of a reasonable royalty. The Administration has asked that bond be in the amount of 12 percent of the domestic value of the goods, which is substantially in agreement with our position, although we believe more flexibility in determining what is reasonable in each case would be desirable.

IV. OTHER PROVISIONS

A. Negotiating and other authorities

The Administration bill submitted to the House of Representatives requested a novel type of tariff authority: the delegated power to *increase* duties as part of a trade agreement. The apparent justification for this request lies in the diffi-

culties surrounding differing and complicated tariff schedules. Occasionally overall tariff reductions perhaps can best be achieved if some particular items are increased in order to reach an overall level of reciprocity.

AIA has no quarrel with this concept in the abstract. We did oppose the specifics of the Administration's request in the House, however, which was without any limit whatsoever. The House imposed an upper limit of 150 percent of Column 2 rates, or 20 percentage points above 1973 rates.

While these ceilings technically limit the President's action, we believe that they are so high as to be virtually meaningless. We find it hard to believe that it could be seriously suggested that there is any need to go above Column 2 rates as part of an overall agreement to *reduce* tariffs. We submit that it is constitutionally unsound for the Congress to delegate to the President, without any standards or criteria, authority to exceed the highest tariff ever enacted by Congress; we submit that it is unsound policy as well.

Smoot-Hawley is high enough for anyone. We believe that this should be a principle in the entire bill. By delegating to the President the authority to set duty rates at any level between zero and Smoot-Hawley, the Congress would be delegating far more authority than it ever has before. We do not believe that it should delegate anything beyond this.

B. Section 606

The final provision of the bill directs the President to embargo trade and investment, public and private, with any nation not taking adequate steps to prevent narcotics and other controlled substances from unlawfully entering the United States. We submit that this provision has no proper place in a trade bill. It relates to the serious problem of narcotics addiction, and should be confined to legislation dealing with that subject.

V. TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TARIFF TREATMENT

Title IV of the Bill regarding the extension of most-favored-nation (nondiscriminatory) treatment to Communist countries has become involved with the question of human rights—specifically, the emigration policy of the Soviet Union. The emigration problem is not, we understand, present in the case of other countries to which the Administration proposes to extend MFN treatment. Accordingly, we would recomment that whatever resolution is made regarding Soviet trade, that MFN treatment be extended to those countries that are not involved in the emigration problem, on a negotiated basis as originally requesed by the Administration.

VI. CONCLUSION

Mr. Chairman, it is no secret that many provisions of existing law are of great benefit to the narrow interests of importers. Our business interests might be better served if no bill were passed by the Congress. There should be no misunderstanding of the position AIA has taken on the Trade Reform Act—if some of our recommendations are accepted, then arrow interest of our members could well be adversely affected. We have recommended, for example, that relief from import competition be easier to obtain than it presently is. We have suggested that a portion of our right to judiciay review of determinations under the Countervailing Duty Act be eliminated, and that domestic interests have an equal right to judicial review of determinations of the amounts involved.

We have taken these positions because we believe that the broader national interest requires the exercise of responsibility. Just as it is no time for nations to act unilaterally for their own short-term benefits, we believe that it is no time for the variops sectors of our economy to consider themselves alone.

The question is not what is good for this company, or this industry, or this union, or this importer. The question is what is in the national interests of the United States as a whole. We believe that the answer lies in policies which would reduce inflation, overcome shortages, end wasteful misallocation of resources, and promote international cooperation and understanding. A liberal trade policy furthers these essential ends. We are not advocating unilateral free trade overnight. We recognize fully that there are legitimate national interests that would be adversely affected by such a policy.

But we do advocate a recognition of the necessity of moving toward the goal of more liberal trade— as well as a recognition of the inevitable costs to the consumer, to the economy, to all of us, of falling short of the goal. To the extent

that these costs are necessary, they should be borne. But as with any costs, they should be minimized.

The bill reported out by this Committee and passed by the Senate will in large measure determine whether the United States is to sustain its world economic position, and insure a better standard of living for all its citizens. This means that international trade must be increased, not reduced. Nobody has to "lose" by this policy, so long as it is accepted as a national policy that the costs of keeping America strong and competitive must be shared by all, particularly in the form of greater expenditures for adjustment assistance. All American will lose, however, in the form of lower standards of living, if we resign ourselves to protecting our weaknesses at the cost of abandoning our strengths.

The CHAIRMAN. The next witness will be Mr. O. R. Strackbein, president of the Nationwide Committee on Import-Export Policy.

I would like to remind all witnesses that we are asking witnesses to confine themselves to a 10 minute summary of their statement.

Mr. STRACKBEIN. Mr. Chairman, the other witness, Mrs. Benson of the League of Women Voters, is under a tight schedule. I will be happy to let her proceed.

The CHAIRMAN. That is very gentlemanly of you, Mr. Strackbein.

Mrs. Benson, we will be very happy to hear from you.

Mrs. BENSON. Thank you very much, gentlemen.

The CHAIRMAN. We are pleased to have you here, Mrs. Benson.

STATEMENT OF MRS. LUCY WILSON BENSON, PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES, ACCOMPANIED BY DR. FRUZSINA FEDLAM, NATIONAL STAFF, LEAGUE OF WOMEN VOTERS, AND MS. RUTH HINERFELD, INTERNATIONAL RELATIONS CHAIRMAN, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Mrs. BENSON. We are pleased to be here once again.

Seated with me on my left is Dr. Fedlam, from our national staff, in charge of our international relations work, and Ms. Hinerfeld, a member of the National Board of the League of Women Voters, who is the director in charge of our international relations program.

Mr. Chairman, I am Lucy Wilson Benson, and I represent the League of Women Voters of the United States, a public interest citizens organization.

There is a great deal of rhetoric these days about the dire problems we face and about the urgency of international cooperation. When the chips are down, many countries—including the United States—seem ready to turn inward and threaten to go it alone.

The unilateral imposition of export controls last summer, the rise in protectionist sentiment, and the refusal to contribute funds to a multilateral development association—these are all bricks in the walls we are building around ourselves. Of course, we realize that other countries are taking similar action, but other countries are not the world's leading power. There is no doubt that the United States is better equipped to be self-reliant than other countries.

But for how long and at what price?

I am here today in support of a trade bill which will permit the United States to negotiate with other countries in a multilateral framework for a more open and fairer system of international trade.

We think the House-passed bill is a sound bill, and I would like to point out some of its positive features and comment on selected provisions which are still in need of revision.

The league supports the systematic reduction of tariff and nontariff barriers through multilateral negotiations. The Trade Reform Act would authorize the President to enter into trade negotiations and, pursuant to trade agreements, to increase or decrease tariffs. This grant of authority is extensive, but it is not unlimited.

The league felt that the original administration request was excessive. But we disagree with those who, in response to Watergate, want to deny this administration the necessarily broad authority which the executive must have in trade matters. The bill passed by the House recognizes the need for broad authority to insure negotiating flexibility. At the same time, it carefully checks Presidential actions by setting limits on the power to raise or lower tariffs.

More important checks on Presidential actions are the procedures in the House-passed bill for congressional consultation, surveillance, and veto. Our support for these provisions is consistent with our efforts to strengthen the role of Congress vis-a-vis the Executive.

The league is convinced that the public interest is best served by a trade policy which promotes the freest possible exchange of goods and ideas across national borders. A liberal trade policy brings benefits to consumers by increasing their choice of products and prices. To the extent that they are cheaper, they stimulate the economy by increasing the disposable income consumers have to spend on other products. Imports also supply products not produced in this country and supplement materials in short supply. Finally, import competition serves as an incentive to efficiency and productivity in domestic industry.

The league is pleased to see numerous provisions in H.R. 10710 relating to consumer interests. The most important of these provisions is, of course, section 123 which authorizes the suspension of import barriers to restrain inflation. Now, when the consumer is strapped with high prices and a shortage of many products and materials, section 123 is an appropriate addition to Presidential authority.

Perhaps not all of the consumer interest provisions will be taken equally seriously, however. There are indications that at least one of them—section 135(b)(1)—may not be. Although there has already been extensive consultation with business on the proposed negotiations, there has been no attempt to seek information and advice from consumer interests or the general public.

The vehicle for consumer consultation, the Advisory Committee for Trade Negotiations, is thus far a purely cosmetic feature of the trade bill. We hope that this committee will plead the case for the consumer and press the administration to abandon the traditional policy of not even benign neglect.

We recognize that a trade policy which benefits most people may injure some. League members accept the need for temporary relief, but we want to emphasize that import relief should be granted only under exceptional conditions. While the criteria for import relief in current law may be too rigid, we fear that the criteria in the Trade Reform Act may be too loose.

We think adequate access to import relief would be assured with the elimination of the causal link between increased imports and tariff concessions, and we do not think there is a need to go beyond that point.

The most sensible and humane alternative to trade restrictions is a reasonable program of adjustment assistance for workers and firms. We know the word "reasonable" means different things to different people. The administration's original proposal was criticized for being inadequate by most groups testifying before the Ways and Means Committee. The program proposed by the Ways and Means Committee is considered unreasonable by the United Auto Workers—and that is a union which has not yet abandoned efforts to improve the program as an alternative to protectionism. More extensive programs are considered unreasonable by those who fear the high cost.

The league urges the Senate Finance Committee, as it examines various proposals which have been or will be made, to make generosity the central concept in its definition of what is reasonable—not only because it is right, but because that is what will make the program work. We have been generous with cottongrowers, sugar producers and oil companies in the hidden costs we have paid for trade restrictions. We really can afford to be more generous with workers.

The league supported the adjustment assistance provisions in H.R. 10710 because they were an improvement over current law. But we think we can do even better. The eligibility requirement to make access to benefits easier was an important change. We would prefer higher weekly allowances than the percentages established in the Trade Reform Act, but we are aware of the political obstacles in a budget-minded Congress. We do think that the committee could make some positive changes in the program benefits.

The provisions for training are still inadequate. There really is no reason why allowances should not be paid for the entire period of training instead of an arbitrary cutoff of 26 weeks after the 52-week time limit. Supplemental assistance is provided to defray transportation and subsistence costs when training is provided at facilities not within commuting distance. But the amounts provided—$5 a day and 10 cents a mile—are identical to the amounts in the Trade Expansion Act enacted 12 years ago. In face of the rising cost of living and gas costing more than 50 cents a gallon, surely this is unreasonable.

The relocation allowance is also inadequate. Losing one's job and becoming uprooted is a very painful process. We agree with the UAW that incentives for relocation must be increased and that providing reimbursement for community prospecting would contribute to the program's success.

The relocation allowance provisions also specify that such allowance shall not be granted to more than one member of the family. The explanation for this provision cannot be anything but sexist. If both husband and wife become unemployed because of import competition, if both have to relocate, both should be compensated. The League of Women Voters believes there is no rationale here for talking about family units rather than individuals.

Title IV would make the extension of nondiscriminatory tariff treatment to nonmarket economy countries contingent on changes in their

emigration policy. The proponents of this title tell us that it is a means to the realization of high humanitarian principles. The opponents tell us that it places world peace in jeopardy.

We do not know if these provisions will accomplish all that the proponents would wish or have all the consequences the opponents fear. We do know that there has been very little rational debate over this issue and the fate of the trade bill hangs in the balance.

The league's position on this issue can be stated in two parts: In accordance with our trade position we have, since 1965, favored the expansion of East-West trade, including nondiscriminatory tariff treatment. We have not abandoned this position, but neither have we been dogmatic in promoting it. In the House, we supported the trade bill as reported by House Ways and Means, including title IV. Similarly, in the Senate, our focus will be on the entire trade bill and we would oppose a veto of the bill.

We do, however, urge Congress and the administration to continue the dialog and to work toward a compromise which reflects the profound concerns of both sides.

In the past few months, we have all become aware of a new dimension of international trade policy—the problem of supply shortages and the need to assure fair access to supplies of food and raw materials. The recent oil embargo demonstrated that every nation is a potential have-not and that interdependence is, therefore, really a fact of life for all of us.

We must learn to conserve and manage our domestic resources better. We need to develop international rules to assure nondiscriminatory access to scarce raw materials. The trade bill should include provisions which address this problem in two ways: One, by making supply access one of the major goals of trade negotiations; and two, by directing the President to seek international agreement on new rules governing supply access.

More important than these specific proposals is the need to reevaluate our policies toward the less developed countries. The negotiation of international rules on supply access will be of limited value unless the producing countries, which are primarily LDC's have a stake in playing by those rules. The United States can help give them that stake by using its trade and aid policies to bridge the gap between rich and poor nations.

As a step in that direction, we support the provisions of title V which would give the President authority to extend duty-free treatment to imports from the less developed countries. In an interdependent world, it is in our national interest to fulfill this international obligation.

Mr. Chairman, we thank you very much for this opportunity to present our views.

The CHAIRMAN. Thank you very much for a very concise and logical statement, Ms. Benson.

Mrs. BENSON. Would it be possible to have our entire statement from which I gave oral extracts filed for the record?

The CHAIRMAN. Yes, we will certainly do that.

Mrs. BENSON. Thank you, Mr. Chairman.

[The prepared statement of Mrs. Benson follows. Hearing continues on p. 1246.]

PREPARED STATEMENT BY LUCY WILSON BENSON, PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

SUMMARY

Foreign trade policy

The League of Women Voters continues to believe in a liberal U.S. trade policy. We are convinced that the political and economic interests of this country and of its citizens collectively and individually are best served by such a policy, which paves the way for political harmony with other nations, stimulates economic development at home and abroad, and expands consumer choice.

Trade Reform Act of 1973

The League favors granting the President negotiating authority to reduce trade barriers. We support the limitations on negotiating authority and the procedures for Congressional consultation, surveillance and veto.

The League welcomes the provisions relating to consumer interests in Titles I and II. We urge the committee to press for the implementation of these provisions. We also recommend an amendment to Title V requiring public hearings whenever tariff preferences are to be withdrawn.

The League is generally opposed to trade barriers, but recognizes the need for import relief under exceptional conditions. We recommend that the criteria for determining injury be drawn so that import relief is granted only in cases of severe injury.

The adjustment assistance provisions in the Trade Reform Act are an improvement over current law. We think that program benefits are still inadequate and recommend changes in provisions relating to training, job search and relocation allowances.

The League supports provisions authorizing retaliation against unfair foreign trade practices. We recommend deletion of the one-year discretionary period in the countervailing duty provisions.

The League factors measures to expand East-West trade, including the extension of nondiscriminatory tariff treatment. But our focus is on the *entire* bill and we would oppose a veto of the bill in its present form. We urge Congress and the Administration to continue the dialogue and work toward a compromise which reflects the profound concerns of both sides.

The League thinks that the trade bill should include provisions addressed to the problem of short supply. Specific measures should, however, be accompanied by a reevaluation of our policies toward developing countries and a willingness to use trade and aid policies to help those countries.

STATEMENT

Mr. Chairman, members of the committee, I represent the League of Women Voters of the United States, a volunteer citizens' organization of 1,350 Leagues with approximately 150,000 members in the 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. League members have recently reaffirmed their long-standing support for liberal trade policies after examining those policies in the context of *current* economic developments. I am pleased to have this opportunity to present the views of our members as they bear on major issues of trade policy now being considered by this committee.

There is a great deal of rhetoric these days about the dire problems we face and about the urgency of international cooperation. What appears in public statements, however, is not always translated into public policy. When the chips are down, many countries—including the United States—seems ready to turn inward and threaten to go it alone. The unilateral imposition of export controls last summer, the rise in protectionist sentiment, the refusal to contribute funds to a multilateral development association—these are all bricks in the wall we are building around ourselves. We realize that other countries are taking similar action but other countries are not the world's leading power.

There is no doubt that the U.S. is better equipped to be self-reliant than other countries. But for how long and at what price? The alternative to international cooperation is a world of trade wars, economic blackmail, and frantic hoarding of resources. I am here today in support of a trade bill which will permit the U.S. to negotiate with other countries, in a multilateral framework, for a more open and fairer system of international trade.

The League testified 10 months ago in general support of the Trade Reform Act. We also commented on some aspects of the bill which were of concern to League members and recommended changes in several provisions. On the whole, we were satisfied that the bill, H.R. 10710, which emerged from the Ways and Means Committee and was passed by the House incorporated many of our recommendations. We think it is a sound bill, far from obsolete, and even more necessary today than it was in April 1973 when it was introduced.

I would now like to point out some of the positive features of this bill and also comment on selected provisions which are still in need of revision.

TRADE NEGOTIATING AUTHORITY

The League supports the systematic reduction of tariff and nontariff barriers through multilateral negotiations. The Trade Reform Act would authorize the President to enter into trade negotiations for a period of 5 years and, pursuant to trade agreements, to increase or decrease tariffs. This grant of authority is extensive, but *not unlimited.*

The League thought that the original Administration request in H.R. 6767 was excessive. But we disagree with those who, in response to Watergate, want to deny this Administration the necessarily broad authority which the Executive must have in trade matters. The bill passed by the House, H.R. 10710, recognizes the need for broad authority to ensure negotiating flexibility. At the same time, it carefully checks Presidential actions by setting limits on the power to raise or lower tariffs.

The bill provides that, in international trade agreements the President can reduce tariffs by (a) 60% for tariffs between 5% and 25%; (b) 75% for tariffs over 25%; and (c) eliminate tariffs of 5% or less. The President can increase tariffs to a level 50% above the rate existing on July 1, 1934 or 20% ad valorem above the existing rate, whichever is higher. In response to the criticism that the latter provision is still excessive, we want to point out that the increases could be made only pursuant to trade agreements and could not be used to raise tariffs across-the-board.

More important checks on Presidential actions are the procedures in H.R. 10710 for Congressional consultation, surveillance and veto. For example, Section 102(f) subjects nontariff barrier agreements to a 90-day Congressional veto. Section 123(d) requires the President to notify Congress when he suspends import barriers in order to restrain inflation. Chapter 5 contains procedures for Congressional resolutions to disapprove a trade agreement. And Chapter 6 provides for Congressional delegations to negotiations. Our support for these provisions is consistent with our efforts to strengthen the role of Congress vis-a-vis the executive.

CONSUMER INTERESTS

The League is convinced that the public interest is best served by a trade policy which promotes the freest possible exchange of goods and ideas across national borders. A liberal trade policy brings benefits to consumers by increasing their choice of products and prices. To the extent that they are cheaper they stimulate the economy by increasing the disposable income consumers have to spend on other products. Imports also supply products not produced in the United States and supplement materials in short supply. Finally, import competition serves as an incentive to efficiency and productivity in domestic industry. As Congressman Charles W. Whalen, Jr. noted in a speech last December, "Trade barriers diminish the welfare of all the people. . . . Trade barriers are an anachronism in this Age of the Common Man."

The League is pleased to see numerous provisions in HR 10710 relating to consumer interests. The most important of these provisions is, or course, Section 123 which authorizes the suspension of import barriers to restrain inflation. The League's interest in international trade grew out of a consumer study League members undertook in the 1920's. Their conclusion—that import competition serves a valuable function in combatting inflation—was a factor in moving the League to speak out for liberal trade policies ever since. Now, when the consumer is strapped with high prices and a shortage of many products and materials, Section 123 is an appropriate addition to Presidential authority.

Other provisions relating to consumer interest in Title I include:

Sec. 131(b)—Requires the Tariff Commission to advise the President as to the probable economic effect of modifications of duties on, *inter alia*, consumers.

Sec. 131(c)—Requires the Tariff Commission to include in its report to the President its advice on the probable economic effects of modifications of NTBs on *purchasers*.

Sec. 131(d)(4)—Authorizes special studies to include descriptions of impacts of modifications of trade restrictions on consumers.

Sec. 135(b)(1)—Establishes an Advisory Committee for Trade Negotiations which is to include individuals representing consumer interests.

Sec. 135(i)—Requires the President to provide continuing opportunities for private organizations to give information and advice on trade negotiations.

Perhaps not all of these provisions will be taken equally seriously. There are indications that at least one of them—Section 135(b)(1)—may not be. Although there *has already* been extensive consultation with business on the proposed negotiations, there has been no attempt to seek information and advice from consumer interests or the general public. The vehicle for consumer consultation, the Advisory Committee for Trade Negotiations, is thus far, a purely cosmetic feature of the trade bill. Meanwhile, consumers—the fictitious Jane and John Doe—continue to be neglected. With few organizations to speak in their behalf, they are either stepped on or sidestepped. This is unfortunately the case in spite of the fact that the ultimate reason for trade, for all economic activity, is to bring benefits to people. We hope this committee will plead the case for the consumer and press the Administration to abandon the traditional policy of not-even-benign neglect.

In Title II, consumer interests are taken into account in two provisions:

Sec. 202(c)(4)—Requires President, in determining whether to provide important relief, to take into account the effect of import relief on consumers.

Sec. 203(g)—Requires President before providing import relief to notify persons potentially adversely affected and to hold public hearings.

In Title V, dealing with generalized tariff preferences, the President is given complete freedom to withdraw, suspend or limit the application of duty-free treatment with respect to any article or any country. To protect domestic producers and consumers, we recommend that a provision be included requiring the President to hold public hearings before he takes such action.

ADJUSTMENT POLICIES

Import relief

We recognize that a trade policy which benefits most people may injure some. As a result of a recent trade study, the League modified its long-standing opposition to the use of trade restrictions to protect industries adversely affected by import competition. We accept the need for *temporary* relief but we want to emphasize that import relief should be granted only under exceptional conditions. While the criteria for import relief in current law may be too rigid, we fear that the criteria in the Trade Reform Act may be too loose.

Under current law, the criterion for determining injury is the so-called "Double major." To qualify for relief, an industry must show that the major cause of increased imports is past tariff concessions and that the major cause of injury is an increase in imports. The Trade Reform Act proposes to revise these criteria by dropping the link between increased imports and trade agreement concessions; and by requiring that increased imports be a substantial cause of injury, a less severe test.

We are aware of the pressures which led to the liberalization of the escape clause, but we feel that the language of HR 10710 has gone too far in accommodating these pressures. Import relief to any industry in the form of tariffs, quotas, tariff-rate quotas and orderly marketing agreements imposes a great burden on the consumer. The test for import relief should be drawn so that this burden is imposed only in cases of severe injury. We think that adequate access to import relief would be assured with the elimination of the causal link between increased imports and tariff concessions and do not think there is a need to go beyond that.

Adjustment assistance

The most sensible and humane alternative to trade restrictions is a reasonable program of adjustment assistance for workers and firms. I know the word "reasonable" means different things to different people. The Administration's original proposal in HR 6767 was criticized for being inadequate by most groups testifying before the Ways and Means Committee. The program proposed in HR

10710 is considered unreasonable by the United Auto Workers—a union which has not yet abandoned efforts to improve the program as an alternative to protectionism. More extensive programs are considered unreasonable by those who fear the high cost.

The League urges the Senate Finance Committee, as it examines various proposals which have been or will be made, to make *generosity* the central concept in its definition of what is reasonable—not only because it is right, but because that is what will make the program work. We have been generous with cotton growers, sugar producers and oil companies in the hidden costs we have paid for trade restrictions. We can afford to be more generous with workers. The adjustment assistance program in HR 10710 is estimated to cost $350 million the first year—a small sum compared to what consumers now pay for tariffs and other restrictions each year.

The League supported the adjustment assistance provisions in HR 10710 because they were an improvement over current law. But I think we can do even better. The eligibility requirement to make access to benefits easier was an important change. We would prefer higher weekly allowances than the percentage established in the Trade Reform Act, but are aware of the political obstacles in a budget-minded Congress. We do think, however, that the committee could make some changes in the program benefits.

The provisions for training are still inadequate. There is no reason why allowances should not be paid for the entire period of training instead of an arbitrary cut-off of 26 weeks after the 52 week time limit. Supplemental assistance is provided to defray transportation and subsistance costs when training is provided in facilities not within commuting distance. The amounts provided—$5/day and 10¢/mile—are identical to the amounts in the Trade Expansion Act enacted 12 years ago. In face of the rising cost of living and with gas costing more than 50¢ a gallon, surely this is an unreasonable proposal.

The relocation allowance is also inadequate. HR 10710 would grant 80% of the expenses of relocation plus a lump sum equivalent to three times the workers' average weekly wage up to a maximum of $500. In a mobile society such as ours, losing one's job and becoming uprooted is a painful process. We agree with the UAW that incentives for relocation must be increased and that providing reimbursement for "community prospecting" would contribute to the program's success.

The relocation allowance provisions also specify that such allowance shall not be granted to more than one member of the family. The explanation for this provision is not logic but sexist. If husband and wife are both working—and two thirds of the women in the labor force work because they have to—then both pay a price when one of them is forced to relocate. And if both become unemployed because of import competition, if both have to relocate, both should be compensated. There is no rationale here for talking about family units rather than individuals.

RELIEF FROM UNFAIR TRADE PRACTICES

Title III provides for several changes in statutes to give U.S. industry relief from unfair foreign trade practices. Mainly, these involve strengthening the President's authority to retaliate against unjustifiable and unreasonable foreign restraints on U.S. trade, imposing time limits on investigations under antidumping and countervailing duty laws, and clarifying the definition of various terms and criteria in U.S. trade laws. In general, we support the notion of making our trade laws work more effectively and fairly and believe the changes recommended by the House are reasonable.

We are, however, concerned about an amendment to the countervailing duty law which would give the Secretary of the Treasury discretion to refrain from imposing countervailing duties for only one year from the date of enactment of the Trade Reform Act on imports subsidized by facilities owned or controlled by governments of developed countries. Limiting U.S. discretion to refrain from imposing countervailing duties unilaterally for only one year, while negotiations presumably were underway to work out an international agreement, is unwise and unnecessary. We recommend that the one-year provision be deleted and that the Secretary of the Treasury have the full four years in which to complete the negotiations.

The question in international trade no longer is whether it should be subsidized—all countries do, including the United States—but which subsidies should be permitted or prohibited under international rules. The League strongly sup-

ports the idea of negotiating an international code on subsidies that would define what should and should not be permissible. Otherwise we might find ourselves in a subsidy race that could touch off another trade war.

EAST-WEST TRADE

Title IV would make the extension of nondiscriminatory tariff treatment to non-market economy countries contingent on changes in their emigration policy. The proponents of this title tell us that it is a means to the realization of high humanitarian principles; the opponents tell us that it places world peace in jeopardy. We do no know if these provisions will accomplish all that the proponents would wish or have all the consequences the opponents fear. We do know that there has been little rational debate over this issue and that the fate of the trade bill hangs in the balance.

The League's position on this issue must be stated in two parts: 1) In accordance with our liberal trade position we have, since 1965, favored the expansion of East-West trade, including nondiscriminatory tariff treatment. 2) We have not abandoned this position, but neither have we been dogmatic in promoting it. In the House, we supported the trade bill as reported by House Ways and Means, including Title IV. Similarly, in the Senate, our focus will be on the entire trade bill and we would oppose a veto of the bill. We do, however, urge Congress and the Administration to continue the dialogue and work toward a compromise which reflects profound concerns of both sides.

SHORT SUPPLY PROBLEMS AND THE DEVELOPING COUNTRIES

In the past few months, we have all become aware of a new dimension of international trade policy—the problem of supply shortages and the need to assure fair access to supplies of food and raw materials. The recent oil embargo demonstrated that every nation is a potential "have not" and that interdependence is, therefore, a fact of life.

It is clear that we need policies to deal with similar situations in the future. For one thing, we must learn to conserve and manage our domestic resources better. For another, we need to develop international rules to assure nondiscriminatory access to scarce raw materials. The trade bill should include provisions which address this problem in two ways: 1) by making supply access one of the major goals of trade negotiations; and 2) by directing the President to seek international agreement on new rules governing supply access.

More important than these specific proposals is the need to reevaluate our policies toward the less-developed countries (LDC's). The negotiation of international rules on supply access will be of limited value unless the producing countries, which are primarily LDC's, have a stake in playing by those rules. The United States can help give them that stake by using its trade and aid policies to bridge the gap between rich and poor nations.

As a step in that direction, we support the provisions of Title V which would give the President authority to extend duty-free treatment to imports from the less-developed countries. In an interdependent world, it is in our national interest to fulfill this international obligation.

Thank you for this opportunity to present our views. The League is prepared to work with you for enactment of this important legislation.

The CHAIRMAN. Now we will hear from Mr. Strackbein. We are very pleased to have you with us today, Mr. Strackbein.

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, THE NATIONWIDE COMMITTEE ON EXPORT-IMPORT POLICY

Mr. STRACKBEIN. Mr. Chairman. I have a summary and a full statement, and also, I would like to offer from the record to be printed after my statement the paper that I wrote in 1968 on the "Competitive Plateau of the United States." [1]

[1] See p. 1252.

The CHAIRMAN. That will be done.

Mr. STRACKBEIN. Mr. Chairman, my name is O. R. Strackbein, president of the Nationwide Committee on Import-Export Policy.

I think we are all aware, Mr. Chairman, that the profile of our foreign trade has changed radically in the past 2 or 3 years. Four or five departures from the previous conditions have marked the great changes that have occurred:

No. 1 was the imposition of the 15-percent tariff in 1971 and the devaluations of the dollar since that time. Two, the rapid rise in the exports of agricultural products since 1972. That is also a new departure. Three, the vast increase in our petroleum imports hand in hand with the energy crisis. Four, the world inflationary trends of the past several years. Five, the inclusion in the House-passed trade bill of provisions that are, in my opinion, extraneous to trade policy in the form of political considerations that were best left to seperate treatment on their own merits.

Now, these subjects I shall treat in the above order.

The imposition of the 15 percent additional tariff was in recognition of the untenable competitive position in world trade, both in the export field and in the domestic market in relation to imports. We were incurring heavy merchandise trade deficits and this turnabout from previous so-called surpluses greatly aggravated our balance-of-payments situation. We were in fact in a much worse position in the matter of trade balance than our official trade statistics revealed. The causes of this self-deception lay in the manner in which we reported our imports, on the one hand, and our exports on the other. Our currency was facing collapse.

The devaluation which followed the elimination of the tariff surcharge represented a general increase in the tariff and was designed to put us on a more nearly equal competitive position with a number of other countries, but especially with Japan and West Germany.

Resource to realinement of our currency merely represented a different way of skinning the cat. Devaluation of the dollar made imports more expensive to our consumers, just as higher tariffs are designed to do. It was merely a matter of method. At the same time, our exports would cost consumers in foreign countries fewer dollars, just as a tariff reduction by them would have accomplished.

The whole maneuver was confession of an erroneous tariff policy since the days when our principal foreign trading partners were catching up with us technologically while the labor costs lagged behind those prevailing in this country.

We have had a phenomenal increase in our agricultural exports. This increase helped greatly in reversing the disastrous trend in our trade balance. In 1973, our agricultural exports reached $17.6 billion, which was $8 billion more than in 1972. The increase took place principally in our grain exports—wheat, corn and sorghums—and in soybeans. Grain exports alone increased by nearly $5 billion. It should be noted, however, that the value increased distinctly more than the quantity, because of the increased prices, of course.

Altogether agricultural exports increase 80 percent in 1973 over 1972, while nonagricultural exports rose less than half as much, or 32 percent. That the high level will continue is open to serious question,

serious doubts, because foreign crop failures accounted for a substantial part of our rising farm exports.

The trade deficit of 1972, which had reached $6 billion by the official system of tabulation, but which was really about twice as high so far as competitive private commercial trade is concerned, declined to about $1 billion in 1973. Early this year we moved out of the red according to the official statistics. Actually, we are still in a deficit position by some $5 billion on an annual basis even if the present level of exports over imports continues.

The imports of petroleum and petroleum products rose nearly as sharply as our agricultural exports. They went up 72 percent in 1973 over 1972, or from $4.3 billion to $7.5 billion. This increase, however, was more than offset by the increase in agricutural exports, which, as we saw, rose by $8 billion.

This year petroleum imports are likely to increase more sharply both because of higher quantity and much higher prices. In December 1973 alone, oil imports reached $962 million. Spread over a year this would mean imports of over $11 billion in 1974.

Now, actually, it is anticipated that our petroleum imports would probably range from $15 to $20 billion as matters stand today.

If the Mideast countries lift their embargo, which they have now done, and prices remain at their present level, oil imports may be expected to rise sharply this year over 1973—enough, in fact, to obliterate the rising agricultural exports.

Then, the world inflationary forces, because of their unequal incidence, have affected the flow of trade in varying magnitudes, depending in the price movements in particular products. Some raw material countries have benefited from rising prices while for others the terms of trade have been adverse.

Until very recently inflation in other industrial countries, particularly Japan, has been at a higher rate than in this country, thus helping our exports beyond the boost given to them by our devaluation.

Today, it is impossible to predict with confidence what the future trends will be, particularly because national policy trends are unpredictable. In that respect, this is not a good time to legislate in the field of trade policy. What may be done today gives promise of being obsolete tomorrow.

This is all the more reason why provisions in the trade bill that are extraneous to considerations of trade policy should be eliminated. It is bad economics to use political considerations as pawns in economic policy, and it should be the very last recourse.

Our policy erred in going down the road of tariff reductions well after it was already clear that we were no longer competitive in world trade and depended on subsidies and false trade statistics to make our position look healthy. When we resorted to an emergency tariff and then to devaluation, we confessed the failure of that policy without admitting it verbally. This latter would have been too embarrassing to the policymakers who were too intransigently wedded to a policy of free trade regardless of its national consequences.

Devaluation became a must, but it should be recognized that it is an unsatisfactory long-term instrument of policy, one, because other countries can counteract its effects almost at will, and two, it repre-

sents a shotgun approach. All products are effected to the same degree regardless of the need.

A far more sophisticated and effective approach lies in the adoption of flexible import quotas that are administered unilaterally in keeping with guidelines established by legislation.

The bill before you, 10710, has some good features so far as the use of import quotas and fair marketing agreements are concerned, but it contemplates shifting of yet more power into the hands of the Executive, while constitutionally the authority to regulate foreign commerce is vested in the Congress. This body should fullfill its responsibility instead of surrendering yet more of its power in this field—one in which the Constitution is in no sense in doubt.

Now, Mr. Chairman, that ends the summarization, and I have a full statement here which I ask be put in the record.

The CHAIRMAN. We will do that, Mr. Strackbein.

And I want to assure you, I am going to take this article that you wrote for the Wall Street Journal, which they refused to print, and carry it in my pocket with me until I have read it; because you have come up with some very thoughtful information for this committee, including the fact that you alerted us to the fact that those trade figures were on an F.O.B. basis and they were completely misleading. You will notice that our staff has prepared those figures on a C.I.F. basis which takes into account the giveaways and recognizes that imports should include the cost of the insurance and freight.

Mr. STRACKBEIN. Mr. Chairman, you and I both know that it has taken a matter of 7 or 8 years to get this——

The CHAIRMAN. It seems to me it has taken a lot longer than that to get something done about that.

Mr. STRACKBEIN. It has taken a long time. And the reason I am offering this article that I had written and submitted to the Wall Street Journal and they refused to print is that it does draw to some extent on that question, and on some of the other erroneous policies in trade that we have been following for the last, well, the last 40 years, you might say—up until a year or two ago. And it seems to me that the results, the adverse results of that have been acknowledged by the fact that we were forced to devaluation; we were forced to imposition of the 15-percent duty on nearly all imports.

Now, the devaluation had exactly the same effect as raising the tariff, except that, of course, their is nothing permanent about it. As I say here, the other countries can turn around and reverse the whole thing. So, as a long-term policy, I do not think that the currency devaluation is a good rule to follow.

Thank you.

The CHAIRMAN. Thank you very much.

Senator DOLE. I am sorry; I read the statement earlier, but I had to go somewhere else for 20 minutes, and I missed your statement. I have no questions.

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

Mr. STRACKBEIN. Thank you.

[The prepared statement and attachments of Mr. Strackbein follow. Hearing continues on p. 1259.]

PREPARED STATEMENT OF O. R. STRACKBEIN, PRESIDENT, THE NATIONWIDE COMMITTEE ON IMPORT-EXPORT

Mr. Chairman, last November I wrote a paper on the current trade legislation before Congress. It included a brief review of the background of the Trade Agreements Program, going back to 1934, when the initial bill was passed.

I sent the paper, in the form of an article to the Wall Street Journal requesting consideration of it for publication. The paper was returned to me as not acceptable for use by the Journal. I returned it to the newspaper with the request that the proffered article be reviewed, so that if it were again rejected, the rejection would represent the considered action of the Journal. Upon review, the initial action of refusal to print was sustained.

Because of the relevance of that paper to the current bill before you I wish to offer it for printing in the record of this hearing. Since it is several months since the paper was written, I wish to ask that the article be printed at this point and that a few comments to bring it up to date be printed immediately after the end of the insertion:

CURRENT TRADE LEGISLATION

(A paper the Wall Street Journal refused to print)

This country embarked on a tariff dismantling program nearly 40 years ago. Since then our average tariff has been reduced over 80%, or from an average of over 50% to some 8% today, on dutiable items. Nontariff barriers, such as import quotas, licensing, special taxes, etc. therefore loom larger today.

The last tariff reduction was under the "Kennedy Round" (1962–67), the sharpest of all. Since then our world trading position came to reflect the harsh results no less than the blessings of the protracted freer trade program. In those 40 years our exports rose more than thirty-fold in value and our imports over forty-fold.

Now a new trade bill is before Congress, with time of final passage uncertain. It is not the purpose here to analyze this bill. It is enough to say that it is still aimed at further reduction of trade barriers, both tariff and nontariff. Therefore it is time to examine the economic religion to which this country has been treated the past generation.

The free-trade gospel gained its ascendancy with the Great Depression. Unemployment rose to 25%. Classical economists linked themselves with the political discontent generated by the distressful unemployment. As a people we desperately needed a scapegoat. The Hawley-Smoot Tariff of 1930 was a handy symbol. Publicists whipped it hard, and the populace duly came to hate it. Free trade came to look angelic and we became virtual idolators before it.

Eutopian mysticism is indeed a redoubtable fortress in any economic world. The flag of self-righteousness never flutters in a medium of greater self-assurance than did the banner of free-trade in the trough of the Depression. It became the veritable flag of economic sainthood.

An obsessive dogma, be it free trade or Marxism, is not only an unguent for the soul but also a coating repellant to all unwelcome reality pressing from the outside. It is equally impervious to the acids of analytical penetration and the logic or transforming developments.

Our post-1930 generation was never able to perceive the contradictions within its favorite doctrine of economic redemption. We have, for example, long had free trade in coffee, tea, tin, crude rubber, hides and skins and bananas. Are the countries that rely on the exportation of these products to our huge market noted for their economic progress and well-being?

Our tariff-bargaining teams went a-bargaining armed with the conviction that it was heroic to decapitate a tariff, and did so in ecstatic glee, never mind whether they gained a semblance of reciprocity.

Meantime while we so eagerly embraced laissez faire in our trade policy we had other quite different *domestic* commitments. The "Brain Trust" turned its back unmistakably on the free market in its prescription for the domestic economy. It instituted farm price supports, acreage curtailment, minimum wages, obligatory collective bargaining, bank deposit insurance—all anathema to laissez faire and mostly designed to raise costs and prices. We were riding two opposite-headed horses; but the high voltage of pent-up resentment, fear and hope, fathered by the Depression had no stomach for consistency of economic policy.

Nearly all our economic legislation and certainly the oncoming military and defense operations came to rest on industry as higher unit production costs. Then came the post-war programs of foreign aid, followed by the recent steeply upward tilted governmental expenditures, Federal, State and local, aimed at social welfare, war on poverty, improved education and health, etc.

A few statistics will tell the story. In 1960 the total outlay in this country for social welfare plus defense and veterans benefits was 51% of the *gross product of industry*. In 1972 this percentage had risen to 85.6%. Another measure of the greater industrial cost burdens is the comparative employment in government and industry.

In 1965 Federal, State and local governmental employment was 9.94 million. That of industry, agriculture and mining was 26.68 million. In 1972 the governmental workers had mushroomed to 13.29 million while its industrial counterpart actually declined slightly. Thus the goods turned out by industry, mine, and farm had to carry piggyback 3.3 million more governmental workers than in 1965 with a cost addition equal to their total pay.

The only offset would be found in rising industrial productivity, but this was only 13.5% (1965–71) while industrial wages rose 36%. Thus we had two sources of cost increases, namely, rapidly rising governmental outlays and wages outpacing productivity.

Other countries have also had rising costs but the rise in productivity in leading competing countries was more than twice as high as here—not surprising since they were playing catch-up technology. Moreover, in Japan and West Germany national defense costs were minimal. Here they were 32% of the *gross industrial product* in 1972.

Our voluminous machinery exports, spurred by our huge foreign investments, greatly enhanced foreign productivity while foreign wages lagged by our standards. The foreign competitive sharpened decisively.

Our woeful competitive slippage was, however, hidden by two factors. Our exports of machinery and transport equipment (1971) were more than double our total farm exports and also double our exports of all other manufactured goods. Ths surplus in this machinery category was so breathtaking that our serious and growing deficits in nearly all other manufactured goods was buried in the euphoria.

The second factor of concealment lay in our official trade statistics. They presented a false picture, and the news media were derelict in not exposing the fact. The public therefore was not aware of our deteriorating trade position. While we were experiencing trade dficits, the official statistics continued to parade handsome but deceptive trade surpluses before the public.

By 1971 even the official statistics showed a deficit of $1.6 billion and one of $6.4 billion in 1972. The latter should have been nearer $13 billion if the trade statistics had reflected reality.

The second deception arose from two sources. (1) Our shipments under Foreign Aid, Food for Peace, etc. were treated as true exports, which they are technically, but are no measure of our competitive standing. We exported these goods not because they were competitive but because we paid for them in whole or in substantial part. Treating them as evidence of our competitive prowess as President Kennedy did, was misleading. He denied that we were pricing ourselves out of foreign markets, for, behold, we were enjoying a handsome export surplus!

(2) The second form of deception continues to lie in your *import* statistics. They are undervalued by some 10% since they are based on foreign value, omitting ocean freight, insurance and other costs. On $65 billion of imports the undervaluation is therefore some $6.5 billion. Added to the statistical treatment of our exports our trade balance is thus badly distorted. We therefore went blindly and self-deceptively into the Kennedy Round which should have been shelved.

In a few years Japan and West Germany were foundering in dollars, thanks to their great trade surpluses. In 1971 the crisis culminated and we deserted convertibility of the dollar, put a 15% additional tariff on most imports and devalued. The effects were meager and we devalued again early in 1973. In effect the devaluation was raising the duty, but this fact could not be acknowledged. The Japanese yen was made about 35% dearer, the mark some 25–30%. The action represented a belated effort to stop the dollar hemorrhage; and our trade balance is now in a lesser hole.

Our agricultural exports have recently skyrocketed; but the surge is possibly transitory because of unusual weather conditions abroad. Meantime our growing dependence on oil imports may soon offset the boom in farm exports.

The proposed trade legislation can indeed be said to face a far different world today from the previous occasions. The last trade bill was passed in 1962. Quite clearly now is not the time to embark on a new tariff-cutting rampage that would quickly undo the beneficial effects of our devaluation and expose the dollar to further erosion.

Once more the public has been shortchanged. The dollar devaluation was not explained as the fruit of our intemperate tariff reductions during a period when our competitive position in the world was deteriorating ominously. The whole course adopted added up to what we came to face in crisis proportions in 1971.

The present writer on May 5, 1960, i.e., well over ten years ago, stated in a speech:

"It took 25 years of doing, including much domestic economic legislation, a world war, a local war (Korea) and the cold war to stack up the international competitive situation as we see it today: * * *

"We are on the eve of an earthquake that will shiver us to our economic foundations if we do not soon take thought and reverse some of our romantic policies."

As a reward he was dubbed a prophet of gloom and doom.

The developments since the foregoing paper was written have borne out most of what was outlined in it.

The article made reference to the deceptive statistical practices of the Department of Commerce that resulted in the concealment of our weak competitive position in world trade. This concealment, consisting of reporting our imports on their f.o.b. value rather than c.i.f. and treating subsidized exports as true exports, provided justification for further tariff reductions under the Kennedy Round when it was no longer good economics.

This statistical practice has now been remedied in major part by showing c.i.f. imports, beginning January 1, 1974, but is not yet made to reflect our true competitive position in the world since it continues to treat shipments of products under Foreign Aid, Food for peace, etc. as if they were true exports, reflective of our competitive standing, which they are not.

However, the error from that source is no longer as serious as it was because Foreign Aid shipments no longer represent a high share of our agricultural exports, which, as the foregoing paper notes, have risen to unprecedental levels: $17.6 billion in 1973, representing an increase of $8 billion over 1972.

Imports of petroleum products, however, are destined, from present appearances, to work havoc with our improving trade balance. This improvement will likely be nullified as the year progresses. Moreover, agricultural exports can hardly be expected to continue the sharply upward movement of 1973, since there were special factors contributing to that rapid growth. These record exports, indeed, were quite costly because of the higher food prices generated by them.

The conclusion can hardly be avoided that the present is not a good season for trade legislation. Several very important elements in the trade trend are very unstable, and until these become stabilized or more predictable than at present, any legislation now passed would soon require review and readjustment.

This observation relates particularly to the agricultural exports, the petroleum import situation and to the world currency instability.

The conditions laid down for Most-Favored-Nation treatment of the U.S.S.R. are out of place in trade legislation and should be treated separately on their own merits.

Competitive Plateau of U.S. Trade

(By O. R. Strackbein, Chairman, the Nationwide Committee on Import-Export Policy, Nov. 20, 1968)

The weak competitive position of American Industry in world trade is beyond dispute.

It may be useful to inquire into the degree of this weakness and to determine in what class of products it is most pronounced. It may also be useful to determine whether we enjoy competitive strength in some products even if the total competitive position is weak.

It may be helpful, further, to inquire into the causes of the competitive weakness from which our trade suffers and to determine what steps, if any, might be taken to overcome the weakness or to adjust to it.

WEAKNESS REVEALED BY TRADE TRENDS

The competitive weakness of this country in world trade has become increasingly visible in recent years. It is especially pronounced in some classes of goods and in our trade with several leading trading nations. It is also visible in the declining share of total world exports enjoyed by the United States.

WEAKNESS BY CLASS OF PRODUCTS

The principal competitive weakness has appeared in the trade in manufactured goods. Because of the most intensive application of labor in producing finished goods, compared with the lesser application of labor in the production of raw materials and agricultural products, the implications of the import trend for employment in this country are serious and will become acute if we return to a peace-time economy.

As recently as 1951 *manufactured goods* represented only 27.0% of our total imports. In 1967 this share had more than doubled, reaching 58.3%.

By contrast the share of our total imports represented by *raw materials*, which in 1951 stood at 50.3%, had declined to 21.3% in 1967.

The meaning of this trend for employment will be better appreciated if we compare employment within this country in the raw-material producing operations, namely, agriculture, mining, lumbering and fisheries, with employment in the manufacturing industries. The raw materials industries, with minor exceptions, supply the materials used in all manufacturing in this country. Exceptions are imported raw materials which represent less than 2% of all materials used by our industries. Raw-material production employed 4,656,000 workers in 1967 compared with 19,339,000 in the manufacturing establishments that processed the materials into finished goods. The ratio of manufacturing employment to employment in raw-material production was therefore over 4 to 1.

As imports shift from raw materials to manufactured goods, as they have in the past fifteen years, it becomes obvious that employment must suffer. The impact has become sharper, moreover, in recent years than in the past because of the heavy movement of workers in this country out of the raw-material-producing field into manufacturing and the service occupations. The shift has been the result of the still-rising productivity in agriculture and mining. In 1960, or less than eight years ago, the ratio of manufacturing employment to employment in agriculture, mining, lumbering and fisheries (the raw material industries) was only in the ratio of 2½ to 1, compared to more than 4 to 1 in 1967, as shown above. (Statistical Abstract of the United States, 1968. Tables 317, 318, 320 and 993.)

In other words, our imports have been shifting from goods requiring the least amount of labor to goods requiring the greatest amount. Should, for example, 10% of our raw materials be imported the average straight-line labor displacement in 1967 would have been 465,600 workers, while if 10% of our manufactured goods had been imported the displacement would have been 1,933,900 workers. (The 10% share is for illustration purposes only.)

While it is true that finished manufactures represent about two-thirds of our exports, the share of total exports has remained about the same in recent years. In '58 and '59 the share was 67.8% and 66.5% respectively, compared with 66.2% in 1967. This lack of a trend shows that our manufactured goods as a whole are not gaining ground in foreign markets in contrast to the sharp gains foreign manufactures have made in this country.

COMPETITIVE STRENGTH IN MACHINERY AND CHEMICALS

Nevertheless in some lines we have enjoyed a substantial growth of exports. This is especially true of machinery, including sophisticated products such as computers; and chemicals. Since the share of manufactured goods in total exports has not grown, the gain in exports of machinery and chemicals was necessarily offset by declines in the export of other products.

HELPED BY FOREIGN INVESTMENTS

Two observations are in order. Our increasing exports of machinery and chemical products has been a parallel of our increasing investment abroad in plants and installations. Our industries have installed a vast amount of American machinery overseas (over $50 billion since 1960); and our chemical plants

overseas have consumed great quantities of raw and semi-manufactured chemical products as feeders to their overseas plants.

SURPLUS OF MACHINERY EXPORTS NARROWING

The other observation applies particularly to machinery. Our imports of machinery have grown much more rapidly in recent years than our exports, and the export surplus, while still wide, is narrowing rapidly. From 1960 through 1967 our machinery exports increased 84.9%. During the same period imports of machinery increased 328% or about 3½ times as rapidly as our exports. (Statistical Abstract of the United States, 1968, Tables 1218 and 1219.)

The foreign competitive advantage over us that resulted in the loss of export markets in steel, textiles, sewing machines, typewriters and a number of other products is obviously asserting itself in machinery. The relatively sharp increase in machinery imports is but a forwarning of what may be expected in the future. Thus may be expected the crumbling of our principal remaining export advantage. It will fall for the same reason that caused formerly strong export industries to fall back.

HANDWRITING ON THE WALL

The handwriting on the wall was never clearer. When will those who shape our foreign trade policy recognize the overwhelming evidence? Year after year since 1958 they have said that the trend against this country's export position was only temporary and that the trend would soon right itself. Ten years is a long time to wait for a turn of the tide.

One excuse after another has been worn out during this period. In the most recent years when the tide should already have turned had the previous reassurances had any substance, the explanation advanced was that the prosperous conditions in this country attracted imports while our exporters were not greatly interested in export markets. This style of explanation would, of course, dispose of any and all trends in foreign trade.

CAUSES OF OUR COMPETITIVE DISADVANTAGES

The refusal to face monumental facts is becoming very expensive to a number of industries and poses a serious problem for labor. If and when our economy moves toward a peace basis the harsh facts that have so long been ignored can no longer be brushed aside. It is already very late.

Let us look at the facts and what they mean:

1. Production costs in this country are higher in many lines of products than those of their foreign competitors.

2. Among the high cost elements are the high wages upon which our domestic market depends in the form of consumer purchasing power. Employee compensation represents by far the principal source of effective demand—by far, which is to say, in the magnitude of about 4 to 1 compared with all other sources combined.

3. The wage-gap separating this country from other countries (Canada excepted) is not by way of closing or coming within shouting distance of such an event. The outlook is that it is here to stay for many years.

4. Those who suggest that wages should stand still in this country to permit foreign wages to catch up in point of unit costs, are either deceived, or incapable of recognizing realities or ,worse, refuse to see what so clearly and unmistakably stares them in the face.

5. The full impact of foreign competition has not yet been felt; nor the full effect of our foreign investments as a shrinker of export markets for finished manufactures in relation to the gross national product.

6. As a consequence our manufacturers have only one hope to regain a competitive position in the domestic market: namely, if the technology is at hand, to reduce man-power requirements sufficiently to shrink costs materially. Contrary to what mystics and romanticists might think, there is no other way to reduce cost of production significantly.

Also, no one should deceive himself that significant cost-reduction is a mild operation. In terms of employment it is harsh and drastic. We have a classic example in coal mining. In the mid-'fifties this industry was moribund because of encroaching competition from diesel oil, natural gas and imported residual fuel

oil. The only hope of survival lay in cost reduction. The objective was indeed accomplished by the introduction of machinery that supplanted men in a gargantuan ratio. The coal industry saved itself but the cost in coal miners' jobs was two out of every three. Employment dropped at a dizzying rate, falling from 480,000 to 140,000 or less in fifteen years. The problem known as Appalachia was a direct result. The cost of relief and inhuman misery was "unthinkable" and had it been appreciated ahead of time, would no doubt have been avoided as intolerable.

The coal example was not as extreme as might be imagined.

Other industries branched out overseas to aovid similar debacles. Today the steel industry faces a challenge, which, if less drastic in its exactions, is nonetheless perilous. The shoe industry faces annihilation in a matter of a few years. The textile industry, which, though partially protected against the same disaster, still faces great difficulties. Other industries are not out of the range of the import onslaught. The fisheries on the east coast, the vegetable producers of Florida, and others are in the same corner.

Our merchant marine is totally dependent on subsidization for survival; and has been allowed to fall to the lowest level in our history from lack of adequate support. American flag ships now carry only about 1/16 of our total imports and exports. The facts are muted and smothered lest they awaken the dreamers and mystics who see nothing ominous in the competitive facts in our foreign trade.

7. Cost-reduction is not a monopoly of American industries, though its imperative presses insistently on them. While we continue as the most productive country in the world in terms of man-hour output, other countries, now equipped with our technology, are also capable of reducing their costs. Our own factories overseas, where our direct investments are now in the magnitude of some $60 billion, have introduced American methods of mass production, and other countries have not been backward in adopting the American system. If we automate in this country, so may and do our foreign competitors.

8. The cost-gap, although not uniform, will not go away, notwithstanding the theories of academic economists who apparently do their thinking in a vacuum wherein the realities of both national and international politics are absent. Competitive inequalities among the nations do persist, the economists notwithstanding, simply because free competition is now a museum piece thoroughly bolted down—largely, indeed, as a result of the very policies of those who invoke the free market to justify free trade but who buried free market forces under the weight of governmental controls, restrictions, heavy tax burdens, social welfare loads and other cost-inflaters.

The differential in shipbuilding and ship operation here and abroad is measured periodically by official wage surveys conducted by the Federal government. This differential is slightly over 100% and reflects the higher employee compensation in this country. That such differentials persist, as they may and do persist, despite economic theory that leaves the facts of life out of account, is shown by the fact that the maritime cost differential just mentioned has widened by 10%-in the past ten or twelve years.

9. The competitive weakness of this country makes our economy stand like an island plateau against the pounding waves and tidal flows that beset it from all sides. The natural sequence will be a leveling process that will continue, unless it is halted, until we are level with the sea.

FALSE ASSESSMENT OF OUR COMPETITIVE HANDICAP

The competitive situation is serious indeed but is insulated against a remedy by the policy-makers who stubbornly refuse to accept irrefutable facts or insist on evasive interpretations. They will not believe or purport not to perceive that payment of an average industrial wage of $3 per hour in this country demands that our factories be several times as productive as their foreign rivals if they are to compete with them. With the exception of Canada, the highest foreign industrial wages will do well to equal 40% of our $3 level, while in many instances the gap is much wider. The difference in cost, now that our average duty on dutiable items is about 10% on foreign value, and destined to drop to about 7%, must be bridged by a productivity lead of sufficient magnitude to offset the foreign advantage. (For the industrial wage rate of the United States see Current Survey of Business, United States Department of Commerce, September 1968, p. S–15).

It is a favorite but false indictment of American industries that cannot compete with imports to say that they are inefficient. This indictment comes quickly

to the tongue of those who continue to see in a free or liberal trade policy the future and the hope of this country's economy. The falsity of the indictment is indeed immediately established when in the next breath those who so eagerly accuse our industries of inefficiency insist that foreign competition is no danger because low foreign wages really reflect the low level of productivity abroad, which is to say inefficiency. We cannot be both too inefficient to compete and at the same time so far ahead of other countries in productivity that their low wages avail them nothing competitively because of their own greater inefficiency.

It was also a favorite and equally false assessment of the competitive situation to say that it was not our high-wage industries that were vulnerable to imports but rather our low-wage or labor-intensive industries. Our high-wage, capital-intensive industries, such as steel and automobiles, were among our leading exporters, thus demonstrating that high wages represented no wage handicap.

The vacuity of this claim has in recent years been demonstrated for all to see. In both automobile and steel our export position has collapsed and we have become net importers of both products. The same is true of other high-wage industries. Whether an industry is "capital-intensive" or "labor-intensive" does not alter the fact that employee compensation is in each case the major element of cost. "Capital-intensive" industries merely spread their costs over a larger number of successive steps of manufacture, as in automobile manufacturing. The Detroit cost, as the Pittsburgh cost in making steel, is only a part of the cost that extends back to mining, agriculture, processing, fabricating, transportation, insurance, financing, warehousing, and all else that is involved in production.

Yet, even as these pillars of economic theory have been knocked out from under the edifice, the economists steadfastly refuse to face reality. They are so inseparably wedded to their vested mental interest that mere facts produce no effect toward relinquishment of their untenable position.

These many years, as just noted, the economists have been at pain to say that our higher wages are attributable to our higher productivity. Therefore, they say, it is wrong to maintain that low foreign wages confer a competitive advantage on foreign producers. Only a rather obtuse mind would fail to perceive the truth of the theory, according to these intellectually elite.

Now that facts to the contrary notwithstanding prove that other countries do enjoy a decisive competitive advantage over us these same economists duly take refuge in charging our industries with inefficiency despite the higher wages they pay—yes, even though high wages, by economic theory, reflect high productivity. By their measure our high-wage industries should have been invulnerable to import competition. The facts have been quite the opposite.

Their edifice having collapsed they seize on other arguments, as previously observed.

The fact is, of course, that considerable discrepancies in wages and costs among nations can and do persist *because free competition no longer exists.* The numerous interferences with the free market that impede free competition were instituted generally with the ardent support of the economists who, when it suits them, like to play as if the assumptions on which they lean so heavily, such as the play of free market forces, were still in operation.

The thrust of their untenable but stubborn contentions is that industry, agriculture and labor of this country are to be exposed to highly-advantaged foreign competition despite the heavy competitive handicaps loaded on the domestic producers by a hundred legislative enactments many of which soon came to rest on production in the form of higher costs.

What is the purpose of such a policy? Is it to disperse our capital to the four corners of the earth? Is it to restrain wage pressures coming from labor?

OPTION FACING DOMESTIC INDUSTRY

What, indeed, are the options of industry when it is confronted by import competition that captures an increasing share of the American market year after year?

One option is obviously that of investing abroad. This step has helped in two respects. (1) It has enabled American companies to supply from within some important foreign markets that would otherwise have been lost. (2) It has in many instances increased exports of machinery, equipment and sometimes semimanufactures and parts, purchased by the foreign subsidiaries or branches.

On the other hand, some of the slow-down in our commercial exports may be attributed to the very act of supplying of foreign markets from within rather than exporting the finished goods from here. To that extent there has been a transfer of jobs or potential jobs from here to foreign countries. Jobs that do not materialize in this country add to the problem of unemployment. We need many hundreds of thousands of new openings to absorb the large number of new workers who come on the labor market each year. If potential jobs are transferred abroad the employment opportunities here naturally shrink by that much.

Also, in some instances foreign subsidiaries and branches export back to this country, thus creating additional competition from lower-wage areas. American automobile manufacturers in Europe, for example, sell numerous foreign-made cars in this country; so do American manufacturers of typewriters, transistor radios and other products.

The impact of low-cost products is not confined to finished manufacturers, although these predominate today. A number of industries import parts as a means of achieving lower manufacturing costs in this country and thus to fend off eviction from the market for the finished product. It is true that we also export parts, especially for assembly in foreign plants, such as automobiles. Such exports may, however, face a decline since foreign countries have been insistent upon and indeed have required successively the use of higher percentages of locally manufactured parts in place of imports in their native plants.

THE ADJUSTMENT-ASSISTANCE PLOY

In the view of many economists adjustment assistance extended both to labor and to companies or whole industries should compensate for the injury done to domestic industries and labor by imports. Until 1962 it was the national trade policy not to cause injury to domestic industries as a result of larger imports attracted by lowered tariffs. In that year the Trade Expansion Act substituted the adjustment assistance program for the peril point and the escape clause which provided a cautious approach to tariff cutting and a remedy for injury.

The justification for adjustment assistance was that the reduction of tariffs and the resulting increase in imports would increase exports. The increase in trade would benefit the whole country. Therefore the public should make good any serious damage done to industries and employees injured as a result of trade agreements, past and future.

That policy, of course, reflected the peculiar mental seizure or lapse that held and still holds imports entitled to eminent domain in our domestic market, and that they should be allowed to push our industries out of the way. Imports, it would seem, are vested with some mystical virtue that gives them priority over domestic industry and employees. What this special virtue is has never been made known to the public. It is simply assumed. Our own industries, although heavily burdened with taxes and other high costs which were not of their own doing, under the new approach of adjustment assistance were to give way to imports from countries that imposed no comparable burdens on their own industries. The demand was so irrational that the fiction of inefficiency, previously mentioned, was invented to justify condemnation of our industry in deference to growing foreign access to our market. Beyond that, of course, was the concealed but powerful motive to help exports of industries that boasted heavy political muscle.

It developed that the adjustment assistance provisions of the Trade Expansion Act were so tightly drawn that none of the score of applicants, including labor unions, succeeded in squeezing through the needle's eye. Not one dollar of assistance was paid in six years since the law's enactment. The economic distortion caused by the great increase in defense expenditures enabled this country to absorb the great upsurge in imports that would otherwise have worked havoc on numerous industries. Now, however, further absorption will no longer be possible without disruptive effects; and should the economy move back to a peace basis, even if slowly, the exposure that was tolerable during the past few years would become intolerable to a growing number of important industries.

The suggestion is now put forward that adjustment assistance should be made easier to invoke. This suggestion ignores the odd philosophy from which the very notion of adjustment assistance arose in the first place. Legitimate American industry, which pays the high taxes exacted of it, that supports the

vast welfare outlays through its high productivity and provides high employment at the world's highest wages, is to move over and make room for imports that achieve their competitive advantage from payment of much lower wages than those required by law in this country and very much lower than the wages above the minimum level paid here. What style of philosophy can so far overlook the fairness of treatment to which domestic industry is entitled, as to advance and support such a suggestion? It represents a philosophy that is essentially hostile to the industrial and economic system that supports the American civilization and the capacity of this country to provide aid to other countries. It demands that American industry be exposed to foreign competition, no matter how injurious it might be, regardless of the competitive handicap under which our industry labors.

Greater efficiency is demanded, as already noted, even if displacement of workers on a devastatingly large scale is involved. The government would assume the cost burden of retraining and possibly relocating the displaced workers. Such a policy strives for multiple Appalachias.

It is not explained why we owe such disruption of our industry to other countries or why some of our industries should be harshly treated, so that other industries might reap the benefit of greater exports. If the intention is, indeed, to drive industries to more rapid and radical automation it seems to be forgotten that the rate of mechanization is already a source of unemployment and needs no additional stimulation. The notion that displaced workers will soon be absorbed by other industries is belied by the stubbornness of the Appalachian problem. This provides further evidence of the sterility of economic theory when it refuses to take into account all the attendant circumstances that might upset expectations.

Adjustment assistance has little to recommend it if the condition to be remedied was deliberately brought about by pursuit of a policy that may be expected to produce the condition. Deliberate action that is expected to result in the serious injury of legitimate industry cannot be said to spring from any considerations of justice or from any concern about equal protection of the law. It is in fact a concept that is alien to the system of private enterprise and should be disowned as a legitimate and justifiable part of public policy.

MARKET-SHARING AS A REMEDY

Now that the tariff has been virtually dismantled as a means of offsetting cost differences between this country and its competitors, and since the problem of our adverse competitive cost-handicap remains and bids fair to persist, a different remedy is needed to sustain the productive dynamism of this country.

The concept of market-sharing, implemented by flexible import quotas, offers the mildest form of trade regulation consistent with the extensive regulation of the economy as a whole. To free our external trade when the domestic economy is made competitively rigid *vis a vis* foreign production costs is both illogical and unfair. The heaviest cost factors in this country are very rigid indeed so far as competitive maneuvering is concerned.

Wages move in only one direction, and this movement underwrites expanding consumption so long as inflation does not cancel the higher compensation. Wages are entitled to rise as productivity increases.

Taxes are high and quite rigid and going higher if State and local taxes are taken into account, as they must be. The only opening of any significance therefore lies in the possibility of increasing productivity per man-hour; and, as previously noted, this can be accomplished almost exclusively by reducing the number of workers required per unit of output.

Yet such increase in productivity will not improve our competitive posture toward imports *unless wages are not allowed to rise in proportion*. If wages rise in proportion to the increase in productivity the competitive advantage is automatically canceled.

Therefore those who demand "higher efficiency" in our industries (even though we are productively the most efficient in the world) as a means of remaining competitive or as a means of recapturing our competitive position are committed to frozen wage levels. They cannot in all good conscience insist on supporting a liberal wage policy in this country and at the same time demand higher productive efficiency as a means of meeting import competition. They, of course, wish fervidly to pose as friends of labor while promoting a policy that

would strip labor of its compensation for increasing productivity, since increasing productive efficiency as a means of fending off rising imports would lose its effect if wages should increase in proportion.

If, however, ceilings should be established over imports at certain recognized levels that would accord to imports a liberal share of the domestic market, and permit them to increase in proportion to the expansion of the domestic market, the sting of unfairness would be taken out of import competition. Imports would be regulated in keeping with the regulation of the domestic economy. They would not have a license to benefit from a competitive advantage that rests in numerous instances on nothing more inspiring than the payment of a level of wages that if paid in this country would subject the employer to a legal penalty. Imports would not enjoy an open field on which to run wild regardless of the havoc they might inflict. Imports would be brought under the restraints that have deprived our industries of competitive flexibility except at the expense of employment. They would not be permitted to exploit the competitive handicap that public policy, supported by a generation of electorate preferences in this country, has placed on our productive enterprise.

They would nevertheless have liberal access to the richest market in the world.

The CHAIRMAN. Next we will hear from Mr. David J. Steinberg, executive director of the Committee for a National Trade Policy.

STATEMENT OF DAVID J. STEINBERG, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY, INC.

Mr. STEINBERG. Thank you, Mr. Chairman.

I am David J. Steinberg, executive director for the Committee for a National Trade Policy.

It has been quite a while, Mr. Chairman, since we last appeared before your committee. I note sadly that in the interim your committee has tragically lost Tom Vail, your chief counsel. We recall warmly his professional competence and his personal courtesy at all times.

Mr. Chairman, we basically support the House-passed trade bill, but with no illusions as to its adequacy for what the United States ought to be seeking in trade policy. We believe that all amendments that would further restrict trade should be resolutely rejected, and we urge that every effort be made to make this legislation a more effective instrument for developing a freer world economy.

I might say, Mr. Chairman, that our committee is supported by businesses large and small, by trade associations and by individuals as citizens and consumers. We do not speak for any special interest, but only for what we regard as, in our judgment, the interests of the Nation as a whole.

We believe the time has come for U.S. trade policy to fully reflect and stimulate the resiliency and resourcefulness of the American economic system; to fully contribute to an all-out campaign against inflation and for the fullest, most productive and most rewarding employment of America's work force; to raise the sights of all the advanced countries to the economic, political and security goals which the programed removal of artificial trade distortions can do so much to achieve; and to program the fastest, freest access to these markets for all exports from the developing countries as a major part of an urgent strategy to build a constructive and equitable partnership between the world's highly developed and underdeveloped economies.

A comprehensive adjustment/conversion/development strategy, including a convincing commitment to full employment, is essential in

domestic policy to backstop this initiative in foreign economic policy—necessary to insure that the trade policy that is good for the Nation as a whole is made good for all the States and all the people.

U.S. trade policy, in both international and domestic terms, falls woefully short of these standards. There is much rhetoric about the advantages and imperatives of an open world economy, but the commitment and campaign of most of those who endorse this ambitious ideal are not where their rhetoric is. Neither the Government nor the business community nor the intellectual community nor, with extremely few exceptions, the liberal-trade community itself is urging the interdependent strategies necessary in both foreign and domestic economic policy—not even a trade policy capable of repairing the badly damaged, highly dangerous and too-long neglected fault in the rich-poor, north-south axis of the world economy.

The following, Mr. Chairman, are some of the deficiencies of the trade bill that need correction to make it a policy instrument better suited to today's realities.

1. Authority to remove tariffs and nontariff barriers is not adequate. The President is denied the flexibility he needs for the far-reaching negotiation he should undertake. To the extent there is practical substance to the role prescribed for Congress, the outlook is for a harmfully restrictive effect on the negotiations rather than the kind of role the Congress should have—constructive assessment of the adjustment needs of industries affected by the removal of trade barriers.

2. The adjustment-assistance program is far from correcting or even adequately recognizing the damaging defection of organized labor from liberal-trade ranks. A determined, dramatic effort should be made to face up to this distressing development.

3. Adjustment assistance is denied to firms and workers injured by import restriction—as distinct from import liberalization—thus making them 2d-class citizenss from whom equal protection of the adjustment-assistance law is withheld.

4. The escape-clause criteria are excessively weakened, thus providing overly permissive access to import restriction as a remedy for industrial and agricultural injury. Authority to increase tariffs in such cases is also excessive.

5. There is no coherent industry-adjustment policy, at least as the framework for Government aid to ailing industries that can prove serious injury and the need for "import relief."

6. The national security clause of the trade legislation is still not made a constructive instrument to insure thorough repair of import-related impairment of the mobilization base.

7. Too many limitations are imposed on tariff preferences for developing countries. We as a Nation must wake up to the reality that our trade policy toward the developing countries is no longer a peripheral issue we can comfortably treat with benign neglect. It must be brought from the wings to center stage of our national consciousness and national concern. Let us stop fooling the Third World and stop kidding ourselves.

8. There are no provisions for securing equitable access to world supplies. The basics of the Mondale-Ribicoff amendment should be adopted to help meet this need. In addition, a new trade partnership with the developing countries is also necessary.

9. The human-rights proviso to equal tariff treatment for Russia and other countries now denied such nondiscriminatory status impairs the trade dimension of desirable and delicate détente diplomacy and may in its present form even retard progress toward the human-rights goals which commendably concern so many Members of Congress. The time has come for arching statesmanship from both ends of "the avenue" to develop a mutually acceptable accommodation that gives the President the moral support and legislative authority he needs in this policy area, sends the human-rights message to Moscow which so many Americans want to send, and provides for systematic Presidential accountability to Congress on this issue.

10. And finally, in my summary, the bill and the policy context have a tone which in too large a degree seems to project intensified confrontation, not a vaulting, far-reaching trade charter addressing the crisis realities of our time and providing a context for thorough reform of the many inequities on which so much complaint and confrontation have already focused.

We urge, Mr. Chairman, that no time be lost in getting H.R. 10710 through the Senate and the Congress without protectionist amendments of any kind and with as many of the improvements we have recommended as can be engineered without unduly delaying the progress of this legislation and of the international deliberations to which the bill is so essential.

I thank the chairman and the committee.

The CHAIRMAN. Thank you very much, sir.

We will print your entire statement so it can be clearly understood.

Mr. STEINBERG. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bennett, do you have any questions?

Senator BENNETT. I would like to ask just one question.

Your article No. 9 is a very interesting paragraph, but it does not tell us whether or not you favor the Jackson amendment or you favor the elimination.

Mr. STEINBERG. I do not favor its elimination. I salute, if I may use the code word, the Jackson forces in the Congress and outside the Congress for their concern with the human-rights issues which I think are a legitimate concern of the American people and of the Congress.

But I do not favor the Jackson amendment as now worded. I believe—I wish I had a text to suggest to the Senator and the committee as a substitute—and I am confident that the administration and the congressional leadership, including Senator Jackson, can work out some kind of accommodation that moves toward all these objectives.

I think the President needs flexibility, and I think that what the President is trying to do in détente diplomacy, as delicate and as risky as this is, deserves a chance and the Congress ought to give it a chance. There are other ways—I will not take the time of the committee—but there are other ways of dealing with, and other ways should be found to deal with, the human-rights objective, which is one of the objectives that has motivated the Jackson forces.

Senator BENNETT. Do you think the other ways should be found and included in this bill, or should they be found in other legislation?

Mr. STEINBERG. They have to be found primarily in other ways, but I do not think that the Jackson amendment should be just completely

lifted from the bill and no alternatives sought, in view of all that has been invested politically in this particular issue.

To remove the Jackson amendment completely from the bill without seeking alternatives would in my view be sending the wrong kind of message to Moscow in view of all that has been invested in the Jackson amendment as we know it.

Senator BENNETT. Then you are willing to see the bill go down, the effect of the relations with Russia go down, rather than remove the Jackson amendment from the bill?

Mr. STEINBERG. Would you repeat that, sir?

Senator BENNETT. You are willing to take the risk of destroying détente with Russia in order to keep the Jackson amendment concept in the bill?

Mr. STEINBERG. I do not think that keeping the Jackson amendment concept in some form in the bill would bring down or seriously impair our relations with Moscow.

I believe, sir, if I may, that the President and the Secretary of State, if they are as good on foreign policy as they say they are—and a great deal has been achieved—can find a way of——

Senator BENNETT. They are operating outside of the bill. The Secretary of State operates outside of this legislation. He operates in the Department of State. This goes into the President's responsibility for foreign trade.

Let me ask you the question bluntly.

If it were a choice of continuing the détente with Russia or continuing the Jackson amendment in the bill, which would you choose?

Mr. STEINBERG. Well, you are asking a very——

Senator BENNETT. I am asking a straight, hard question. That is a question we have to answer.

Mr. STEINBERG. I would not like to have that kind of choice. But as an academic matter—I do not think it has to be that choice, Senator—but as an academic matter, I would say, let us proceed with the détente diplomacy and let us find, all of us in the Congress——

Senator BENNETT. Do not duck me: answer the question.

Mr. STEINBERG. I did answer, sir.

Senator BENNETT. No, you did not. I want a yes or no.

Would you rather have, if it were a final, flat choice, either the end of the détente or the Jackson amendment? Which would you choose?

Mr. STEINBERG. I would say remove the Jackson amendment from the bill, and let us proceed with détente diplomacy; and let us not forget the objectives that motivated the Jackson amendment; and let us, all of us, try in the many other ways that are available to pursue these objectives.

And the Russians, somehow, would have to be made to understand—not through the trade bill, but in some way loud and clear—that most-favored-nation treatment to the Soviet Union can be as easily withdrawn as it was granted. Unless there is progress in this human-rights area, the American people through their Congress may demand the withdrawal of MFN.

Now, saying it through the trade bill is perhaps not the appropriate way to say it, but somehow I think this ought to be said. I do not think you can just plain drop the human-rights motivations that inspired the Jackson amendment.

So I think I have answered your question in saying that if it is that choice—and I do not think it has to be that choice—if it is that choice, then I would say let us give détente diplomacy the chance that it deserves. And let us drop the Jackson amendment and find some other way of dealing with this objective.

Senator BENNETT. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dole.

Senator DOLE. No; I do not have any questions, I think there are a number of us who are presently sponsors of the Jackson amendment who are not quite certain what may have inspired it, but I am sure the objectives of human rights may be something else. We hope they are based on human rights, but there may be some cosponsors to that amendment who take some hope from suggestions you make, trying to find some middle ground. I do not think we want the bill to go down, nor the Jackson amendment totally, but there has got to be some solution. If you come up with any, let me know.

Mr. STEINBERG. May I offer this comment, Senator Dole and Mr. Chairman: There has been a lot of talk about the possibility of veto of the bill if the Jackson amendment as now worded remains in the bill. In my view, presuming a good trade bill is passed by the Congress, and if it does include the Jackson amendment as now worded, I do not think that bill is going to be vetoed. I think a way can be found through diplomacy, should be found, in the event of that contingency, to explain to the Russians how the American political system works. The administration would find a way of perhaps criticizing the Congress for what it did and did not do, but a way can be found to get through this problem.

Now, I recall, if I recall correctly, that back in 1962, when the epochmaking Trade Expansion Act was passed—and the chairman can correct me on this if I am wrong—that the Congress in effect withdrew MFN from Yugoslavia and Poland. It did not mention Yugoslavia and Poland. It denied MFN to all countries dominated by a Communist form of government. I have forgotten the exact language. Now, the only two Communist countries at that time were getting MFN were Yugoslavia and Poland. I am sure that the Yugoslavs and the Poles were greatly disturbed by this. This was a foreign policy issue of no small proportions. And yet I believe that President Kennedy found a way of explaining to both governments his regrets; and, before long, MFN treatment was restored to Yugoslavia and Poland through other legislation.

So, I think a way can be found, through very careful diplomacy, in the event we should reach the contingency of a good trade bill passing including the Jackson amendment as now worded.

The CHAIRMAN. Well, you were just saying that when you have two good objectives, you try to get the best you can of the two; you try not to sacrifice one to the other, but try to get as much as you can of both. That is what you were saying.

Mr. STEINBERG. That is exactly what I am saying, Senator. And I think that is what the exercise is. The question put to me by Senator Bennett was, if I may—and I say this respectfully—I think more an academic question than where I think the action really is on this issue.

The CHAIRMAN. You just do not think, that while you favor both, you just do not think that the answer is to sacrifice both by trying to

get the whole hog or the whole olaf, when you can part of it. And that is how legislation usually goes. You work in the spirit of compromise to get the best of both worlds insofar as you can. And you have to yield on some points in order to get the best you can under the circumstances.

Mr. STEINBERG. That is right, Mr. Chairman. I am confident that none of the objectives involved—détente diplomacy and human rights—have to be sacrificed. I think a way can be found.

I note in the press a colloquy between Senator Nelson and Secretary Kissinger on this issue. And I think that something along the lines—they were not in detail—but I think something along the lines that Senator Nelson was talking about, in terms of Presidential accountability to Congress on progress made toward the human-rights goal, and Congress always retaining the power to withdraw MFN if it wanted to—something along that line can be worked out with the Secretary of State. And in fact, he himself, I believe, is acceptable to that kind of accommodation.

The CHAIRMAN. Well, I think that—and I am a sponsor of the Jackson amendment, too—I think if we can work out an arrangement that improves our relationship to the Soviet Union and the Iron Curtain countries and at the same time makes freer immigration possible, we would achieve a lot more than we are going to achieve if all we do is cause both sides to harden their position toward the other and to slam the door shut on the many people who are being permitted to emigrate from the Soviet Union and the other countries toward this side.

Mr. STEINBERG. That is right.

The CHAIRMAN. Of course, one good thing about it is that we are trying to practice our side of it. Anybody who wants to go with ours is privileged to go; and some do.

Thank you very much.

Mr. STEINBERG. Thank you, sir.

The CHAIRMAN. The committee is adjourned until 10 a.m. tomorrow morning.

[The prepared statement of Mr. Steinberg follows. Hearing continues on p. 1271.]

PREPARED STATEMENT OF DAVID J. STEINBERG, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY

The Committee for a National Trade Policy, for over 20 years a leading advocate of a freer world economy, is a broadly based organization supported by businesses large and small, by trade associations, and by individuals as citizens and consumers. It speaks for no special interest, only for what it regards as the total national interest. We have earnestly dedicated ourselves to this single standard.

The time has come for a new effort, particularly by the industrialized countries, to lower and hopefully remove artificial distortions of international trade, and up-date the ground rules of fair international competition. CNTP has urged legislation to advance these objectives. We have opposed legislation that would impair them. We are, therefore, in basic support of the liberal-trade authorization in the Administration trade bill as modified by the House of Representatives, and we totally oppose the trade-and-investment controls of measures like the Burke-Hartke bill.

The trade bill needs substantial improvement to make it a more effective instrument, and the kind of instrument needed, for achieving a more open world economy. Suggestions for improvement are presented below. Under no circum-

stances should the bill be made more trade-restrictive through automatic triggering of import controls or through other protectionist devices. Trade legislation and overall trade policy should reject import controls unless such controls, after careful diagnosis of the real problems and real needs of the petitioning industry, are found to be indispensable to a constructive solution. They should be invoked only as temporary, marginal measures of last resort in a coherent, balanced program of constructive assistance to an ailing industry. Anything short of this exacting standard would unjustifiably be: Damaging to workers, businesses and communities dependent on the international movement of goods and capital; damaging to the creation of new and better jobs for our expanding labor force; damaging to our more than 200 million citizens as consumers; damaging to the future of an innovative and successful private enterprise system; damaging to U.S. credibility and influence in world councils; damaging to the health of the Free World economy; damaging to the aspirations of workers around the world; damaging to the total national interest.

We basically support the President's trade message and the Administration trade bill as modified by the House, because in general they serve the objective of more and better jobs, the best interests of consumers, a more innovative and productive private enterprise system, U.S. effectiveness in world councils, freer relations with the rest of the world, a stronger U.S. economy and world economy, indeed the overall national interest. That is, they can serve these objectives. However, the bill has potentials that are less progressive, leaving U.S. trade-policy intentions less than convincing.

We regret that U.S. trade policy, and this bill as its primary instrument, are not a more far-reaching, more ambitious effort to achieve free and fair international trade. The times call, not for just another round of trade negotiations, but for a climactic round of negotiations to program the removal of all artificial trade distortions in accordance with a realistic timetable. This is not just theoretically desirable. It is urgently necessary. It can and must be made politically palatable.

In international economic terms, the trade bill should convincingly reflect our national determination to attack and remove the widest range of trade distortions. Both the tone and substance of U.S. trade policy should be addressed, not just to certain foreign practices we find particularly irritating, but to what a few of us have called a "grand design" of freer and fairer international trade. Confrontation on particularly controversial issues may be inevitable. It should not be shunned. But there is a much better chance of success in getting what we need and merit, if our tactics on these stickiest issues are part of a clear, convincing and over-arching strategy capable of exciting the widest interest and winning the widest support.

In domestic economic terms, both the bill and other policy instruments (such as a dependable commitment to full employment) should ensure that a trade policy that is essential to the national interest is not built on sacrifice of the living standards and job opportunities of Americans whose jobs might be dislocated by such a policy. If freer trade is good for consumers (as we believe it is), it must be *made* good for *all* consumers. If it is good for the nation (as we believe it is), it must be *made* good for *every* state in the Union.

The following are major ways the trade bill could be made an effective vehicle for achieving these objectives, even just the trade-policy objectives outlined in the President's trade message.

TARIFF-CUTTING AUTHORITY

The President should be given authority to negotiate the removal of tariffs, not just cut them by the percentages now authorized in the bill. Authority to negotiate tariff removal should not be limited to the removal which the bill authorizes on tariffs that are 5 percent ad valorem or less. Alternatively, tariff removal should be permitted for those products in which exports by the industrialized countries are 80 percent of world exports (adaptation of the zero-tariff authority legislated in 1962, which expired in 1967).

NONTARIFF BARRIERS

We applaud the Administration's determination to attack the thorny thicket of nontariff barriers (NTB's). The United States has for too long lacked adequate legislation for effective progress in this area. The trade bill as proposed, and now as passed by the House, does not adequately fill this void.

We regret the House bill's rejection of the Administration's request for advance authority to negotiate and implement agreements affecting customs valuation, country-of-origin markings, and certain other customs matters. Authorization to convert nontariff barriers into tariff equivalents, to be negotiated just as regular tariffs would be, may be productive in handling some NTB issues (though we share the Ways and Means Committee's reservations on this point). The provisions for accountability to Congress on NTB agreements that modify existing legislation are thoughtful recognition of the role of Congress in this policy area. However, the President's authority to lower and remove nontariff barriers seems overly circumscribed by the likely consequences of the required consultations with Congressional committees (including the possibility of public hearings) on each cluster of NTB's on which U.S. concessions are intended. These procedures could prove to be serious deterrents to the far-reaching liberalization which ought to be the objective of these negotiations. Focusing in practice on whether the proposed concessions should be made, not (as they should) on the adjustment policy needed to backstop them, these procedures would tend in some cases to ossify the "sector approach" the bill requires (reciprocity within product sectors "where feasible"), an approach which in itself and particularly when influenced by the prescribed procedures for Congressional consultation, could substantially shrink the scope of the negotiations. A new NTB strategy is needed, giving Congress the most constructive role it can play in this difficult aspect of trade policy. NTB strategy should be aimed resolutely at the widest and deepest dismantling of nontariff barriers, with the role of Congress primarily that of ensuring adequate adjustment policies to backstop this progress toward freer trade.

Thus, Congress would authorize the President to negotiate agreements to reduce or remove nontariff barriers. This authorization would include a mandate to the President that, whenever he reduces or removes a nontariff barrier affecting a U.S. industry which claims it cannot operate effectively without this or equivalent government assistance, the President must (in cooperation with the industry, and to the extent that government help is needed) formulate a special adjustment policy with respect to that industry, emphasizing domestic economic remedies. If the President finds that he needs additional legislation to implement such a policy, he would be required to seek such legislation at the earliest opportunity. This would provide Congress an opportunity to assess the adequacy of the assistance intended for that industry. Other forms of Congressional review might also be provided.

ACCESS TO SUPPLIES

Because trade-policy imperatives today involve effective action to ensure access to world supplies as well as access to world markets, the President's negotiating and other trade authority should include the basic provisions of the Mondale-Ribicoff bill dealing with export-control ground rules (applied to all countries including the United States) and other steps to ensure adequate and equitable U.S. access to foreign supplies.

INDUSTRY-ADJUSTMENT POLICY

The Committee for a National Trade Policy has long advocated a coherent, comprehensive adjustment policy providing domestic-economic remedies for import-related damage to workers, firms and communities. The House-passed bill commendably restores authorization of assistance to import-damaged firms and upgrades the level of adjustment assistance to import-damaged workers. But, like the Administration bill and previous legislation, it does not establish the overall industry-adjustment policy urgently needed to backstop consistently and progressively freer trade. By this omission, there is also less basis on which we can persuade other countries, most of which also lack such policies, to avoid or at least minimize import controls as a "safeguard" against injurious import competition.

The only policy vehicle in the bill (and in existing law) for dealing with industry-wide import problems is the escape clause. Its primary instrument is trade restriction. We urge as the primary instrument of industry assistance a balanced policy of constructive aid to ailing industries and communities that have convincingly proved their need for government help. Such a policy would deal with the real problems and real needs of the affected industries and communities.

U.S. policy, both present and prospective, provides no identifiable mechanism for coherent, coordinated government attention to industrial (including agricultural) adjustment problems that have not escalated into the escape-clause standards of "serious injury" or "threat of serious injury". There may be policy inequities that materially impair an industry's competitiveness. Ways should be found to correct these inequities before they seriously aggravate the industry's adjustment problems. Certainly recourse to import controls in "serious injury" situations should itself trigger comprehensive attention to the industry's real problems and real needs—a policy framework for whatever import restrictions may be instituted, and a device for phasing them out as soon as possible and for precluding future recourse to trade restriction. The criteria for imposing such trade restrictions should be tightly drawn so as to make trade controls (if needed at all) only a marginal part of a balanced policy of constructive help.

THE ESCAPE CLAUSE ("IMPORT RELIEF")

The proposed phasing-out of escape-clause relief is commendable. However, the criteria for invoking trade restrictions are too permissive. They open the door to extensive pressures for import controls. Petitions for "import relief" would probably increase substantially, as would the flow of injury findings to the White House. The loosened criteria and the administrative burden at the Tariff Commission would, in combination, tend to generate these results. The President would be exposed to formidable pressures to do what these petitions are aimed at securing—restriction of imports in one way or another. Political exigencies would impel him to yield in some of these cases if only to show that the procedures work.

We applaud the bill's requirement that, in deciding escape-clause cases, the President must consider consumers, international economic interests and other significant factors. And we note with approval that, unlike the Administration's bill but as we had urged in the House hearings, the President would be required to explain his decision in an escape-clause case where he provides import relief as well as when he does not. We also note approvingly acceptance of our proposal that import restrictions not be imposed unless the effects on interests who may be adversely affected are properly considered in public hearings. And we also note with approval that, unlike the Administration bill, suspension of the privileges of TSUS Sections 806.30 and 807 is authorized as an escape-clause remedy only where serious injury can be traced to the use of these privileges.

The following are additional ways the "import relief" section of the bill should be improved.

We would prefer retention of the criteria established in the Trade Expansion Act of 1962. Alternatively, we recommend requirement of at least some link to a trade agreement concession, and that "primary cause of injury" (the standard proposed in the Administration bill and meaning the largest single factor) should be combined with, not replaced by, "substantial cause", the standard now in the bill and meaning important but no less than any other single cause. The new standard would thus be "an important cause and more important than any other single cause".

We commend the House for deleting the *prima facie* "market disruption" criterion in escape-clause evaluations. But we deplore the weakening of the criteria for "threat of serious injury". These criteria (in the past basically the same as for "serious injury") have been made significantly weaker than those for "serious injury". Arithmetic indicators displace professional judgment. Yet a "threat" finding is capable of energizing the same administrative result. We also question the ranking of "orderly marketing agreements" as the least desirable form of import restriction, less desirable than import quotas. Moreover, the bill should require that every effort be made to phase-out import quotas more rapidly than tariff increases.

We recommend in addition that the industry's effort to adjust to foreign competition should be considered in the Tariff Commission's evaluation of the petition, not just (as the bill implies) when the President acts on cases that reach the White House. We also propose that the role of the Tariff Commission include recommendations on the degree of import control necessary to help the affected industry solve its problem.

The Administration bill's unlimited authority to impose tariff and quota restrictions in escape-clause cases has been only partly, and inadequately, corrected.

We are concerned over the apparent lack of standards in the setting of tariff-quotas (for example, standards limiting the tariff to be applied beyond the quota), and we oppose the authorization of escape-clause tariff increases as high as 50 percentage points. In the latter connection, 50 percent above the existing tariff seems more appropriate, particularly if escape-clause action is only part of a coherent, comprehensive, constructive industry-adjustment policy—a context not required in the bill (or any time in the past) but should be.

ADJUSTMENT ASSISTANCE

We endorse the bill's easing of eligibility criteria for adjustment assistance. The procedures in the existing administration of this program need simplification, but we regret the bill's limitation of the Tariff Commission's role to conducting investigations at the Administration's request and without being called upon to assess the results of its investigation.

We note with sadness and alarm that every labor union that has spoken out on trade policy is opposed to this trade bill. The opposition of the United Automobile Workers (UAW), completing the circle of outspoken opposition by organized labor, is the most recent and most disturbing, particularly since the UAW was and remains an advocate of freer world trade. A basic reason for UAW opposition is the union's strong dissatisfaction with the adjustment assistance provisions. Organized labor was the prime mover behind the adjustment assistance concept (back 20 years ago), but regards not only the existing program but the proposed changes in the trade bill as woefully unresponsive to today's needs.

We urge the Senate to raise the sights of the trade-adjustment policy and make a credible effort to win at least UAW support for the trade bill and for overall progress toward a freer world economy.

The Amtrak model proposed by the United Auto Workers deserves attention as a possible standard to be used in adjustment assistance to trade-impacted workers. If this is not suitable, an approximate alternative should be sought. We also recommend that adjustment assistance be authorized, not only (as in the bill) to workers, and firms injured by *imports*, but also to workers, firms and communities injured by the *restriction of imports*. And beyond this legislation, the nation needs an adjustment/conversion strategy addressed to *all* forms of dislocation, including injury that may result from the shifting of a production line from a U.S. plant to facilities abroad.

Retaliatory and balance-of-payments import controls

Adequate standards, indeed international standards involving the General Agreement on Tariffs and Trade or the International Monetary Fund, are needed for recourse to import controls for retalitory or balance-of-payments purposes, respectively. This is particularly important with respect to balance-of-payments import controls invoked against particular countries. Import control as a balance-of-payments device is unsound in the first place, at least for the United States. It is the wrong approach even for dealing with trade account disequilibrium.

The right road to international monetary adjustment is not through an arsenal of trade restrictions penalizing "surplus" countries, where the "deficit" country may itself not be making a suitable contribution to solving the disequilibrium. Besidess a suitably flexible system of exchange rates and adequate reforms in domestic policy, the right approach is emphasis on a multilateral, enforceable commitment to an "open world economy" involving all the developed countries and entailing accelerated schedules for the "surplus" countries. U.S. trade policy should be seeking such a "grand design" as a fundamental reform whose time has come. But this is not the game plan today.

If import controls are imposed for balance-of-payments reasons, the President should be required to report to Congress—through oral testimony by the Secretary of the Treasury before appropriate Congressional committees—no less fequently than every 90 days on progress being made toward removing such restrictions.

NATIONAL SECURITY

One of the reforms desirable in trade legislation concerns the national-security provisions of existing law. The Administration's trade bill continued intact the present national-security provisions. The House bill adds a requirement that the President explain to Congress his reasons for using the import-control authority, and report annually to Congress on his use of such authority. These changes are

not enough, for they do not require constructive attention to the substance of action dealing with trade-related impairment of national security.

We recommend that, where the President finds that imports are impairing the national-security stake in dependable domestic supplies of the particular product, he should develop a special assistance program to strengthen this sector of the mobilization base. At present (and as envisaged in the trade bill), the only action the President is required to take if he finds impairment is restriction of the imports. Import controls may be necessary, but they should be very selective (to the extent needed at all), and should be only a marginal part of a balanced assistance policy aimed at coherent objectives and emphasizing domestic economic remedies. This policy should be systematically monitored by the Congress, and the President should report to Congress every year on its progress.

It is amazing that the only section of trade legislation that has intimately affected petroleum, and in this connection has worked so poorly as a policy instrument, has escaped the attention of government, business and virtually the entire liberal-trade community.

Tariff preferences to developing countries

The long-delayed step to fulfill this commitment is made inadequate in many ways.

The exemption of products covered by special import controls is understandable. But there is no deliberate effort to phase out these import controls. The proposal is weakened even more by (a) the quantitative limits restricting the eligibility of supplying countries, (b) the burdensome requirement calling on the President to judge whether particular industries in particular developing countries need such preferences, (c) the overly permissive "import relief" (escape clause) criteria capable of penalizing foreign producers impressively successful in attracting American consumers to their products, and (d) overly permissive Presidential authority to withdraw tariff preferences. Moreover, tariff-preference authority should not be limited to zero tariffs as the only option. Gradations of preference should be permitted, left to the President's discretion.

These shortcomings in the authorization of tariff preferences to the developing countries should be carefully reviewed for correction. This is, among other things, a foreign-policy issue of very high priority. America needs a new, dramatic Third World strategy. This bill does not provide the trade dimension so urgently needed. Foreign access to the American market for both goods and capital is not only a major instrument of U.S. assistance to the developing countries. It can also be of both carrot and stick utility in developing the new and equitable economic partnership essential to repairing the worsening fault line in relations between the advanced countries and the world's less-developed areas.

Freest access to the American market is America's best economic weapon. America should use it with great skill and vaulting statesmanship. The nation has the resources and resourcefulness to adjust fully and effectively to such an initiative.

Title IV (trade with Russia etc.)

We urge the President and Congress to negotiate a mutually acceptable accommodation on this issue—an accommodation that (a) gives the President the moral support and legislative authority he needs for his highly desirable but very delicate diplomatic initiatives in relations with Communist countries, (b) finds an appropriate way, consistent with these objectives, to send the human-rights message which large majorities in Congress and supposedly in the country want to send, and (c) provides for frequent, effective Presidential accountability to Congress on these issues.

CONSULTATION WITH CONGRESS

In his trade message, the President said:

"I invite the Congress to set up whatever mechanism it deems best for closer consultation and cooperation to ensure that its views are properly represented as trade negotiations go forward."

An effective mechanism for such consultation and cooperation is crucial for progress in trade negotiations and for Congressional action to backstop agreements reached. For this purpose, particularly for effective consultation between the President and Congress on industry-adjustment measures pursuant to the new dimension of an effective trade policy proposed above, a joint "select committee" should be formed, roughly on the following lines:

Alternating chairmen: the chairman of the House Ways and Means Committee and the chairman of the Senate Finance Committee. Other members would include the chairmen of the following committees (or their alternates):

House:	Senate:
Labor	Labor
Banking	Banking
Agriculture	Agriculture
Foreign Affairs	Foreign Relations
Interstate and Foreign Commerce	Commerce
Interior	Interior

ANNUAL REPORT TO THE PRESIDENT

In addition to the report required in the bill (the same kind required in existing legislation), the bill should also require the President to report annually to Congress on the progress of national adjustment and conversion across the board, and on the international competitive position of the American economy. Such a vehicle for better understanding of these issues (first proposed by CNTP in the 1962 trade hearings) would contribute immeasurably to the more dependable free-trade policy so urgently needed.

SUSPENSION OF IMPORT RESTRICTIONS FOR ANTI-INFLATION OR BALANCE-OF-PAYMENTS REASONS

This authority to suspend import restrictions is commendable in principle. We doubt seriously that it should be restricted to an arbitrary percentage of total U.S. imports, to the time limitations specified in the bill, and to situations where, in the President's judgment, the suspension would not injure "firms or workers". Suspension essential or helpful to the overall national interest should not be sacrificed to the short-run interest of certain firms or workers, whose needs should be dealt with by domestic policies addressed to the imperatives of their particular situations. A coherent industry-adjustment policy of the kind proposed in this testimony would augment the flexibility the President seeks for dealing with inflation or persistent balance-of-payments surpluses through suspension of import controls.

OTHER RECOMMENDATIONS

We recommend for anti-inflationary purposes the immediate suspension of import duties on as many products in short supply as possible, including all imported meats.

We also urge, as an amendment to the trade bill, the immediate repeal of the 1964 legislation triggering quota controls on meat imports. The President's suspension of these quotas is not enough. There is a world shortage of meat, and mere suspension of the quotas does not provide a firm basis for stepped-up commitment of foreign supplies to the U.S. market. The fact that over 90 percent of imported meat does not compete with U.S. production, but supplements U.S. supplies going into hamburgers, hot dogs and luncheon meats, should convincingly complete the case for repealing this import-control legislation.

We recommend authorization to the President to terminate the ban on imports of seven furs and skins from the Soviet Union and the People's Republic of China.

[Whereupon, at 3 p.m., the committee adjourned, to reconvene at 10 a.m. Thursday, March 28, 1974.]

TRADE REFORM ACT OF 1973

THURSDAY, MARCH 28, 1974

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

The committee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (chairman) presiding.

Present: Senators Long, Curtis, Fannin, Packwood, and Roth.

The CHAIRMAN. This hearing will come to order.

Today, we shall hear from representatives of the U.S. chemical industry. These witnesses have graciously agreed to appear as a panel in order to conserve the committee's time. We very much appreciate their cooperation.

The 5-minute rule will be imposed today. Each Senator may have 5 minutes to question the witnesses, and if any Senator has additional questions, he may utilize the executive conference room after the witness has been interrogated by all other members of the committee.

The panel this morning will consist of David H. Dawson, formerly with Du Pont, and now the chemical industry trade adviser; Richard M. Brennan of Union Carbide, representing the Manufacturing Chemists Association; as well as Robert Barnard, counsel for the Synthetic Organic Chemical Manufacturers Association.

We welcome you gentlemen, and we will be very pleased to hear your suggestions regarding this trade bill.

STATEMENT OF DAVID H. DAWSON, CHEMICAL INDUSTRY TRADE ADVISER; RICHARD M. BRENNAN, DIRECTOR, INTERNATIONAL TRADE AND TARIFF, UNION CARBIDE CORP., AND CHAIRMAN, INTERNATIONAL TRADE COMMITTEE OF THE MANUFACTURING CHEMISTS ASSOCIATION, AND ROBERT C. BARNARD, COUNSEL, SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION

Statement of David H. Dawson

Mr. DAWSON. Thank you, Mr. Chairman.

My name is David H. Dawson. I am a director of the Du Pont Co., and upon retirement late last year as senior vice president of that company, I became a trade adviser to the chemical industry, looking forward to the negotiations scheduled to begin under the GATT late this year.

I am accompanied by Mr. Richard Brennan, director of international trade and tariff for Union Carbide Corp., and chairman of the International Trade Committee of the Manufacturing Chemists Association and by Mr. Robert Barnard, substituting for Harold C. Whittemore, vice president of Sun Chemical Corp., and president of Synthetic Organic Chemical Manufacturers Association. He will present Mr. Whittemore's testimony.

In an effort to establish and maintain a concerted industry point of view, five trade associations established the Office of the Chemical Industry Trade Adviser. These are the Manufacturing Chemists Association, the Synthetic Organic Chemical Manufacturers Association, the Society of the Plastics Industry, the Dry Color Manufacturers Association, and the Fertilizer Institute.

The office of the trade adviser will serve to permit communications between the negotiators and the industry. I have agreed to lead this effort representing the five cooperating trade associations with the hope that my 40 years of experience in the industry and my participation in the frustrating and inadequate coordination between Government and industry in the Kennedy round might lead to better results for our industry and the national interest.

We have a full-time technical adviser, Mr. Myron T. Foveaux, also a participant in the industry's futile attempts to assist in the Kennedy round. A policy committee of 12 top industry executives has been formed, and 14 product group task forces are already active in the development of the detailed data which our negotiators will need.

Although we are fully aware that our negotiators cannot utilize industry advisers in the same intimate ways practiced by their adversaries, we are hopeful that between us Government and our industry can find mechanisms which will mitigate our negotiating disadvantage and allow significant improvements over the Kennedy round experience.

I am sure you are all aware that the chemical industry is an extremely heterogeneous one. It manufactures literally tens of thousands of products varying from commodity chemicals selling for a few cents a pound to highly complex compounds selling for many dollars per gram. This heterogeneity has resulted in a multiplicity of trade associations and you have consequently at times heard a variety of viewpoints, particularly in the trade area.

We believe that we have largely reconciled these variations in point of view and we can speak with one voice in urging passage of the bill before you and simultaneously urging some important modifications in it.

The chemical industry is a $66 billion industry employing over one million workers. Last year it had a $3.3 billion trade surplus. For many years it has been one of the largest contributors to our export surplus and even during the dark years of 1971 and 1972, when many of our products were not priced competitively with those of some of foreign manufacturers, succeeded in maintaining a substantial surplus.

Since the Congress first started consideration of this trade bill the whole character of world trade has changed dramatically and with great suddenness. Oil embargoes, sharp price increases in oil and oil derived products, the need to protect our imports rather than our ex-

ports, and the changed power position of many underdeveloped countries, all of these have radically altered established trading relations which had existed for many years.

The effect on the chemical industry has been even more profound than on most others, in that we are dependent on oil and gas resources not only for the energy needed to operate our plants, but for the overwhelmingly large part of the raw materials from which we manufacture plastics, fertilizers, and other chemicals. The impacts of these radical changes on world chemical trade are still confused and unclear.

However, it's safe to predit that in any negotiations our trading partners will be seeking to obtain access both to our raw materials and to our markets in order to produce and sell the goods required to earn the vastly increased financial resources required by them to purchase oil. Stakes will be high in such talks, and the possibility of a major disruption of our economy will be great unless we obtain a fair, reciprocal agreement.

International competitive relations which have been relatively stable are being drastically changed. The consequences are still largely unpredictable, but it is not beyond reasonable possibility that some countries may find themselves with excess and unused chemical plant capacity and others requiring rapid expansion.

We cannot now clearly foresee the equilibrium conditions which will finally prevail. It is obvious though that a new aspect of international trade has been introduced and that future trade negotiations must consider freedom of access to raw materials, as well as to markets.

It is clear that the control of energy materials outside of a mechanism for international multilateral negotiations is fraught with great danger. Finally, it is clear that this bill, we believe, should be further amended to provide the requisite mechanisms for grappling with these problems.

Apart from this new dimension, which today seems overwhelming, we have based our recommendations on our experiences of the past 10 years and particularly on our admittedly largely unhappy ones in the Kennedy Round.

I repeat that we are in full support of most of the concepts and provisions in the Trade Reform Act. We continue to urge, however, as we did when this bill was being considered by the House, that four important modifications be incorporated.

One, that the maximum tariff cuts provided for in section 101 be limited to 50 percent rather than the 60 percent and 75 percent provided in the House bill. Also that tariffs now over 25 percent ad valorem not be reduced below 15 percent.

Our experience in the Kennedy Round leads us to believe that there is a high probability that our negotiators will employ the maximum permissable tariff reductions and these we would consider in the chemical sector at least to be excessive.

Two, that provisions be included which will insure full employment of industry advice and consultation and full consideration of industry recommendations during the negotiations. We are hearing encouraging words from the administrators.

We feel, however, that they should continue to have strong pressures in this direction. We feel, as we have in the past, that the more effective industrial consultations provided other negotiating govern-

ments, particularly Japan and the common market countries, have been of inestimable value to their negotiators and as a consequence, to their industries.

Three, that any agreement on the American selling price system of valuation which is negotiated should be subject to review by, and should require the affirmative approval of, the Congress; and furthermore that products subject to the American selling price system of valuation should not be singled out for larger tariff cuts than other major product categories.

Four, that sector-by-sector bargaining and reciprocity be required for tariff negotiations as well as for nontariff barrier agreements, as provided in the House bill.

With that introduction, I would like to turn the microphone over to Mr. Brennan, who will discuss further two of these four points and provide additional specifics regarding our recommended changes.

Statement of Richard M. Brennan

Mr. BRENNAN. Mr. Chairman, my name is Richard M. Brennan. I am chairman of the Manufacturing Chemists Association International Trade Committee, and I am also director of international affairs for one of its major companies. As Dr. Dawson had indicated, I would like to address myself to two key matters of interest to the chemical industry; namely, tariff cutting authority and industry liaison with our trade negotiators.

Although we do not question the need for our trade negotiators to have congressionally delegated authority to modify U.S. tariffs, we are concerned that too much authority would be provided by section 101 of H.R. 10710.

We would, therefore, respectfully suggest the following modifications in the authority to reduce tariffs:

One, tariff-cutting authority on duties above 5 percent ad valorem should be limited to 50 percent of the rate existing on July 1, 1973.

Two, duties which are above 25 percent ad valorem as of July 1, 1973, should not be reduced below 15 percent ad valorem.

We agree with the authority in the bill permitting elimination of duties below 5 percent ad valorem.

We believe the breadth of authority within this recommendation is still quite substantial and should provide U.S. negotiators with ample latitude to negotiate successfully.

In analyzing the tariff-cutting authority to be utilized in multilateral trade negotiations, we believe it is essential to consider the timeframe when such tariff cuts would become operative and the particulars of each industry.

Turning to the timeframe consideration, it appears to us that we must attempt evaluation of the international economic environment which will prevail during the late 1970's and 1980's. Under the best circumstances, it is extremely difficult to develop such an analytical projection. Under today's unsettled conditions, it seems almost impossible. Let me elaborate on this difficulty by turning to the second point of perspective—the current situation within the chemical industry. Just as the chemical industry was beginning to recover from a period of low profitability, governmental price and profit controls were

instituted. The industry has been operating under these abnormal conditions of profit margin controls for over 2½ years, and as a result, has been discouraged from making needed expansions.

Now a new, and ostensibly a more far-reaching uncertainty has been added to the investment question—the question of raw material feedstock availability and supply.

The oil crisis has brought into focus several unknowns which will have a significant impact on the international trading world of the future. It is because we are unable, at this time, to evaluate accurately the future impact of these variables that we are recommending the tariff-cutting authority of H.R. 10710 be reduced. I would like to review briefly several of these unknown factors with the committee.

One, undoubtedly the most important unknown factor for the chemical industry is the question of petroleum-based raw material feedstock availability and continuity of supply. We currently estimate that foreign crude oil will be the principal feedstock of the petrochemical industry in the next decade. However, the stability and security of these crude oil sources are still quite uncertain.

So, too, is the question of where and under what arrangement this crude oil will be refined. These fundamental issues must be resolved before the U.S. petrochemical industry will be able to make needed long-term investment commitments with any degree of confidence. We are not attempting to portray a future of pessimism and despair but are simply emphasizing the industry is in a period of uncertainty and will continue to be so for some time to come.

Two, secondly, consideration must be given to the impact of escalating oil costs on the balance of payments of the United States, the European Community, Japan, and other nations. Although the exact cost is still not known, it appears to be beyond question that the future price of oil will be well above the levels of early 1973. To what extent these higher oil costs will give rise to foreign export subsidies to pay for them is not known.

This potential export subsidization, however, is placed in perspective by analyzing various nations' reliance on exports. For example, in 1972, the United States exported 14.4 percent of its total production, while in the same year Japan exported 32 percent, West Germany 42 percent, and the United Kingdom 46 percent.

The European Community as a whole exported outside the Community 23 percent of its total production; however, if the trade between members is included, the portion exported would have doubled. Obviously, the economies of many of the advanced nations rely heavily on exports, and this reliance exerts great pressure to employ export support measures.

Three, another factor is really the other side of the export subsidy coin; that is, the imposition of barriers to imports. If large expenditures for the import of oil are necessary, then the need to minimize expenditures on other imports grows larger.

Under the extensive tariff-cutting authority provided in the bill, the United States could well be committing itself to sizable tariff reductions at the very time other nations will be under increasing pressure to impose import barriers of one kind or another.

In our opinion, it will take several years for these considerations to be resolved, and for a new equilibrium to be reached. During this

same period, our U.S. negotiators will be making long-term commitments, giving full consideration to the significance of the above-mentioned uncertainties.

We believe that utilization of the extensive tariff-cutting authority provided in the bill could lead to arrangements which might not be in the best long-range interest of this industry. Duty reductions in excess of 50 percent would surely be harmful to the domestic production of a number of complex chemicals and plastics.

In addition, we believe a limit to 50 percent in tariff cutting not only matches the widely heralded authority of the Kennedy round, but also would match, if not surpass, the authority granted by the governments of our principal trading partners. More importantly, we are not aware of any compelling reasons which would require authority in excess of 50 percent, particularly if the forthcoming negotiations are to concentrate on nontariff barrier removal.

We believe that this is a time for restraint and caution—a time when the Nation should consider keeping some of its negotiating options open. Accordingly, we believe the tariff-cutting authority provided in H.R. 10710 is excessive.

Now, Mr. Chairman, I would like to comment on the role of industry advisers during the course of these negotiations.

As you know, the chemical industry has for a long time had a deep interest in international trade negotiations, an interest greatly increased by the unfortunate consequences of the Kennedy round negotiations on the industry. The chemical industry is not only large, but very complex. Alternative processes and raw materials make it extremely difficult to attain the detailed understanding of the industry required to forecast the future impact of changing trading conditions. As I have already indicated, this difficulty is compounded under present-day conditions.

Recognizing that it would be extremely difficult for our negotiators to have detailed knowledge of all of the various facets of the chemical industry, we have developed an organization for the communication of that knowledge—the Office of the Chemical Industry Trade Adviser. In support of the Office, the leaders of the chemical industry have made a major commitment of manpower in executive talent for policy direction and in scores of experts for the technical task group backup.

We are pleased that the use of advice from industry in the negotiations has been given prominence in H.R. 10710. We urge strongly that the Congress, especially the "official advisers" of the Congress provided for in section 161, assure themselves regularly that advice from industry is sought and utilized effectively.

We believe that the Congress should encourage the formation of industry advisory structures such as the chemical industry has organized. We seek only to achieve the same degree of close coordination between businessmen and their government negotiators that we have witnessed in the practice of our trading partners abroad.

We believe the U.S. chemical industry is well organized in this regard. But we stand ready and willing to work with our negotiators and the Congress.

Mr. Chairman, that concludes my remarks. Mr. Barnard, I think, would like to cover two other subjects.

Statement of Robert C. Barnard

Mr. BARNARD. Mr. Chairman, my name is Robert C. Barnard. I am counsel to the Synthetic Organic Chemical Manufacturers Association, and the Dry Color Manufacturers Association. I appear here today for Mr. Harold C. Whittemore, who is president of the Synthetic Organic Chemical Manufacturers Association. He asked me to convey his regrets to the committee that, because of an illness in the family, he is unable to be here today. We appreciate the opportunity as part of this chemical industry-panel to discuss the effect of the proposed trade bill on our industry and to make two recommendations for changes.

First, the special provisions in the bill relating to benzenoid chemicals subject to the American selling price, ASP, method of valuation should be amended. We believe it is essential that Congress retain the right to review and approve any trade agreement changing the American selling price method of valuation, and we urge the elimination of the discriminatory multiple reduction in import protection which the bill authorizes only with respect to products to which ASP is applicable.

Second, we believe that act should make sector-by-sector reciprocity the principal objective in any trade negotiations not just in negotiations on nontariff barriers.

A word about the benzenoid sector of the chemical industry: In 1973 benzenoid chemical sales alone exceeded $6 billion and created jobs for 130,000. Benzenoid chemicals include such important products as dyes, pigments, medicinal chemicals, flavor and perfume materials, pesticides, and some plastics and resins.

ASP and the trade bill: The bill originally proposed by the administration, H.R. No. 6767, would have granted the President advance authority to change methods of customs valuation embodied in the statutory law of the United States. The Ways and Means Committee wisely declined to grant the Executive such sweeping powers.

However, the bill it reported out, and which is now before you, does not provide for meaningful congressional review of any agreement made on ASP, and it subjects manufacturers of benzenoid chemicals and rubber soled footwear to a significantly greater reduction in import protection than all other industries.

I will not debate the merits of ASP, but there are four points worth noting:

One, ASP-based duty rates apply to United States rather than foreign values. Thus the tariff protection it provides is constantly updated; it increases as U.S. prices increase and decreases as U.S. prices decrease.

Two, the basic reasons ASP was originally selected for benzenoid products are still valid. Benzenoid products are produced in the Common Market and in Japan by a relatively few large companies which are rationalized—with or without government supervision—and which are capable of "disciplining" an industry by dumping.

The U.S. antidumping laws do not provide an effective remedy for an industry in which reliable foreign price data is rarely obtainable. ASP does provide automatic partial protection against dumping since the dumper does not receive the benefit of reduced duties when he offers products at dumping prices.

Three, ASP has not prevented a steady increase in the foreign import penetration of the U.S. market. Chemical imports have increased an average of 16 percent per year during the last 6 years. During the period 1967–72, benzenoid imports increased an average of 23 percent per year.

Four, the administration of ASP has been subject to criticism, some of which, we are confident, may be justifiable, and we have repeatedly but unsuccessfully urged our Government to make the necessary administrative changes. We believe that the adoption of such changes would largely remove the inflammatory characteristics of ASP in the minds of our foreign competitors and their governments.

The industry's position on ASP negotiations: (A), congressinoal review. Under this bill the administration has said it may well bring back an agreement dealing not only with ASP but many nontariff barriers. Congress will then have 90 days within which to veto it. Meaningful review of the ASP agreement would be impossible if it is one of many agreements and the veto applies to the whole package, not just the ASP agreement.

On the basis of the Kennedy round experience where a nonreciprocal deal on ASP was negotiated as part of the famous 50/20 chemical agreement, we urge that any trade agreement on items as basic as U.S. methods of valuation should be submitted to the Congress as a separate agreement for affirmative approval through the regular legislative process.

The bill's 90-day veto procedure does not in our opinion give the Congress an adequate opportunity to review a complex trade agreement making a basic change in valuation standards mixed in with agreements on other matters.

(B), the discriminatory multiple reduction in protection on benzenoid products. Section 102 as presently drafted permits a greater reduction in protection for benzenoid products and rubber soled footwear than for any other products.

First, the bill authorizes the elimination of the benefits afforded by ASP. This is a reduction in protection since the Tariff Commission has found that other methods of valuation do not provide equivalent protection.

Second, the bill, in addition, authorizes a double tariff cut: One, the elimination of the so-called "tariff equivalent" of ASP: and two, a cut under section 101 in the remaining level of protection.

Let me illustrate the double duty cut. Assume the statutory rate of a product is 20 percent but that ASP valuation today results in tariff protection equivalent to 35 percent on the basis of export value. The double cut arises because section 102(g) authorizes: One, the immediate elimination of the difference between 35 percent and 20 percent—the 15 percentage points of effective tariff protection attributable to ASP and referred to as the tariff equivalent; two, as if that were not enough, it permits the 20 percent statutory rate to be subject to the full reduction under the section 101 tariff-cutting authority applicable to all products.

In our example, the 20 percent could be reduced to 8 percent. Thus, the tariff protection could be reduced from an effective rate of 35 percent to 8 percent, a cut of 77 percent.

Because of this double cut, the tariff rates in major benzenoid basket categories will be subject to reductions of from 76 percent to 81 percent compared to 60–75 percent on all other products.

There is no valid justification, in our view, for subjecting benzenoid chemical manufacturers and their workers to the abrupt loss of ASP plus the double cut in effective tariff protection.

We therefore urge this committee to require conversion under section 102(g) if ASP is to be negotiated and to require that the tariff-cutting limitations, including the staging requirements in section 101, apply to the new converted rates not to the old statutory rates.

I would now like to turn my attention to the matter of reciprocity by sectors. Reciprocity within sectors is essential unless trade negotiations are to become a means of deciding which industries shall flourish and which languish or die.

We are gratified to note the concept of sectoral negotiations and reciprocity in section 102(c), but for some inexplicable reason this provision is only made applicable to NTB agreements. It is equally, if not more, important for tariff negotiations to be conducted on a sector-by-sector basis. We urge that this provision be made applicable to both sections 101 and 102.

It has been obvious for many years that we have not achieved reciprocity in past trade negotiations. By directing sectoral negotiations with firm directions to achieve reciprocity, perhaps we can avoid deals like the famous Kennedy round chemical agreement where we got only a 20-percent cut from the EEC in exchange for our 50-percent cut and like the nonreciprocal separate package deal on ASP. We believe that Congress should instruct our negotiators in the present bill that reciprocity by sectors is a prime negotiating objective.

We subscribe to the staff analysis of H.R. 10710 that the border tax-export rebate device used by many of our trading partners gives them a tremendous commercial advantage. In fact, increases in the border tax have effectively nullified most of the trade concessions we have received from them in the past.

We therefore applaud the provision in the bill, section 121(a)(5) directing the President to seek reform of the GATT to rectify the adverse impact of border taxes on our trade. However, we believe that this provision should be strengthened by making any future trade agreements contingent upon a fair resolution of this problem. Otherwise, the reciprocal benefits we obtain in this round of negotiations can also be eliminated by increases in the border tax on our trade.

We urge the committee to make clear that the forthcoming negotiations on tariffs and NTB's shall be by sector with the firm objective of genuine reciprocity.

In our written statement, which we have filed with the committee, we have elaborated on these points and other points of interest to the industry. We will also submit suggested amendments to carry out the changes in the trade bill we have proposed.

Mr. Chairman, this concludes the statement by the panel.

Senator CURTIS [presiding]. On behalf of the chairman, I want to thank you for your contribution here. I have one or two questions that I would like to ask.

How do you define a sector of our economy or business community?

Mr. BARNARD. We assume that this would have to be done by the administration, giving due consideration to what are the proper boundaries for sectoral negotiations. We recognize that the boundaries may not be as sharp as one would like to have them drawn, but nonetheless there are characteristics of certain parts of the industry.

The chemical industry has certain characteristics which are matched by the chemical industries of other countries, and we believe it is fully appropriate and proper for the administration to set about to draw those boundaries, and, within those boundaries as drawn, to conduct the negotiations.

Senator CURTIS. In other words, you are saying that we should not take a single segment of our economy and negotiate it away for what might appear as a larger benefit to some totally unrelated and larger, what might be a larger segment of our economy?

Mr. BARNARD. Yes, Mr. Chairman. We regard these as trade negotiations, not a negotiation to decide which industry shall live and which industry shall die. We believe that if the negotiators' objective is to find equivalent benefits for an industry, then we will have achieved a reciprocity, and we will not be engaging in a shifting of the industrial structure under the guise of trade negotiations.

Senator CURTIS. I agree to the concept very much. What do you think is the best way for the Government, particularly the negotiators, to make effective use of the knowledge and expertise that the private citizens have in the field of manufacturing, agriculture, all the aspects of our economy?

Mr. DAWSON. I think that if industry—and I can speak knowledgeably only of industry—were encouraged, they could easily set up devices of the sort we have attempted, and which some other industry groups have also attempted, which would allow periodic consultation between the negotiators and industry people in the course, first, of the preparation for the negotiations, second, in determining what offers should be made, and, third, in the course of the negotiations proper. Here our adversaries on the other side of the table are also submitting proposals, and an attempt should be made to balance these. But in the Kennedy round, of which I think we are knowledgeable of industry's viewpoint, we found that this procedure was being undertaken only by our adversaries, whose negotiators would consult on a day-to-day basis with industry representatives.

Industry representatives of our adversaries were not participating at the negotiating table, but there were sufficient consultations between them that they were were able to interpret the result in the industry of concessions which their negotiators might make in a way that you simply could not expect a government negotiator to achieve.

We have said before and we submit it as a fact that during the Kennedy round, some of our people who were in Geneva, including myself, were informed of offers made by our negotiators by foreign industrial representatives, when we were not informed of these by our own government people.

Senator CURTIS. I think these things are very important.

Senator Packwood?

Senator PACKWOOD. On this sector-by-sector issue, do you envision the manufacturing chemical industry as a sector in toto, or do you break it down further within that?

Mr. DAWSON. No; we would think that there is a limit to the breakdown that you can achieve and have it effective. We would conceive of the chemical industry as a total sector, and I think that the Government is, in effect, making these sectors by the efforts that they are undertaking now to set up technical committees representing some 26 industrial sectors, as I recall.

This is already something approaching a definition. This is based on tariff classifications, largely. It probably needs more work.

Senator PACKWOOD. You would have the sector approach on both tariff and nontariff areas?

Mr. DAWSON. We certainly would. We are really puzzled as to why the administration chose to make them effective to the nontariff barrier and not to the tariff barriers.

Senator PACKWOOD. Assuming we do have a sector approach that isolates the manufacturing chemical industry, if that had been a definable item at the time, what would have been the balance of trade situation in that sector since the Kennedy Round went into effect? Favorable, or unfavorable for us?

Mr. DAWSON. Our balance has increased. Oh, it is quite favorable for the United States.

Senator PACKWOOD. Even after the Kennedy Round?

Mr. DAWSON. Even after the Kennedy Round.

Mr. BARNARD. It is favorable, Senator, but we have steadily lost position in the world trade in chemicals. Our position as part of the world trade in chemicals has steadily declined during this period, although we have maintained a favorable balance of trade.

Mr. DAWSON. Let me say, however, that you should forget 1973, which was an abnormal year. In 1973, we had a trade balance of $3.3 billion. In 1968, we had $2.17 billion following the Kennedy Round, $2.11 billion in 1972.

Senator PACKWOOD. That is a favorable balance?

Mr. DAWSON. That is a favorable balance, and it stayed about the same.

Senator PACKWOOD. What is the total trade, import and export?

Mr. DAWSON. In 1972, it was $4.1 billion going out, and $2 billion coming in.

Senator PACKWOOD. That is not bad.

What would it have been pre-Kennedy Round?

Mr. DAWSON. Pre-Kennedy Round—in 1968, it was $3.3 billion going out, and $1.1 billion coming it; so the imports have increased in that period, 1968–72, from $1.1 billion to $2 billion.

Senator PACKWOOD. Explain the American selling price practice. I have heard about it for years, but never quite understood it.

Does it apply only to these benzenoid chemicals?

Mr. BARNARD. No, Senator. It applies to benzenoid chemicals, rubber-soled footwear, then to a couple more items.

Senator PACKWOOD. How did ASP creep in initially?

Mr. BARNARD. The application of ASP to benzenoid chemicals occurred in 1922, after World War I, at a time when the chemical industry had found itself in very difficult straits, and the Congress was interested in finding a suitable way to stimulate and protect a benzenoid chemical industry in the United States. The conclusion that they reached in the light of the circumstances that then prevailed

was to use the American selling price method of valuation for benzenoid chemicals.

In the 1930's, under, I believe the Tariff Act of 1930 and the so-called flexible tariff provision, the President was authorized to extend ASP to certain other products and he did extend it to, if I recall correctly, rubber-soled footwear and some other products. Those determinations of the use of ASP in the American structure have been confirmed by the Congress and various statutes have been passed since.

Senator PACKWOOD. I can understand your——

Mr. DAWSON. May I add one historical note there?

Senator PACKWOOD. Yes.

Mr. DAWSON. You may recall that before World War I, there was practically no chemical industry in this country at all. It was a very minor thing. The bulk of chemicals were imported, and Germany was the dominant manufacturer.

During World War I, of course, those were cut off, and you had crises of no dyestuffs, and this sort of thing. The American industry, what there was of it, jumped in and built plants to supply it.

Following World War I, the Germany properties obviously were not destroyed the way they were during World War II. The IG was still in existence and it began——

Senator PACKWOOD. The what was still in existence?

Mr. DAWSON. I. G. Farben Industries, a German cartel.

Senator PACKWOOD. Thank you.

Mr. DAWSON. And they began aggressive actions in this market. It was the decision of Congress at that time to effectively give unusual tariff protection to that industry.

Senator PACKWOOD. I can understand your fear of a sudden reduction—combining elimination of ASP and reductions of tariffs over a very rapid period of time—but is this any justification today, at least in the benzenoid chemicals, for ASP in and of itself?

Do you need that protection any more?

Mr. BARNARD. Senator, the conditions that existed at the time the law was first passed exist even today in a considerable measure. The industry is very import-sensitive. There have been significant increases in imports over the years. The industry does not—the industry abroad does not operate on standard published prices. The prices are things that are very difficult to find out. They are the result of the way the manufacturers abroad choose to operate their industry.

The result is that the industry is faced with a kind of competition which is unusual even in the chemical industry, and the ASP valuation provides both an automatic protection against—some protection against dumping. It also provides a means of valuation which can be easily known and understood because you use American prices.

Tariff people can find those prices out easily while the prices of our foreign competitors become very difficult to find out. The ASP has not prevented significant increases in imports over the years, and it has not prevented a rise in imports.

So that the facts that led to the original adoption of ASP still exist. For an industry still as rationalized, we are faced with a problem——

Senator PACKWOOD. What does "rationalized" mean?

Mr. BARNARD. It means they have something in the nature of a cartel. They can operate together in ways in which we cannot operate together.

Senator PACKWOOD. Mr. Dawson, would you give me those figures again about pre-Kennedy Round and now in terms of increases of both imports and exports?

Mr. DAWSON. In 1968——

Senator PACKWOOD. That is not pre-Kennedy Round.

Mr. DAWSON. No. The Kennedy Round was concluded in 1967, and started to be effective from 1967 on. I do not have 1967.

In 1968, our exports were $3.29 billion; our imports were $1.12 billion.

Senator PACKWOOD. And what is it now?

Mr. DAWSON. For 1972, our exports were $4.13 billion; our imports were $2.02 billion.

Senator PACKWOOD. You have not lost any ground then in terms of the total difference; you have increased your exports about a billion and the increase in imports has come in roughly the same?

Mr. DAWSON. That is correct.

Mr. BRENNAN. If I might add one point of perspective, that is our growth rate at the time, looking at ourselves and the EEC. I have two sets of figures for both. If you look at the exports of chemicals from the United States to the EEC, they grew from 1962 to 1972 at 8.4 percent, and then just the 1967–72 period, they grew at 9 percent; whereas imports grew, from the 1962 to 1972 period, at 15 percent, and then in the 1967–72 period, they grew at 18 percent, or actually twice the growth rate of U.S. chemical exports.

Senator PACKWOOD. But starting at a lower base?

Mr. BRENNAN. Yes, sir; right. But these kinds of differentials of growth rates, that gap gets closed pretty quickly.

Mr. DAWSON. Let me say, we are not crying for more protection at all. We think we are a healthy industry, but we are urging that the negotiations be made in such a manner that they do not further penalize the chemical industry in a way which we felt was done in the Kennedy Round.

Senator PACKWOOD. Let me come back to this sector-by-sector thing. It bothers me a bit.

Take the chemical industry. What you are saying is if we cannot negotiate favorable nontariff reciprocity within the chemical industry itself, there will be no change. We cannot barter off agriculture versus chemicals for the overall good of the country. We have to go sector by sector and conclude favorable agreements, as you would view them, within each sector?

Mr. BARNARD. Senator, I do not think that is the position we are taking. We are saying we recognize that there may be circumstances where that cannot be achieved. What we are suggesting is that there ought to be a direction to the negotiations to achieve that result if possible, and if they cannot achieve it, come back and tell the Congress why they cannot achieve it.

If they choose, to use your example, to trade off the agriculture industry for chemical exports, at least in that stage of the game, we shall have a frank statement that we are sacrificing the chemical industry for agricultural exports, and the Congress will understand what is going on.

Senator PACKWOOD. I think that is fair in theory, but the dickens of it is, you normally have a lot more negative forces than positive forces.

I cannot conceive that we can fragment ourselves into 36 sectors, with agriculture being one, and come up with something in each sector to satisfy each of the principal industries in each of the sectors.

At some stage, there is bound to be some shifting.

Mr. BARNARD. That does not prevent their trying, Senator, and it does not prevent their trying under directions from the Congress, but this is a direction that is desirable, and they ought to try to achieve.

Mr. DAWSON. And it really has a profound effect on their negotiating tactics.

Senator PACKWOOD. If you were on the Trade Advisory Committee, and we have a sector-by-sector approach, what would you suggest?

Mr. DAWSON. I do not think we are yet in a position to really define a program for what we think our negotiators should seek. We are attempting to do that. We are working both from the tariff and nontariff barrier standpoint to attempt to come up with something which would be a reasonable one. We are not prepared to do it now.

I think we could say that if, because of the incendiary nature of ASP it is desirable to negotiate away ASP, it is possible to have other equivalents, equivalent trades that we could get that would make, from the chemical industry's standpoint, an equitable agreement. We are not prepared to tell the committee now what those are. I think we will be by the time the negotiations start.

Senator PACKWOOD. Let me congratulate you on your joint statement. It is the best panel I have seen where the statements come together, instead of where three people sit down and either cover the same ground or miss covering areas.

Mr. DAWSON. Thank you.

Senator CURTIS. Senator Roth?

Senator ROTH. I would just point out to my colleague that it is the fact that part of the panel is from Delaware that makes it so excellent.

I am delighted to have Dr. Dawson appear today, as well as the other members of the panel.

We had Mr. Meany before us yesterday, who I thought made a very interesting and candid appraisal, and we have you gentlemen here today. It seems to me there is one basic concern that runs through all our testimony. It is that people are not persuaded that our negotiations will represent the best interests of this country in trade negotiations.

Is that your assessment?

Mr. DAWSON. I think it is almost that, Senator. I do not want to exceed the limits, but I really think we went into the Kennedy round with the negotiators convinced that they ought to make a liberal concession in order to promote, a liberal concession on the part of the United States, in order to promote world trade. And they had authority to reach the 50 percent, and they did reach the 50 percent. And this was really the objective of the negotiation.

I think the situation today is such that we are getting it messed up with the oil situation, which has us all confused, but it was before that happened that the United States was no longer in a position to enter the negotiations with the intent of making concessions that will stimulate world trade. We are no longer in such a dominant economic position.

Senator ROTH. That is the point I wanted to get. It seems to me that perhaps the statement of purposes ought to set forth—I have not looked at that recently—more carefully that the primary purpose of our negotiators is to promote American interests and not accent so much as in the past liberalizing world trade for its own sake. I think we all desire that, but it should be done in the context of America's best interests. I think that is what Mr. Meany was saying yesterday.

I might say that the chairman yesterday and myself both agreed that perhaps the best thing we could do for the United States is make Mr. Meany our chief trade negotiator.

Mr. DAWSON. That could be very good.

Senator ROTH. I wonder if it would not be wise, and I think it would be helpful if your industry as well as others might not take a careful look at the guidelines and objectives and see if they cannot be spelled out with more precision.

Mr. DAWSON. Of course, negotiating by sectors is one of the guidelines that will limit their freedom to give, but it could be that a more precise statement of objectives would be helpful.

Senator ROTH. I would appreciate any comment you might want to supply further for the purposes of the record at a later time.

Mr. DAWSON. We certainly will.

Senator ROTH. There has been in these hearings a great deal of discussion about the uncertainty in the international picture, primarily because of the energy crisis, and there have been a number of people who have suggested in these hearings, as well as elsewhere, that the time may not be ripe for trade negotiations.

I would like to make sure that I understand the position of the Manufacturing Chemists Association. It is my understanding that despite these uncertainties, with the strengthening of certain provisions, you believe it is desirable now to have trade legislation. Is that right?

Mr. DAWSON. I think, Senator, in one regard, it is more desirable than in others. That is the point we attempted to make in the testimony. The question of supplying raw materials and the posture of the underdeveloped nations, who control so much of them, has becomes so critical that a new dimension needs to be added to trade negotiations. And this needs to be done promptly, so we should get at it.

Now, on the question, if this were not involved, I personally—and we have no position on this, but I personally could make a case for saying that it might be better to let this thing just sit for a year or more as necessary until it becomes clear what is going to happen as a result of this change in attitude of the Arab world, and the changes which are developing in other areas of the world; because we really do not know which end is up. This is not an official position of the chemical industry, but I think you will find quite a bit of sympathy with it.

On the other hand, let me go back to my first point. We are so confused and there is so much danger in the raw material picture that somehow, it seems to me that this has to get into an international multilateral area as rapidly as possible.

Senator ROTH. On the question of energy, title V of the bill permits the President to give generalized preferences to developing countries which, of course, could include Arab oil producing countries.

Now, there has been a great deal of discussion about these countries wanting to establish petrochemical industries. I wonder if any consideration has been given by your industry to the possible impact of title V on the industry, if these Arab States do realize their goal of petrochemical industries and if they get preferential treatment?

Mr. DAWSON. Dick, do you have a point of view on that?

Mr. BRENNAN. My reaction, Senator, is, first of all, probably in the pretty near future they will not be developing countries any longer with the amount of moneys they are collecting in their treasuries. But really, you are just pointing out a dilemma that does face us on the one hand, particularly with other developing countries, where you have this fantastic population growth, and some hope for them, if you will, by granting them preferential treatment; and on the other hand, the other side of the dilemma, the fact that particularly in the Arab sector, these countries building up facilities and so on—which then would have a competitive advantage from the standpoint of raw material, and we would be further granting tariff preferences to them—it is a very difficult kind of thing to work out.

I think probably, when we look at the population aspect of it, you really have to go for—and this is my own personal opinion any way—giving the developing countries in toto some sort of preferential treatment.

Mr. BARNARD. Senator, may I supplement that?

In our written statement, we have suggested that the provisions on the developing nations should be tightened somewhat, so they do not become simply transshipment points for developing nations to put products in the United States. We recognize that there needs to be development in developing countries.

On the other hand, if we adopt a program which is much more, to use a loose word "liberal" then the Common Market adopts, then we are likely to become, again, the target for shipments from those countries or industries established with the United States as the target exporting point.

We would urge, therefore, that the committee look at the EEC type of preference and see whether that is not preferable to the provisions that are now in the bill, and whether it does not provide a greater guarantee against the developing nations simply becoming transshipment points.

This is not to restrict in any way their desires to be developed; it is simply to prevent an abuse.

Senator ROTH. I was going to suggest that there are certain safeguards written into the legislation. Whether or not they are adequate——

Mr. BARNARD. We have suggested that they be tightened up, Senator.

Senator ROTH. There have been a number of criticisms made in the hearings about multinational corporations. In your opening statement, Dr. Dawson, you mention the favorable balance of payments contributed by the petrochemical industry.

I wonder if you could give us any figures or statistics as to the impact on jobs in America? The basic criticism has been in many industries that they have exported plants abroad to take advantage of cheap labor.

I know this has been true of some industries. I must say it gives me considerable concern. I wonder if you have any figures?

Mr. DAWSON. I think the only thing we can do is make some indirect computations, Senator. In 1973, our favorable balance was $3.3 billion; we were a $66 billion industry. So I think you can safely say that roughly 5 percent of our million employees were involved in supplying our favorable balance of trade, which is—what?—50,000 employees.

I do not know that there is any better figure than that, except many individual companies in the industry have studied the impact of their foreign manufacturing operations on jobs, and there is not any question that if you could have manufactured that product here instead of in Europe and sold it, you would have added jobs here.

On the other hand, most of us are convinced that this is not the case, that if you had not built in Europe, you would not have developed the market, and you would not have manufactured here and supplied jobs.

At the same time as a result of operations in Europe, most companies, my own included, are convinced that they have added jobs here, because as a result of an operation over there, they are able to sell other products associated with it in that market to an extent that they would not have been able to do had they been run out of the market by the local manufacturer.

Senator ROTH. One of the other criticisms in this area, and there have been a number of recent statements, is that the multinational corporation does not necessarily, if it is an American company, have loyalty to this country. I wonder if you would care to comment on that?

Mr. DAWSON. Yes, I would, because I take a dim view of the assumption that a multinational company is a creature, and they are all the same, because they obviously are not. We have heard it said, of course, that some automobile manufacturers say they are not an American company any more.

I think that any multinational company in the chemical industry would say that this is not true of their company, but they are an American company with manufacturing operations abroad. And certainly in the case of my own company, and in the case of all larger American companies, multinational companies in the chemical industry, they have maintained headquarters here; they have maintained the bulk of their research here; they have used American people to head up foreign operations to a large extent. They have remained basically American companies operating in America and operating separate operations abroad to supply the markets there.

Senator ROTH. But their loyalty is first here.

Mr. DAWSON. Their loyalties are, to me, primarily those of the American operation where they started.

And let me say that the multinational companies which have come into our industry from Europe particularly have, for the most part, maintained their European character. The Swiss and the Germans and the English, who are active multinational companies are still primarily English, German, and Swiss companies.

Senator ROTH. Do you think it would be helpful for Congress to try to adopt some legislative statute or industry code of conduct for multinational corporations?

Mr. DAWSON. I think it would be helpful but difficult.

Senator ROTH. One final question. I wonder if there are any specific foreign non-tariff barriers in the chemical field that have a significant impact on U.S. imports?

Mr. DAWSON. Well, we are working industriously on that thing, Senator. We do not have a satisfactory answer. You can say, I think, without any question that the way the Japanese run their industry and government is a nontariff barrier and it is a huge barrier, which has been very effective in keeping out American industry from that country.

You can say that value added taxes, although this is a debated area, certainly add to our cost of doing business in export trade. You can certainly say that there are cases where Government administration, with or without the consent of law, in the Common Market is very effective in keeping out certain commodities, certain products within the chemical industry.

We are not prepared yet to tell the Government what the impact of all this is, and their relative importance, but we would hope to be in that position in another 3, or 4, or 5 months.

Senator ROTH. I would like to thank all three of you gentlemen for your testimony. I would just make the final observation that I think it is very important that in the future negotiations both industry and labor be there, and have the opportunity to comment as negotiations are carried on. I am impressed by the foreign visitors, who have said that this is true in their own countries, and I think we have handicapped our own industry by not doing so.

Senator CURTIS. Senator Packwood?

Senator PACKWOOD. I have a few more questions, Mr. Chairman; if you want to go ahead first.

Senator CURTIS. No. Proceed.

Senator PACKWOOD. When the AFL-CIO was testifying, Mr. Meany indicated several times that despite the fact that we may or may not have a favorable balance of trade from time to time, we have an unfavorable balance in manufactured goods. I do not know if he included the chemical industry.

He said no nation should be in that position. In fact, we cannot use our agriculture exports and count that; even if it is a financially favorable balance of trade, it is unfavorable diplomatically and militarily.

Is that a fair statement?

Mr. DAWSON. I would certainly agree with him. You mean he distinguished manufactured goods from raw materials?

Senator PACKWOOD. I would think so. He did not indicate what it was, but I would assume that is what he meant.

Mr. DAWSON. What has happened in the last 5 or 10 years has been the relative loss of the U.S. world position in manufacturing goods as distinguished from raw materials and agriculture.

Senator PACKWOOD. Now, after the hearing, I talked with one of the AFL-CIO lobbyists about the so-called runaway plants. I recall the testimony we had from IBM and a number of other multinationals a year or so ago to the effect that very little of what they produce overseas is exported back to this country; that that is not the point of going overseas.

The gentleman from the AFL-CIO said that may be true, but the multinationals are moving into third country exports and sell to the third countries from these foreign plants, where they otherwise would sell to them from plants in this country.

Is that true, or not?

Mr. DAWSON. I am sure there is some of that, and it depends entirely upon what your cost picture is. If you have a plant with capacity in Germany to supply Africa, and you have one in the United States of America and you have available capacity in both plants, it is going to be determined by the cost picture.

On the other hand, I do not think that many people in the chemical industry are building plants in Europe or Japan to supply third country markets.

Senator PACKWOOD. Are you building them in third world markets?

Mr. DAWSON. We are building some in third world markets.

Senator PACKWOOD. Let me go back to this American selling price. It seems to me it must have sneaked in as a sleeper 50 years ago. I can understand your adverse feeling with regard to a sudden wrenching of this.

But I cannot believe that the chemical industry and then the rubber-soled shoe industry overseas is so arcane as to be completely distinguishable from all other industries, and that there is a reason for your ASP that would not apply to other industries.

Mr. BARNARD. I think there are other industries that have suggested from time to time that ASP would be applicable and appropriate for them, too. I think we should make clear our position.

We are not here today suggesting that the Senate should forbid the negotiation of ASP in the forthcoming negotiations. What we are here today saying is that in a negotiation, we believe that there ought to be one standard that is applicable to all products including products subject to ASP. We should not be subject to greater tariff cuts than are others subject to.

And if there is to be a negotiation on ASP, it ought to be logical, conducted in a logical way. The rates first should be converted so we know what rates we are talking about under the terms of the statute.

Second, the staging provisions under the limits of the tariff cuts ought to be equally applicable.

Third, we would also urge that it be considered in the light of the reciprocity for this industry or the chemical industry, whichever is the appropriate sector.

Finally, we believe based on our experience in the Kennedy round that in order to be assured that these standards are obeyed, we think any agreement on ASP should be a separate agreement and submitted to the Congress for its approval, rather than a part of the great big package.

Senator PACKWOOD. What you want is affirmative approval from the Congress rather than a veto?

Mr. BARNARD. Yes, sir. We think this is appropriate because, in fact, what you are doing is changing the valuation laws of the United States, not just a tariff rate.

Senator PACKWOOD. I am not sure that the whole veto procedure we have on the nontariff side is really a viable procedure anyway. Whether it comes in a lump or not, I think anything that is agreed to

is unlikely to be vetoed. But I am not sure that ASP should be treated differently. Although, I should add that I think you have a point about being able to convert and take your basis from your actual price, if you are going to convert it, rather than knocking off ASP this month and then——

Mr. DAWSON. Congress might not veto it under either condition, but they would have greater freedom to exercise intelligent judgment.

Senator PACKWOOD. Unless there is a change, we are unlikely to act affirmatively, either. My experience is we are unlikely to act, affirmatively or negatively. If we have to act negatively to stop something, that is a whole lot different from acting affirmatively to stop or approve something.

I think if we have to act affirmatively to approve an ASP change, there would be no change; you would keep your system. But I do not want to pursue this, because I can talk with you privately.

Yesterday, Mr. Meany talked about American technology. He pointed out that technology is easily transferable, and that our great advantage in technology is all going overseas to cheaper markets. Surely, of all industries that exist in the chemical industry, there must be foreign patents and devices that we are buying and using in this country? Technology is not a one-way flow, is it?

Mr. DAWSON. Not at all. It is becoming a two-way flow particularly between industrialized nations and Japan. There has not been much flow from behind the Iron Curtain. Consequently I think the Iron Curtain countries are desirous of getting American technology or European technology.

One point there I would like to make, which I think is perhaps contrary to what I understand Mr. Meany said. Some industries may be selling to the Iron Curtain countries technology which represents the latest advance. To my knowledge, the chemical industry has not done that. The chemical industry generally has refused to sell technology which is not also available from, for the most part, Europe or Japan.

And if it is indeed advanced beyond the position of our European competitors and our Japanese competitors, we—some companies, I know, and many companies, I believe—will not sell behind the Iron Curtain, have not, and do not intend to. So that you do not really advance the level of Communist technology beyond the level which is generally freely available at a price.

Senator PACKWOOD. I was not thinking of the Communist technology so much, nor was he when he made that statement.

Mr. DAWSON. I see.

Senator PACKWOOD. He was thinking more of the fact that we perfect a good technique here in America and you take it to Formosa because the labor there is cheaper. I think over the years, there must be some other things like the Mazda rotary engine, that people in other countries have invented and which we have thought is a good idea. It seems to me if you——

Mr. BRENNAN. I have a brief comment on that. That is in the chemical industry area, there are many major chemicals now being produced in this country that are based on European patents, have been for many years. Polyethylene is one.

Senator PACKWOOD. If we did not have those, we would probably be having higher priced chemicals.

Would you give me some examples of those?

Mr. BRENNAN. I would be happy to.

Senator CURTIS. We thank the panel for helping us write this legislation. We are happy to have had you here.

[The response to Senator Packwood's question and the prepared statements of the Society of the Plastics Industry, Synthetic Organic Chemical Manufacturers Association and the Dry Color Manufacturers Association, and the Manufacturing Chemists Association, follows. Hearing continues on p. 1320.]

JOINT RESPONSE TO SENATOR PACKWOOD'S QUESTION

On behalf of Mr. Brennan, Mr. Barnard and myself, it is a pleasure to respond to your request.

The chemical industry is well known for its dependence on research. Typically throughout the world, it spends a greater volume of it's sales dollar on research than do the other industries. Research by foreign chemical firms is extensive and of high quality. Only three of the top ten chemical research organizations belong to U.S. companies; the other seven belong to non U.S. companies. The 1.7 billion dollars spent on research by the U.S. chemical industry in a recent year represented 40% of the free world total spent for research and development of new chemicals and related products.

You specifically asked for examples of chemicals produced in the U.S. based on foreign technology. Following is a list of such examples including the country in which the technology was developed:

Polyethylene, Germany, Great Britain and Italy.
Polypropylene, Germany, Great Britain and Italy.
Polyester Fibres, Great Britain.
Vinyl Polymers, Germany.
Rayon-Cellophane, France.
Methacrylate Resins, Germany.
Polyacrylamides, France.
Polybutadiene Rubbers, Germany.
Polystyrene, Germany.
Polyurethanes, Germany.
Polyvinyl Alcohol Textiles, Japan.
Wacker Process for Acetylaldehyde, Germany.
Wacker Process for Acetic Anhydride, Germany.
DDT, Switzerland.
Ion Exchange Resins, Great Britain.
Ion Exchange Membranes, Russia.
Electrodialysis, Germany.
Cryogenic Air Distillation, Germany.
Nitrogen Fixation, Germany.
Solvay Process, Belgium.
Tantalum Electrodes for Chloride Cells, Japan.
Acrylic Acid, Great Britain.
Ethylene Oxide, France.

Virtually every one of these processes have had practical application in U.S. manufacture of high volume commercially important products. They have been important not only to the economy but to the well being of our people. We hope you will agree that these examples demonstrate the need for continuing interchange of technology across borders. The United States would lose much if this interchange was stifled.

We are dismayed that broad generalized criticism of multinational corporations have pictured them as being alike. The charge that all U.S. multinational corporations export technology to produce goods abroad for export to the U.S. is fallacious. As was pointed out to you in the hearings, the chemical industry trade *surplus* in 1973 was 3.3 billion dollars. Much of that surplus can be credited to the existence of our overseas investments.

For these and many other reasons too lengthy to cover here it would be most unfortunate for the country if taxation or other limitations on foreign operations were to be included in the Trade Reform Act. We hope you will agree and would be eager to discuss this with you at any time.

Senator, you also referred to the possibility of discussions on the American Selling Price system of valuation. I would be happy to have such a discussion with you at your convenience. Just let me know.

Very truly yours,

DAVID H. DAWSON.

PREPARED STATEMENT OF WILLIAM F. CHRISTOPHER, CHAIRMAN SPI INTERNATIONAL COMMITTEE, HOOPER CHEMICAL CORPORATION, ON BEHALF OF THE SOCIETY OF THE PLASTICS INDUSTRY

The Society of the Plastics Industry is composed of over 1,200 member companies which produce plastics or resins; manufacture plastics products; engineer or construct molds or accessory equipment for the plastics industry; or engage in the manufacture of plastics-fabricating machinery. The Society is the major national trade association of the plastics industry, its membership being responsible for more than three-fourths of the total dollar volume of industry sales in the United States.

To provide plastics industry input to trade policy development and administration, the Society is now participating in the work of the industry-established Office of the Chemical Industry Trade Advisor. In this way, the Society representing one segment of the chemical industry can relate and combine its information, its experience, and its views with those of other segments of the industry to provide an overall position such as you now have before you in the industry testimony.

In this brief supplement to the industry testimony, the Society: (1) emphasizes certain points included in the testimony as seen from the perspective of the plastics industry, and (2) submits additional recommendations not included in the industry testimony but important to the plastics segment of the industry.

AUTHORITY TO NEGOTIATE DUTY RATES

The Society wishes to emphasize its conclusion that the tariff-cutting authority now included in Section 101 of H.R. 10710 is too broad. The procedural mechanics of the Act and of the GATT negotiating forum are directed toward negotiation of tariff rates. The Trade Expansion Act of 1962 provided for negotiation of both tariff and non-tariff barriers, and the U.S. negotiators had the intent to negotiate both. But the Kennedy Round succeeded only in reducing tariffs—virtually by the full amount of the authorization. Over four decades of successive negotiations under the trade agreements program we seem to have established a principle that specific tariff-cutting authority granted will be used. But today, as in Kennedy Round days, it is the barriers other than tariffs that are most distorting our industry's trade. It is these other barriers that must be confronted and dealt with in the GATT negotiating forum. To assure this, we recommend limiting the grant of authority for tariff reduction and directing that this authority be used in conjunction with the negotiation of other barriers to trade so that taking into account all barriers and trade distortions (including tariffs) U.S. manufacturers will not be relatively disadvantaged—in the U.S. market, in industrialized country markets, or in third country markets. Unless such limitation, and such direction is provided by the Congress we will again be participants in a round of tariff cutting that will relatively disadvantage the manufactured products of our country.

SECTOR NEGOTIATIONS

The Society is a strong advocate of the strategy of sector bargaining, and urges the sector approach for all aspects of trade negotiations—tariffs as well as non-tariff barriers and distortions. We support the sectoral direction provided in Sec. 102 and would urge a similar direction for a more limited tariff cutting authority in Sec. 101.

INDUSTRY LIAISON

From its experience in past trade negotiations, the Society strongly advocates and supports the chemical industry position on industry liaison. Within the framework of the Office of the Chemical Industry Trade Advisor we have organized twelve specialized plastics materials and plastics products task forces to develop data and intelligence on the plastics sector, and to provide an industry interpretation of issues and of proposals as these may arise. The Society has also nominated industry experts for consideration for membership on the plastics Industry Technical Advisory Committee being organized by the Department of Commerce and STR.

PREFERENCE FOR LESS DEVELOPED COUNTRIES

The Bill proposes to vest in the Executive virtually unlimited authority not only to eliminate tariffs for developing countries but to designate those countries which would qualify. While we do not object to the principle of preferential treatment for developing countries, we fear that such preferences could easily be abused and we do not believe that the Bill provides adequate safeguards for U.S. domestic industry.

An example of how the developing country could be exploited can be presented in the case of plastic buttons. The U.S. plastic button industry, much like the domestic industry for many of the finished or fabricated plastics products, is extremely sensitive to imports because a substantial portion of its costs are attributable to labor. With much cheaper labor available in developing countries plus the added benefit of a special tariff preference, undue advantage could be taken of the domestic industry. This could be done with a relatively modest investment or, for that matter, no investment at all, as there are producers of button-making machinery in Europe and other parts of the industrialized world who would be willing to assist prospective operators in setting up production facilities in developing countries. The net result would be facilities dominated de facto by interests located in industrialized countries making convenient use of the developing country's cheaper labor and special tariff preferences. It can hardly be argued that this would prove of any long-term economic value to the developing country but it would certainly constitute a grave peril for an industry such as the domestic button industry.

The $25,000,000 or the 50% of total imports criteria specified in Sec. 504 can not be expected to provide an adequate safeguard mechanism for many plastics products. Instead, criteria in terms of market disruption will be required.

For the foregoing reasons, we do not believe that Congress should relinquish the authority to approve any and all agreements which propose to grant preferences to developing countries. Rather, we submit that Congress should indicate its willingness to consider any specific agreements the Executive Branch might propose, hold hearings on such proposed agreements, and only then adopt appropriate implementing legislation.

PERSPECTIVE

All of our experience and all of our data are from the past. But H.R. 10710 and the negotiations this act will authorize are for a future trading world. What we must understand and provide for in this trade bill are the appropriate authorities and the appropriate directions to deal with the trends and the changes in trends affecting the trading world of the future. These trends for the plastics industry include:

(1) The internationalization of technology and know-how so that no one industrialized country will have or can attain a comparative technical advantage.

(2) Other-than-tariff barriers to trade, especially differences in legal and taxation systems, economic policy, and political systems are now and will remain the major constraints distorting trade among nations.

(3) The U.S. share of world trade in the products of the plastics industry has been declining rapidly, and without appropriate changes in the economic and trading system will continue to decline.

(4) In recent years a substantial opportunity for expanding plastics exports to third country markets has been frustrated by the discriminatory actions and

policies of others. This unrealized potential will continue unless these discriminations can be successfully dealt with.

(5) Past trends in capital investment and in productivity improvements have proved inadequate to meet present or future requirements. Everything is related to everything else. Not only must we deal with trade matters specifically, we must also deal with the significant environmental and economic system constraints. The success of H.R. 10710 will require also both government and industry actions to encourage capital formation and to improve productivity.

(6) The world is moving more and more from a competitive world of abundance to a cooperative world of scarcity. More and more we see the production of products in insufficient quantity or the availability of resources in insufficient quantity as the problem. Where there is to be competition it must become fair. But in the future trading world there will also be a need to obtain availability. In food products, in energy, in an increasing number of raw materials, and in our efforts to minimize the pollution of our physical environment, we will have to find new ways of cooperation at the same time that we are finding fair ways of competition.

(7) Oil producing countries with their rapidly accumulating reserves will invest overseas and will increasingly become partners in multinational enterprise. They will also increasingly upgrade their petroleum exports to include petrochemicals, and perhaps plastics materials as well.

(8) The EEC now has free trade agreements with EFTA and other nations and has special trade agreements with a large number of additional countries. By 1980, we may begin to see the rationalization or optimization of plastics production and trade within this larger network of nations.

(9) By 1980, Japan may be developing regionally in collaboration with other nations similar to what we not see being done by the EEC.

(10) The state-managed economics may begin to become significant in plastics trade.

CONCLUSION

We appreciate the opportunity to participate in this chemical industry testimony on H.R. 10710. We trust that our support of this testimony, and our additional views and comments will be of value to this Committee in its deliberations and that you will consider our comments helpful and constructive. We have kept our statement brief. But it summarizes a lot of work, over several years. If you have any questions on the contents of this statement, or if you would like substantiating data, please call on us.

PREPARED STATEMENT OF THE SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION AND THE DRY COLOR MANUFACTURERS ASSOCIATION

This statement expands on some of the points covered in the testimony given by the chemical industry panel and addresses certain additional matters which are of great importance to the members of the Synthetic Organic Chemical Manufacturers Association (SOCMA) and the Dry Color Manufacturers Association (DCMA).

Our major points are:

(1) It is essential that Congress retain the right to review and approve any trade agreement changing methods of customs valuation, including, but not limited to, the American Selling Price (ASP) method.

(2) The broad tariff cutting authority in the bill is inconsistent with what our negotiating objectives should be.

(3) The discriminatory multiple reduction in import protection which the bill authorizes with respect to benzenoid chemicals manufactured by our members is completely unwarranted.

(4) The Act should make sector-by-sector reciprocity the principal objective in any trade negotiations, not just in negotiations on non-tariff barriers.

(5) There is a need for safeguards in connection with the proposed underdeveloped country preferences.

(6) The Act should require future trade agreements to be conditioned upon a revision of the GATT rules which sanction the use of border taxes and export rebates by many of our trading partners.

SOCMA AND DCMA

The 77 member companies of SOCMA produce more than 5,000 chemical products: finished products and intermediate chemicals which are used to make finished products. The finished products include dyes, organic pigments, medicinal chemicals, flavor and perfume materials, plastics and resins, rubber processing chemicals, elastomers, plasticizers, surface active agents, pesticides and various other chemicals. The 38 companies comprising the membership of DCMA manufacture color pigments used in printing ink, textiles, plastics, rubber, linoleum, paints, and other products. The members of these two associations manufacture over 80% of the benzenoid chemicals produced in the United States. A list of the members of each association, which includes both large and small companies, is attached.

Total sales of synthetic organic chemicals in 1973 are estimated to exceed $15 billion, including exports of over $1.5 billion. The industry employed more than 300,000 people in the production and sale of these chemicals. Benzenoid chemical sales alone exceeded $6 billion and created jobs for 130,000.

The Chemical Industry and International Trade

The chemical industry is vitally interested in international trade and its future is deeply tied up in the proposed Trade Bill and any forthcoming negotiations. The chemical industry's favorable balance of trade in 1972 was $2.2 billion (of which benzenoid chemicals account for over $500 million) at a time when our overall trade was $6.4 billion in deficit. As the following charts illustrate, while the benzenoid chemical industry has maintained a favorable balance of trade, the chemical industry's overall competitive position in world trade is declining markedly. In 1960, the U.S. share of world chemical trade was 29.6%. In 1968, when the Kennedy Round cuts began, it had dropped to 24%. In 1972, it fell to 18.2% and was as low as 17.0% in the second quarter.

The impact of the present feedstock shortage, the greatly increased prices for raw materials, and the upward climb of the dollar abroad is not yet clear. However, it is safe to predict that in any negotiations our trading partners will be seeking to obtain access to our raw materials and markets in order to produce and sell enough goods to earn the vastly increased reserves required by them to purchase oil. The stakes will be high in such talks, and the possibility of a major disruption of our economy will be great unless we obtain a fair, reciprocal agreement.

While we have a vital stake in all aspects of the Trade Bill, we are confining our remarks to the specific subjects in which our members have a special interest and where, we believe, we have something to contribute to the Committee's deliberations.

U.S. SHARE OF WORLD EXPORTS

[Percent of world exports to foreign markets at current rates of exchange]

Year	All manufactures	Chemicals
1959	25.6	29.1
1960	25.3	29.6
1961	24.1	28.2
1962	24.6	27.9
1963	23.6	26.9
1964	24.0	27.1
1965	22.8	24.7
1966	23.0	24.6
1967	23.3	23.7
1968	23.6	23.7
1969	22.5	21.9
1970	21.3	21.9
1971	19.9	19.9
1972	18.6	18.2
1973 (1st quarter)	18.7	18.2

Source: U.S. Department of Commerce.

I

NEGOTIATING AUTHORITY

Section 102(b) of the bill grants the President authority to negotiate on non-tariff barriers to trade, including methods of customs valuation. While the American Selling Price (ASP) system is the only valuation method specifically defined as a "barrier" for purposes of this section, the United States has nine different methods of customs valuation. It could even be said that our f.o.b. basis of valuation is a "method" of valuation as compared to the c.i.f. basis of valuation used by many of our trading partners. While we will confine our remarks to ASP, which applies to the benzenoid products manufactured by our members, many of the points we shall make would be equally applicable if other broad shifts in valuation were to be negotiated under this section.

The bill originally introduced in the House on behalf of the Administration (H.R. No. 6767) granted the President advance authority to change methods of customs valuation embodied in the statutory law of the United States. The Ways and Means Committee wisely declined to grant the Executive such sweeping powers. However, the bill it reported out does not provide for meaningful Congressional review of any agreement made on ASP, it subjects benzenoid and rubber soled footwear manufacturers to the potental loss of more import protection than all other industries, and it makes essential pre-negotiation procedures optional rather than mandatory.

What is ASP?

To place our objections to the present bill into focus it is helpful to recall how the American Selling Price actually works. Under ASP valuation the duty paid is based on the wholesale price of a comparable domestic product, rather than the price of the imported product as is the case with foreign export (f.o.b.) valuation more commonly used by the United States or the c.i.f. valuation used by many of our trading partners. If there is no comparable domestic product, ASP valuation does not apply. The principal difference between ASP and these other methods is that the duty is tied to prices (and hence costs) in this country rather than those abroad.

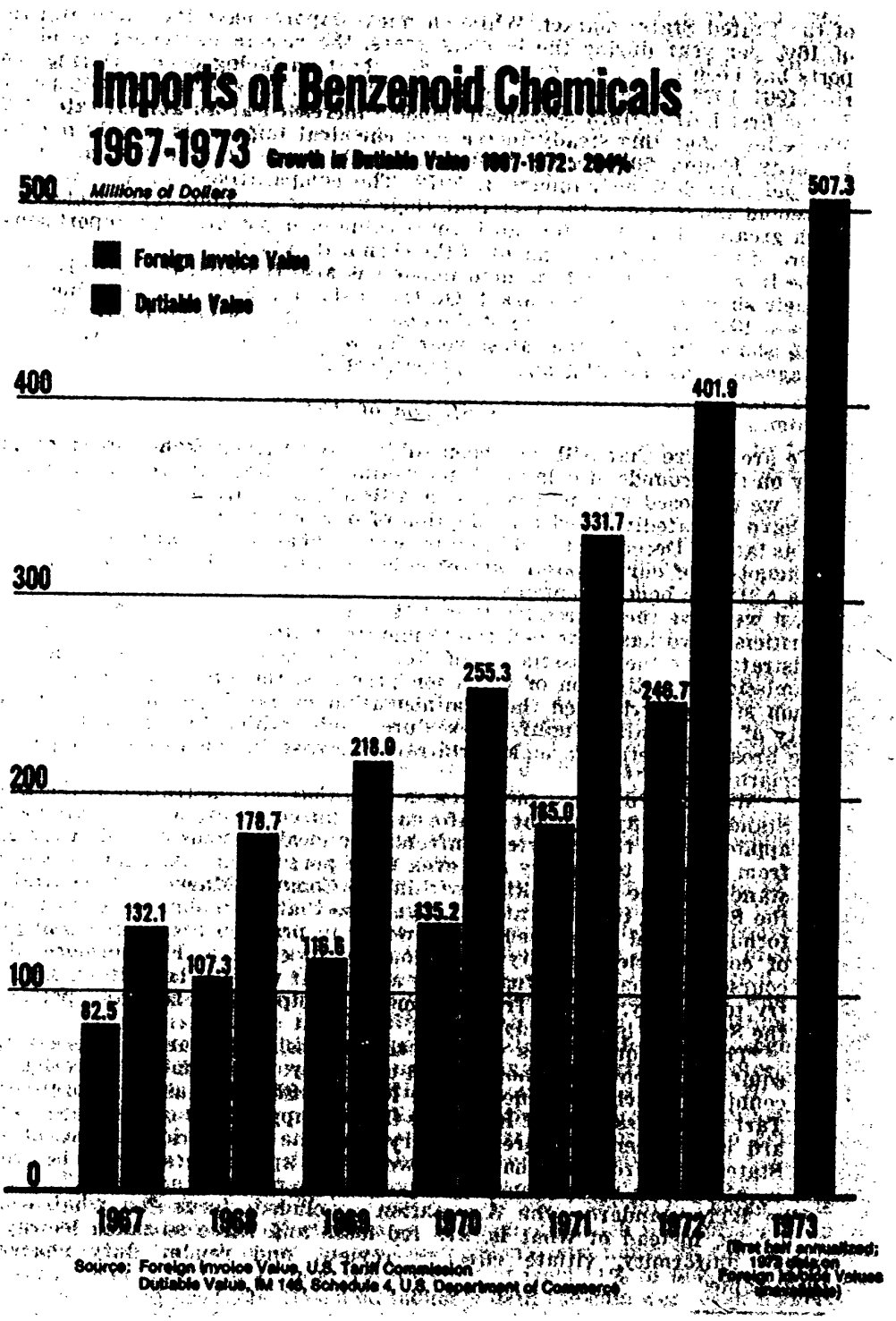
I will not debate the merits of ASP, but there are several points worth making:

(1) The basic reasons ASP was originally selected for benzenoid products are still valid. Benzenoid products are manufactured in the EEC and Japan by a few relatively large companies which are rationalized (whether or not under government supervision) and which "discipline" an industry among other things, by dumping. The U.S. antidumping laws do not provide an effective remedy for an industry in which reliable foreign price data is rarely obtainable. ASP provides an automatic partial protection against dumping since the dumper does not receive the benefit of reduced duties when he offers at dumping prices.

(2) Because reliable foreign benzenoid price information is difficult, if not impossible, to obtain, it is completely appropriate as a matter of cusoms valuation procedure to refer to the selling price of a like product in this country.

(3) Because ASP based duty rates apply to U.S. rather than foreign values, the tariff protection increases as U.S. prices increase. ASP thus performs one of the traditional functions of a tariff: it helps to reduce the differential between foreign and U.S. costs of production. In point of fact, 1971 foreign invoice prices for benzenoid chemicals were up to 56% lower than the U.S. prices for equivalent products,[1] in large part because European chemical workers were paid approximately 40% less than in the U.S. and Japanese workers were paid approximately 60% less.[2] Unlike an inflexible tariff, however, the ASP system results in a constant updating of the level of protection. For example, because of current shortages foreign invoice prices for some products are now higher than their American selling price resulting in lower import duties on those products than would be the case under a foreign value system.

[1] See chart on p. 18, *infra*.
[2] U.S. Department of Labor, 1972 data.


Imports of Benzenoid Chemicals
1967-1973
Growth in Dutiable Value 1967-1972: 294%
500
Millions of Dollars
Foreign Invoice Value
Dutiable Value
400
300
200
100
0
82.5
132.1
107.3
178.7
116.6
218.0
135.2
255.3
165.0
331.7
246.7
401.9
507.3
1967
1968
1969
1970
1971
1972
1973
(first half annualized;
1973 data on
Foreign Invoice Values
unavailable)
Source: Foreign Invoice Value, U.S. Tariff Commission
Dutiable Value, IM 146, Schedule 4, U.S. Department of Commerce

(4) ASP has not prevented a steady increase in the foreign import penetration of the United States market. While chemical imports have increased an average of 16% per year during the last six years, the rise in benzenoid chemical imports has been even more dramatic. (See chart on facing page). During the period 1967–1972 benzenoid imports increased 204%, an average of 23% per year. In the first half of 1973 benzenoid imports increased at an annual rate of 26%. We believe that this steady increase in chemical imports is largely due to the Kennedy Round 50% tariff reduction on chemicals, the last stage of which was only reached on January 1, 1972. The comparatively greater increase in benzenoid imports and the fact that their present dutiable value under ASP is much greater than their foreign invoice value demonstrates the import-sensitive nature of this important segment of the chemical industry.

The increasing tide of benzenoid imports is also reflected in a steady advance in their share of the U.S. market. On the basis of U.S. wholesale value, dye imports in 1970 had a 16% share of the domestic market and all benzenoid imports a 6% share. In 1971 (the latest year for which date is available), these percentages increased to 21% and 7% respectively.[3]

Criticism of ASP

We are aware that ASP has been subject to criticism from importers, principally on the grounds of delay and uncertainties in the administrative process. In 1966, we proposed various changes in ASP administration to meet these points. We have repeatedly urged the adoption of our proposed administrative changes and as late as December 6, 1972 in a letter to Ambassador Pearce. We believe that the adoption of our proposal (attached hereto as Appendix A) would largely remove ASP as a bone of contention.

Lest we leave the impression that ASP is the only method of valuation subject to criticism, we hasten to call the Committee's attention to criticism of the administration of the Brussels Tariff Nomenclature (BTN). In the recent Tariff Commission investigation of valuation practices, the American Importers Association strongly criticized the administration of BTN, particularly the uncertainty of the so-called "uplift" procedures under which foreign customs officials have broad discretion to make arbitrary increase in the value of imports. The Association said:[4]

> "We are told by our members, in fact, that administration of the Brussels Standard is anything but "uniform." To the contrary, the standards actually applied when the importer confronts the local customs officials vary greatly from country to country and even from port to port. And indeed we understand that the practicalities within the Common Market led the authors of the Standard to deliberately design it so that an umbrella of apparent uniformity would be created which would in practice permit the continuation of considerable diversity from country to country. Furthermore, it is of course true that the actual values arrived at will not be uniform from country to country, or even from shipment to shipment at the same port, even if the Standard is uniformly applied.
>
> "The next question is whether the Brussels Standard is at least applied equitably, even if it is not applied uniformly. Our members' experience with countries which have adopted the Brussels Standard as corroborated by the Tariff Commission Staff Report, is that the application of the Brussels Standard is considerably more arbitrary than the application of present United States standards, and that the power of the appraising officer to be arbitrary is, at least in some countries, a potential source of corruption."

The BTN standards, the Association concluded, focus "on what would or should be, instead of what is, are too loose and leave so much leeway as to defeat uniformity, vitiate effective review, and render duty charges unpredictable."[5]

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[3] Ways and Means Committee Print. *Background Material on Selected Trade Legislation Introduced in the U.S. House of Representatives* (May 1973), p. 310, fn. 2 (U.S. wholesale value is derived by multiplying foreign invoice value by a factor of 1.8).

[4] Statement re Customs Valuation to the Tariff Commission in connection with TC Staff Report on Investigation No. 332–58 by Simon Katz., First Vice President, September 11, 1972.

[5] Statement submitted to the Tariff Commission by Counsel to the American Importers Association, September 30, 1972.

The Industry's Position on ASP and Tariff Negotiations

It is clear that our trading partners want to increase their exports of chemicals to the United States and will therefore press for the elimination of ASP and significant tariff cuts on chemicals in the upcoming trade talks. It should also be clear that if we give up ASP, we give up valuable protection for an import-sensitive segment of the American chemical industry. We are not contending that there is anything sacrosanct about ASP. What we are urging is that if Congress approves using ASP as a bargaining chip in the trade negotiations, Congress should also require our negotiators to be as hard-nosed as their European counterparts and insist upon a fair, reciprocal deal for the U.S. chemical industry.

The Kennedy Round Experience

The need for some reasonable limitations on the otherwise unfettered discretion given our trade negotiators by this bill is clearly demonstrated by the unreciprocal concessions we made on chemicals during the Kennedy Round negotiations in 1967. At a time when our European trading partners were increasing their variable levies on U.S. agricultural exports and preparing to increase their border taxes on chemicals and other U.S. exports, they insisted that we eliminate American Selling Price valuation on benzenoid chemicals and agree to tariff reductions in excess of 50%. Our negotiators succumbed to European pressure and agreed to two patently unreciprocal "deals."

In the first deal, our negotiators agreed to a 50% reduction in U.S. chemical tariffs in return for a 20% chemical tariff reduction by the Europeans. There was absolutely no justification for this unreciprocal 50%–20% detal. The key issue in determining reciprocity can only be the effect on future trade. With the higher production costs prevailing in this country, it would have taken a higher cut in foreign tariffs to generate an equivalent U.S. export increase, not the other way around.

Our negotiators then entered into a second deal—the so-called "separate package" agreement. Even though the Trade Expansion Act did not authorize the elimination of ASP valuation or the reduction of chemical tariffs by more than 50% and even though the Senate passed a resolution during the negotiations instructing our representatives not to enter into any deals on ASP, they nevertheless agreed both to eliminate ASP and to cut chemical tariffs by more than 50%. In exchange, our European trading partners magnanimously agreed to return to us the remaining 30% reduction in their chemical tariff reductions which we had already bought and paid for with our 50% cut.

One of the basic mistakes we made during these Kennedy Round talks was to negotiate using a faulty schedule of converted duty rates. In 1965 the Administration requested the Tariff Commission to prepare a schedule of converted duty rates to substitute for the rates then in effect for the four classes of products subject to ASP valuation. The Commission frankly said that its converted rates did not afford equivalent protection. The Commission explained that it was precluded by "the request of the Special Representative" from distinguishing between products on the basis of their competitive status even though it recognized that to do so would have provided "a more equivalent degree of protection". (T.C. Publication 181, p. 55) Because ASP valuation is only applicable to "competitive" imports (those which compete directly with domestically manufactured products) separate converted rates must be determined for them to achieve equivalent protection. By not distinguishing between competitive and noncompetitive products, the Commission's converted rates had the anomolous effect of increasing the effective rates of duty on products which we did not make while substantially decreasing the effective rates on products which were produced in the United States. Indeed, based on the Commission's own numbers, the conversion process alone produced a unilateral duty cut of from 14% to 44% on a large number of benzenoid products. Based on industry data the cuts were even higher.

It is clear that these Kennedy Round chemical deals were negotiated in this manner in an attempt to coerce the Congress and our industry into agreeing to the "separate package." However, after carefully studying the supplemental agreement and the effect it would have upon our industry, we came to the conclusion that the elimination of ASP and the substantial tariff reductions provided for in that agreement would cause a significant increase in chemical

imports which would not begin to be offset by any additional chemical exports which might result from the 30% tariff reductions by the EEC. In other words, the industry directly affected by these deals believed them to be highly unfair to the United States.

While we were struck with the 50%–20% deal because the Trade Expansion Act authorize the Executive to conclude that arrangement without Congressional approval or review, we were at least able to have our objections to the "separate package" heard. The obvious unfairness of the "separate package" agreement properly resulted in the Congress declining to ratify it despite the urgings of the Johnson and Nixon Administrations. In our view this experience amply demonstrates the wisdom of having agreements involving major changes in our law reviewed by the Congress in the normal manner.

Indispensable Safeguards

We are concerned that the House bill gives the Executive carte blanche to repeat the mistakes our negotiators made during the Kennedy Round. On the basis of the Kennedy Round experience, we urge that any trade agreement on items as basic as U.S. methods of valuation should be submitted to the Congress as a separate agreement for affirmative approval through the regular legislative process. We believe the unduly broad grant of tariff cutting authority in the bill, particularly the triple cut on benzenoid chemicals, should be trimmed. We also urge that our negotiators be required to follow certain essential prenegotiation procedures before they enter into any agreement to eliminate ASP or other methods of customs valuation.

A. Congressional Review

The bill's 90-day Congressional veto procedure may perhaps be appropriate for review of some matters. However, it does not in our opinion give the Congress an adequate opportunity to review meaningfully a complex trade agreement making a basic change in valuation standards mixed in with other agreements on NTB's.

We understand that the Administration argues that it needs this unprecedented grant of negotiating authority so that our negotiators can be on a par with their foreign counterparts. However, these foreign negotiating teams are headed by members of their legislative bodies who are available for questioning by their colleagues on a regular basis. Obviously, our system is different; the argument that Congress should only retain a veto power over trade agreements negotiated by bureaucrats in the Executive branch reverses our Constitutional procedures and would be incomprehensible to many of our trading partners.

We believe there can be no meaningful review of an ASP agreement if it is one of many agreements and the veto applies to the whole package not just to the ASP agreement. We therefore urge that the bill require (1) the submittal of any agreement on ASP for review separate and apart from any agreements reached on other non-tariff barriers and (2) *ad referendum* review of any agreement on ASP.

B. Negotiating Authority on Tariff Reductions

Section 101 permits tariffs of 25% or less to be cut by 60% and tariffs of over 25% to be reduced by 75%. In our opinion, it would be a serious mistake for our negotiators to approach these talks as a tariff cutting exercise, and we therefore urge that their advance authority be limited to 50% on all tariffs over 5%, and that tariffs over 25% not be cut below 15%. Greater tariff cuts, of course, could still be negotiated subject to Congressional review and approval.

As a result of the Kennedy Round reductions, the last stage of which only went into effect January 1, 1972, the average chemical tariff is approximately 9%. However, non-tariff barriers to our trade have been erected which completely offset the tariff concessions made by our trading partners during the Kennedy Round. This next round of negotiations clearly should be devoted to obtaining fair access to oil and other raw materials and reducing these non-tariff barriers to our trade. The request for authority to cut our tariffs by up to 75% is certainly inconsistent with what our negotiating objectives should be.

It should also be recognized that significant tariff cuts without changes in the GATT rules on border tax adjustments would result in an increase in imports that could not be matched in terms of trade by exports induced by foreign tariff concessions. This can be easily demonstrated for benzenoids by comparing recent

foreign and American selling prices for the same products. The following chart shows that in 1971 foreign invoice prices were up to 56% lower than the U.S. prices on equivalent products. Changes in exchange rates have decreased but not eliminated, these differences. Any lowering of protection for products such as dyes (the most important finished product import) will enable foreign producers to increase their sales at the expense of domestic producers.

Benzenoid chemicals: Comparison of dutiable value and invoice price, 1971

[Percent difference between dutiable value and invoice price of competitive materials]

Product group	*Percent*
Subparts B and C (403.0200–409.0000)	—44.0
Subpart B (403.0200–.9000)	—43.1
Cyclic compounds, n.s.p.f. (403.6000)	—48.1
Subpart C (405.0400–409.0000)	—45.1
Dyes (406.0200–.600 and 406.8000)	—53.4
Dyes, n.s.p.f. (46.5000)	—55.9
Explosives (405.0400 and 405.0600)	—
Flavor and perfume materials (408.0500–408.8000)	[1] —47.9
Medical chemicals (407.0200–.9000)	—42.1
Drugs, n.s.p.f. (407.8500)	—40.0
Pesticides (405.1500)	—37.8
Pigments (406.7000)	—45.5
Plastics materials (405.2500)	—34.6
Miscellaneous finished chemicals (405.1000, 0.2000, 0.3000–.5500, and 409.0000)	—36.2

[1] Excluding entries of 1 atypical product.
Source: Report of U.S. Tariff Commission, *Customs Valuation*, p. 172 (Senate Finance Committee print, Mar. 14, 1973).

The impact of large tariff cuts on our industry, and, for that matter, the effect on the balance of payments, could be considerable. While the President must have adequate negotiating authority, we believe that the Congress must retain the right to review tariff reductions of more than 50%. Additional advance authority is simply unwarranted.

C. *The discriminatory multiple reduction on benzenoid products*

While the protection against dumping and other advantages of ASP obviously cannot be translated into a tariff, ASP based rates can be converted into foreign value based rates which provide *substantially* equivalent tariff protection *as of the date of the conversion*. However, the President is requesting authority not only to eliminate ASP but also to eliminate most of the tariff protection on benzenoid products.

Section 102 as presently drafted permits a greater reduction in protection on benzenoid products and rubber soled footwear than on many other products.

First, the bill authorizes the elimination of the benefits afforded by ASP. This is a reduction since the Tariff Commission has found that other methods of valuation do not provide equivalent protection.

Second, the bill in addition authorizes a double tariff cut:

(1) The elimination of the so-called "tariff equivalent" of ASP, and

(2) A cut under section 101 in the remaining level of protection.

Let me illustrate the double duty cut. Assume the statutory rate of a product is 20% but that ASP valuation today results in tariff protection equivalent to 35% on the basis of foreign value. The double cut arises because Section 102(g) authorizes (1) the immediate elimination of the difference between 35% and 20%—the 15 percentage points of effective tariff protection attributable to ASP, and (2) as if that were not enough, it permits the 20% statutory rate to be subject to the full reduction under the section 101 tariff cutting authority applicable to all products. In our example, the 20% could be reduced to 8%. Thus, the tariff protection could be reduced from an effective rate of 35% to 8%, a cut of 77%. Furthermore, the President does not have to inform the Congress of the additional cuts he proposes to make under section 101 at the time he submits an ASP agreement for approval unless the trade agreement itself provides for the conversion of ASP based rates.

Because of this double cut the tariff rates in major basket categories will be subject to reductions of from 76% to 81% (see table on facing page) compared to 60%–75% on all other products.

POTENTIAL TARIFF REDUCTIONS UNDER HOUSE FORMULA

[In percent]

TSUS "Baskets"	Present ASP rate of duty	Tariff Commission's converted rate for competitive imports [1]	Maximum reduction under sec. 102	Maximum reduction under secs. 101	Potential rate of duty after reductions under secs. 101 and 102	Total reduction possible
403.60—Intermediates...	12.5	21.0	40	60	5.0	76
405.15—Pesticides.....	12.5	19.5	36	60	5.0	74
405.40—Plasticizers.....	12.5	26.5	53	60	5.0	81
406.50—Dyes.....	20.0	36.0	44	60	12.0	78
406.70—Pigments.....	20.0	38.5	48	60	12.0	79
408.60—Flavor and perfume materials.....	22.5	32.0	30	60	13.5	72

[1] Based on 1966 Tariff Commission study (T. C. 181) with converted rates reduced by ½ to reflect 50 percent duty cuts made in Kennedy round. Specific duties have been omitted; cuts in them would also be authorized under the House formula.

There is no valid justification for subjecting benzenoid chemical manufacturers and their workers to the abrupt loss of both ASP plus this double cut in effective tariff protection. We therefore urge this Committee to require (1) that if ASP is to be negotiated the ASP rates be converted before negotiations to rates providing substantially equivalent protection and (2) that the tariff cutting limitations and staging requirements in section 101 apply to the new converted rates not the old statutory rates.

D. Essential prenegotiation procedures

Since ASP apparently will be a subject of negotiation in the upcoming trade talks, the Tariff Commission must, as an essential prenegotiation step, convert the present ASP based rates of duty to rates of duty applicable to the new valuation method (presumably export value). Section 102(g) of the bill as presently drafted is defective in that it makes this conversion of ASP based rates an optional procedure which can be ignored by our negotiators. Without such a conversion study our negotiators would not even know what they were bargaining away. There is no surer road to a disasterous agreement for our industry, and we therefore urge this Committee to make the conversion under § 102(g) mandatory before any negotiations on ASP are undertaken.

A thorough conversion study is given more importance if our negotiators are planning on tabling offers in BTN terms since not one but two conversions would then be involved. First, the ASP based rates would have to be converted to foreign value rates. Then these converted rates would have to be converted to BTN rates. This would be a complicated process because the BTN system assigns one rate to each chemical compound while the U.S. tariff system, which classifies products according to use, may provide several different rates for the same chemical product. There is a danger that our negotiators might take short-cuts that have the unintended effect of short changing the U.S. That possibility can be eliminated by simply requiring that agreements on ASP must be negotiated under § 102(g).

Another negotiation preparatory step which should be included in the law is a requirement that the Tariff Commission publish the new converted rates and prepare a report, after hearings, on the probable economic effect on the U.S. benzenoid industry of their adoption. Section 131(c) of the bill simply authorizes the Tariff Commission to prepare a report on the probable economic impact of modifications of any barrier. Including ASP, if it receives such a request from the President. We believe Section 131(c) should provide that if ASP is to be negotiated, the Tariff Commission shall prepare such a report. Further, if the President proposes to negotiate based on these converted rates, the list of commodities on which he proposes to negotiate should be published and the Tariff Commission should be instructed to prepare a supplemental report on the probable economic impact of any proposed modifications.

We also urge that the statute specifically direct that the Tariff Commission's reports on the crucial issue of economic impact be published. The last time we sought publication of such a study we were told that confidential and nonconfidential data were intermixed and that the report could therefore not be

made public. To overcome that difficulty, section 131 should direct the Commission to segregate confidential data and publish that part of its report which is based upon non-confidential data. There is no justification for cloaking its findings with a veil of secrecy when the simple precaution we propose would overcome the asserted problem.

RECIPROCAL AND SEPARATE CONSIDERATION

The proposed Trade Bill should have two main objectives: to stimulate expansion of fair world trade and to do so without injury to U.S. industry. There are provisions for adjustments where injuries occur, but the objective should be to minimize injury. The obvious way to accomplish this is to provide that so far as practicable reciprocal consideration and benefits should be secured for the industry whose barriers are reduced. The Administration has repeatedly placed considerable emphasis on opening markets for our agricultural products in Europe. This may be sound, but it should not be accomplished by putting the chemical industry or other industries on the block: on the contrary, the only sound objective is to seek reciprocity for each industry affected by the trade negotiations.

Special Trade negotiators in the Kennedy Round recognized that if ASP were negotiated away with substantial tariff cuts, there must be some countervailing reciprocal benefits to the benzenoid industry or it would become a dying, sacrificial industry. The reciprocal benefits which were promised [6] never materialized, but we believe that obtaining reciprocal benefits for industries affected by the negotiation away of a protection is a sound objective.

We are gratified to note that the concept of sector-by-sector reciprocity has been incorporated into the bill by the House in section 102(c), but for some inexplicable reason it is only made applicable to NTB agreements. It is equally if not more important for tariff negotiations to be conducted on a sector-by-sector approach and this provision should therefore be made applicable to both sections 101 and 102.

To take a concrete example, if ASP classified as an NTB and negotiated away, we should certainly receive in return the 30% cut in EEC chemical tariffs which we already paid for with our 50% cut during the Kennedy Round. In addition, we should receive a reciprocal reduction in the non-tariff barriers such as the border-tax export rebate mechanism that have effectively nullified our trading partners' Kennedy Round tariff concessions. Any further cuts in converted tariff rates should be matched by reciprocal cuts in foreign chemical tariffs.

III

GENERALIZED SYSTEM OF PREFERENCES

Title V of the proposed act contains a 10-year program to give tariff preferences to goods from underdeveloped nations. While we fully support the general purposes of this title, we must point out that past experience indicates that such a tariff preference can be easily abused by industrialized countries which simply use the country granted the preference as a transhipment point. This problem is recognized, but not adequately dealt with in section 503 (b) and (c) of the bill which require that not less than 35% but not more than 50% of the appraised value of the preference goods represent costs or value added in the developing country. We believe that the Act should require that not less than 50% of the value of the goods represent actual value added by operations in the developing country, not a mere mark-up in price. A lower percentage would permit the purpose of the title to be subverted.

Secondly, the bill provides (§ 504(c)) that the preferences will not apply if imports of an article from the country represent 50% of our total imports of the article or $25,000,000 on an annual basis. These limits are in the right direction, but do not deal adequately with the problem of plants put into underdeveloped areas to supply the U.S.

In recent months Japan had a balance of payments deficit for the first time. This is due in no small part to the greatly expanded investment abroad by Japanese industry. Under the present bill's limits, a chemical plant could be set up in an underdeveloped country by a Japanese concern with Japanese advanced

[6] Speech of General Counsel of STR, November 10, 1966.

technology to export to the U.S. With a little care in marketing, a wide range of products could be sold to the U.S. without surpassing the 50% limit and $25,000,000 restriction. The same is true for other multi-product plants in other industries.

We believe that additional safeguards are needed to deal with this situation. The EEC preference system applies to a limited list of products and has a quota limit restricting annual growth in preference imports. A similar rule should be applied here to prevent the setting up of plants in underdeveloped countries to supply the U.S. market during the 10-year preference period.

Such a rule would also stem underdeveloped countries being used as "pollution havens" by corporations seeking to evade the anti-pollution laws of the U.S. and other industrialized nations.

IV

BORDER TAXES

One of the major non-tariff barriers affecting our trade is the border tax-export rebate device used by many of our trading partners. A solution to this problem should receive high priority in the forthcoming negotiations, and we therefore applaud the provision added by the Ways and Means Committee directing the President to seek revision of the GATT articles dealing with border tax adjustments (section 121(a)(5)). But that is not enough to insure prompt redress of the unfair competitive disadvantage which U.S. exports face. It is essential that our negotiations also be instructed that any trade agreements reached under the five year authority granted by this bill must be made contingent upon either an appropriate revision of GATT or compensatory foreign concessions.

The Border Tax Problem

The problem arises because of the different way in which countries are allowed under GATT to adjust at the border for an indirect tax as distinguished from a direct tax. The U.S. fiscal system depends primarily on the direct tax—the income tax—while our trading partners' tax systems are based primarily on indirect taxes, the most common being the value added tax or VAT. Measured by percentage of GNP or percentage of tax collected, the burden of the VAT is much larger than that of income taxes for our major European trading partners. In the U.S. the income tax is the major burden.

Under an interpretation of the GATT apparently agreed to by the United States, although the agreement has never been published, an indirect tax is treated as a tax on the product and may be assessed on imports at the border and rebated on exports. A direct tax, on the other hand, cannot be assessed on imports or rebated.

The trade impact is obvious. To take an over-simplified example, assume a product is sold in the U.S. at $1,000 and the same product is sold in Europe with all taxes paid for $1,000. When the U.S. exporter ships to Europe his product bears the full U.S. tax load and at the border in Europe is assessed a tax of 15% (the harmonized rate objectives). If the U.S. manufacturer wants to sell in Europe in competition with the $1,000 price charged by the European companies, he will have to absorb this $150 tax.

The disadvantage is as obvious if we reverse the transaction. When the European ships to the U.S., he gets a tax rebate of $130, an amount that more than offsets the average U.S. duty on chemicals. His product is free of the major European tax burden and bears none of the direct U.S. tax burden. The U.S. manufacturer, on the other hand, must bear the full U.S. tax burden.

This trade distorting mechanism is apparently sanctioned by GATT on the theory that all indirect taxes are passed on to the consumer and all direct taxes are absorbed by the producer. That economic theory has virtually no supporters today. As this committee's staff study points out, economists are agreed that both direct and indirect taxes are passed along to the consumer in varying degrees depending on market conditions ("Summary and Analysis of H.R. 10710—The Trade Reform Act of 1973," p. 103–104). You could not find a businessman in the U.S. or in Europe who did not regard income taxes as a cost of doing

business. To the extent market conditions allow, he will treat the taxes as a cost and pass them forward to the consumer.

Likewise, the VAT is, in economic terms, borne in part by a business which is forced to reduce its price and thus lower its net income. The reduced net income throws the tax burden on the business, not the consumer.

There has been considerable economic discussion of the extent of shifting forward and, while there is no complete agreement as to the speed or extent of shifting forward of income taxes, there is no doubt that the income tax is shifted forward to a large extent. As professor Dan Thorp Smith of Harvard has pointed out in some theoretical studies, an entire tax increase—and possibly more—can be passed forward.

As a consequence of our failure to take border taxes into account during the Kennedy Round negotiations, we are now faced with the fact that in most of the Common Market countries the barrier to our exports will actually be higher after the Kennedy Round reductions than they were before the agreement. Moreover, the EC's increased export rebates, when combined with our tariff reductions, will result in a situation in which their rebates will completely offset the total amount of our remaining tariffs.

The German Example

Germany, our principal trading partner in the European Community provides a good example of the workings of this border tax-export rebate mechanism. Prior to 1968, Germany had a turnover tax which resulted in a border tax-export rebate in the 4–5% range. In 1968, Germany shifted to a value added tax of 11%. Because the turnover tax was applied to each sale in a cascade manner, the 11% value added tax did not increase the total domestic tax burden, but it significantly increased both the border tax and rebate. The tax was scheduled to increase to 12% effective January 1, 1974,[7] and will increase to around 15% when the EEC tax harmonization program is complete.

Because the trade advantage which this increased border tax gave the Germans was criticized in light of the German balance of payments position, Germany adopted in November 1968 the temporary expedient of granting importers a rebate of only 4% of the border tax. This rebate was eliminated in the Fall of 1969 with the float of the German mark.

The effect of this increasing border tax and export rebate on trade is shown in the following charts. For purposes of simplification, these charts do not take into account the fact that EEC duty rates are assessed on the c.i.f. value of imports, which is higher than the f.o.b. value used by the United States, or the fact that the border tax is assessed on landed value duty paid rather than c.i.f. value. We have also left out U.S. sales and excise taxes. The net effect may be to change the foreign advantage somewhat but the major impact of the border tax-export rebate remains.

Chart I, based on data released by the EEC, shows that the increasing border tax will have the effect of raising the total barrier to U.S. chemical exports from 15.5% in 1967 to 26.7% when tax harmonization is accomplished. It is interesting to note that the German tariffs actually increased slightly after the Kennedy Round "reductions" because of internal adjustments within the European Community to achieve a common external tariff.

Chart II shows the impact of the export rebate in U.S. markets. The chart shows, for the same period as Chart I, how the declining U.S. tariff, when combined with the increasing export rebate, will soon result in a negative U.S. barrier to German exports.

Charts III and IV show the same data for U.S. exports generally to Germany. Chart III demonstrates that the total barrier to U.S. products has increased, although tariffs have been reduced. The border tax barrier has increased so that the total barrier of tax plus tariff is greater after the Kennedy Round cuts than the combined tax and tariff barrier was before the Kennedy Round.

Chart IV shows that the increased export rebate, when combined with U.S. tariff cuts, results in a negative U.S. barrier to imports from Germany.

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[7] This increase has been deferred.

Chart I

German Barriers to U.S. Chemical Exports

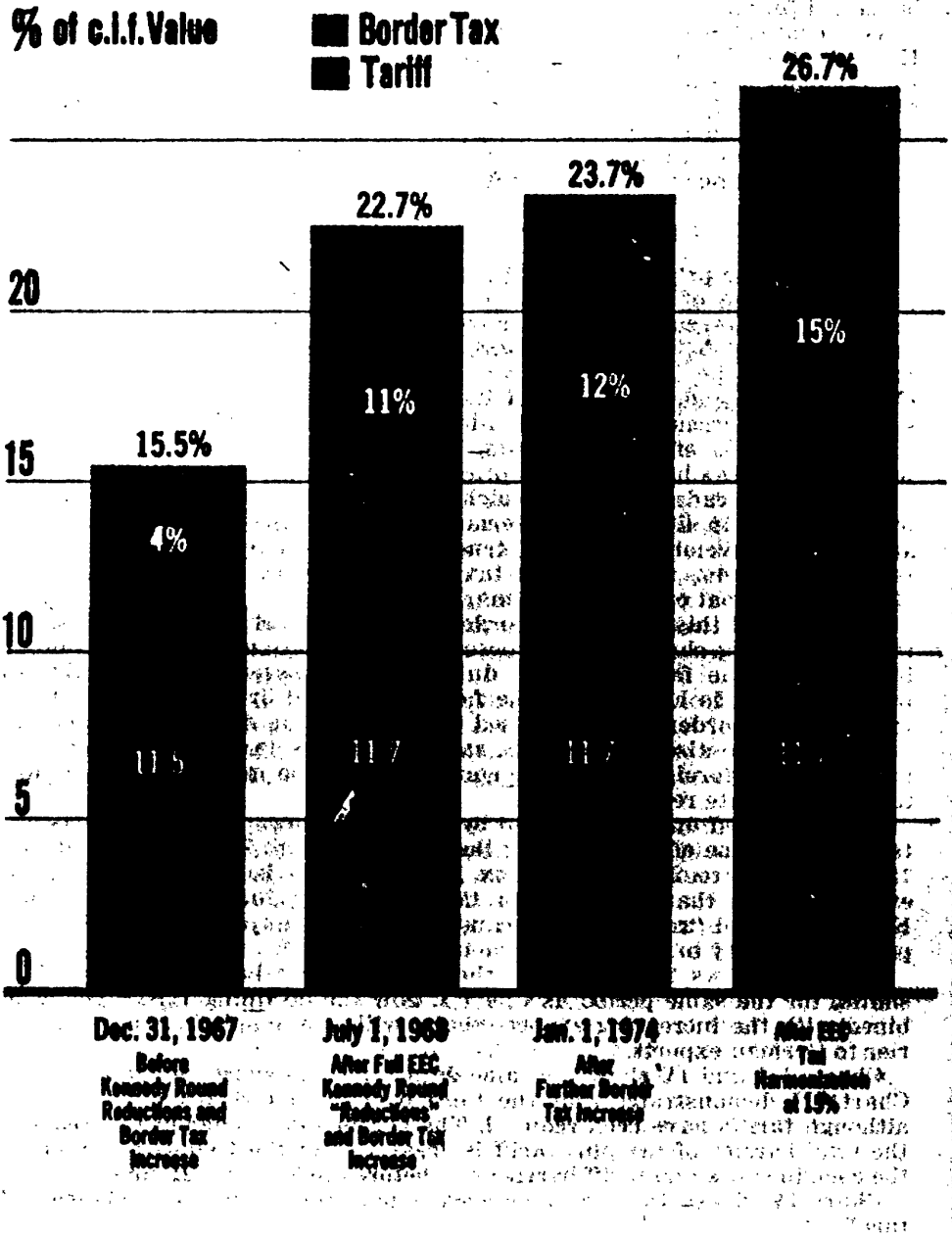


Chart II

U.S. Barriers to German Chemical Exports

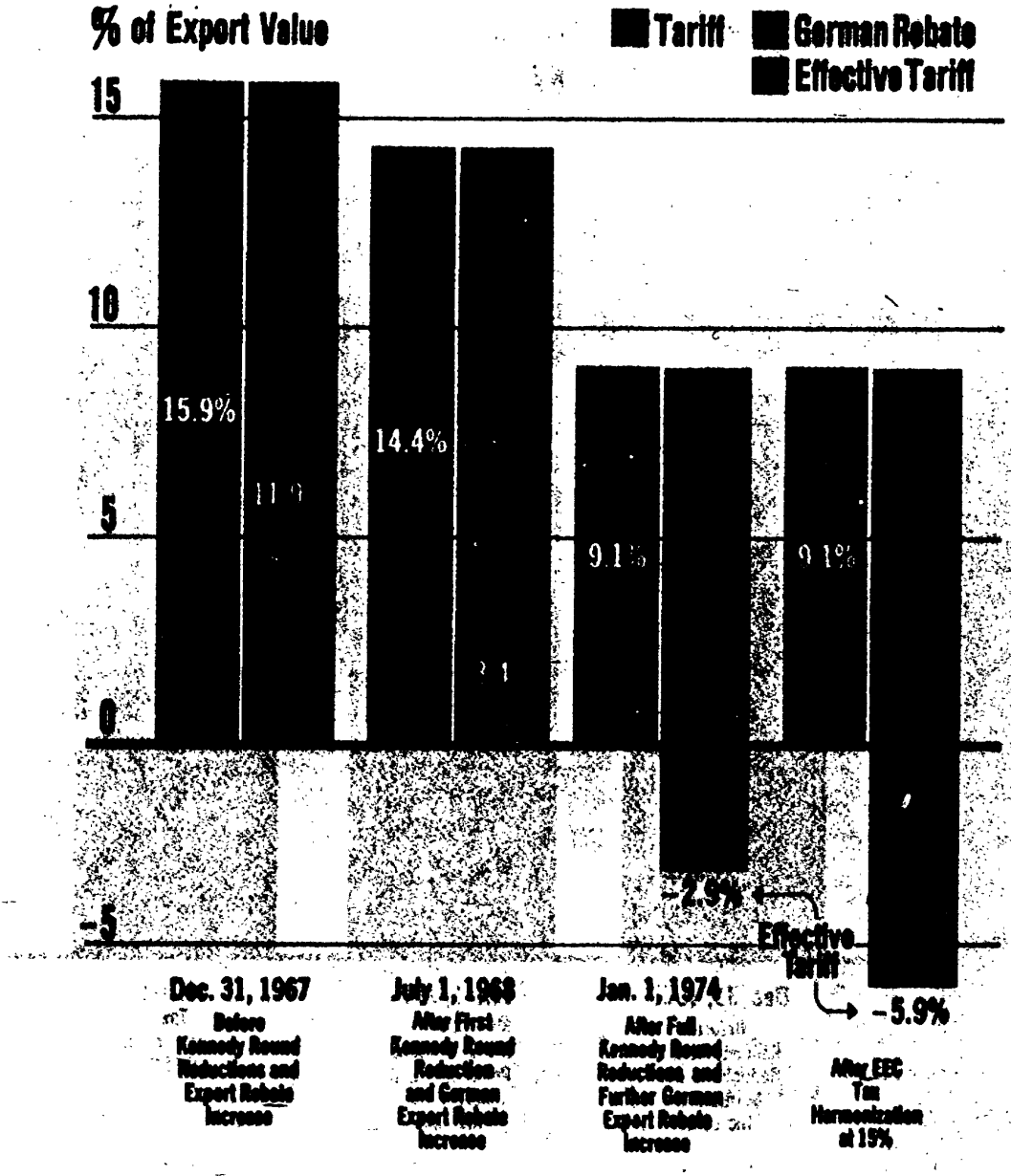


Chart III

German Barriers to U.S. Exports

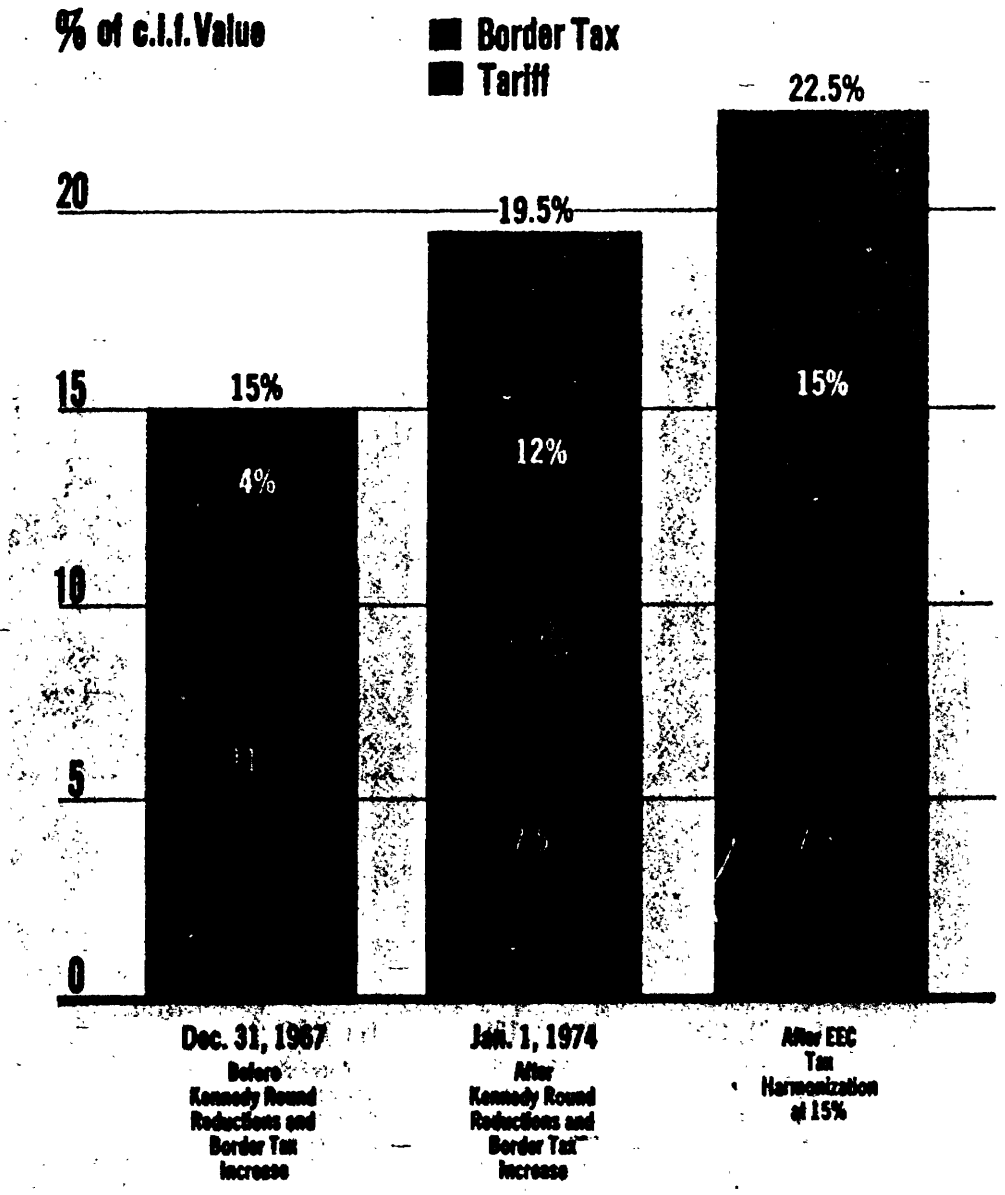


Chart IV

U.S. Barriers to German Exports

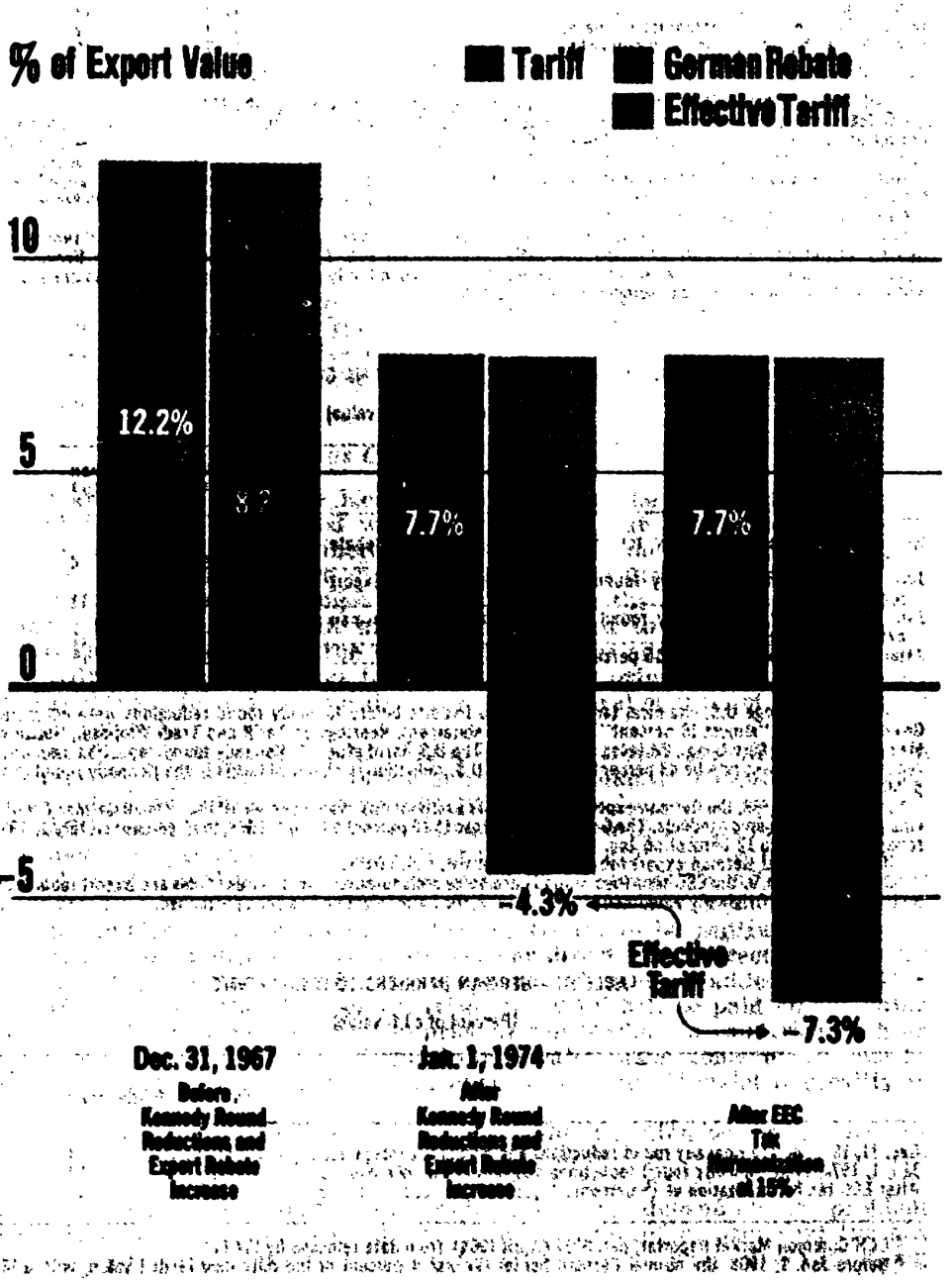


TABLE I.—GERMAN BARRIERS TO U.S. CHEMICAL EXPORTS

[Percent of c.i.f. value]

	Tariff [1]	Border tax [2]	Total trade barrier [3]
December 31, 1967, before Kennedy round reductions and border tax increase	11.5	4	15.5
July 1, 1968, after full EEC Kennedy round "reductions" and border tax increase	11.7	11	22.7
Jan. 1, 1974, after further border tax increase	11.7	12	23.7
After EEC tax harmonization at 15 percent [4]	11.7	15	26.7

[1] CCH Common Market Reporter, par. 9227 (April 1968), from data released by the EEC.
[2] Before Jan. 1, 1968, the normal German border tax was 4 percent of the duty paid landed value, with a higher rate permitted for some products. Effective Jan. 1, 1968, the German border tax was raised to 10 percent of the duty paid landed value and a 11 percent rate became effective July 1, 1968. This rate is scheduled to rise by 1 percent on Jan. 1, 1974. No adjustment has been made in the vorder taxes to reflect the fact that they are based upon the duty paid landed value rather than the c.i.f. value. In each case if would result in a border tax about 1 percent higher than shown on this table.
[3] Tariff plus border tax equals total barrier.
[4] During the 1970's, the EEC countries plan to harmonize their turnover taxes, bordev taxes and export rebates at approximately 15 percent. This harmonization, originally scheduled for Jan. 1, 1972, has been postpoñed because of United Kingdom and delay by Italy in enacting the value-added tax. When the harmonization system and rates are adopted, there will be a 15 percent border tax—export rebate for all countries.

TABLE II.—U.S. BARRIERS TO GERMAN CHEMICAL EXPORTS

[Percent of export value]

	U.S. tariff [1]	German export rebate [2]	Effective U.S. tariff [3]
Dec. 31, 1967, before Kennedy round reductions and export rebate increase	15.9	4	11.9
July 1, 1968, after 1st Kennedy round reduction and German export rebate increase	14.4	11	3.4
Jan. 1, 1974, after full Kennedy round reductions and further German export rebate increase	9.1	12	−2.9
After EEC tax harmonization at 15 percent [4]	9.1	15	−5.9

[1] Weighted average U.S. chemical tariff on dutiable imports before Kennedy round reductions were estimated by the Government to be "almost 16 percent" (Government statement, Hearings on Tariff and Trade Proposal, House Ways and Means Committee, 90th Cong., 2d sess., pt. 2, p. 510). The U.S. tariff after full Kennedy round reduction was obtained by reducing 15.9 percent rate by 43 percent, the average U.S. reduction in chemical tariffs in the Kennedy round (Hearings at p. 502).
[2] Before Jan. 1, 1968, the German export rebate (or tax exoneration) was 4 percent of the price in Germany, with a higher rate permitted for some products. The German rebate rose to 10 percent on Jan.1, 1968, to 11 percent on July 1, 1968, and is scheduled to rise to 12 percent on Jan. 1, 1974.
[3] U.S. tariff minus German export rebate equals effective U.S. tariffs.
[4] During the 1970's, the EEC countries plan to harmonize their turnover taxes, border taxes and export rebates at approxmately 15 percent. Originally scheduled for Jan. 1, 1972, the harmonization has been postponed.

TABLE III.—GERMAN BARRIERS TO U.S. EXPORTS

[Percent of c.i.f. value]

	Tariff [1]	Border tax [2]	Total trade barrier [3]
Dec. 31, 1967, before Kennedy round reductions and border tax increase	11.0	4	15.0
Jan. 1, 1974, after Kennedy round reductions and border tax increase	7.5	12	19.5
After EEC tax harmonization at 15 percent	7.5	15	22.5

[1] CCH Common Market Reporter, par. 9227 (April 1968), from data released by the EEC.
[2] Before Jan. 1, 1968, the normal German border tax was 4 percent of the duty paid landed value, with a higher rate permitted for some products. Effective Jan. 1, 1968, the German border tax was raised to 10 percent of the duty paid landed value and a 11 percent rate became effective July 1, 1968. This rate is scheduled to rise by 1 percent on Jan. 1, 1974. No adjustment has been made in the border taxes to reflect the fact that they are based upon the duty paid landed value rather than the c.i.f. value. In each case it would result in a border tax about 1 percent higher than shown on this table.
[3] Tariff plus border tax equals total barrier.

TABLE IV.—U.S. BARRIERS TO GERMAN EXPORTS

[Percent of export value]

	U.S. tariff [1]	German export rebate [2]	Effective U.S. tariff [3]
Dec. 31, 1967, before Kennedy round reductions and export rebate increase	12.2	4	8.2
Jan. 1, 1974, after Kennedy round reductions and export rebate increase	7.7	12	−4.3
After EEC tax harmonization at 15 percent	7.7	15	−7.3

[1] Weighted average U.S. tariff on all dutiable imports in 1967. "Statistical Abstract of the United States," 1971, p. 781. The average duty reduction by the United States was 35 percent.

[2] Before Jan. 1, 1968, the normal German border tax was 4 percent of the duty paid landed value, with a higher rate permitted for some products. Effective Jan. 1, 1968, the German border tax was raised to 10 percent of the duty paid landed value and a 11 percent rate became effective July 1, 1968. This rate is scheduled to rise by 1 percent on Jan. 1, 1974. No adjustment has been made in the border taxes to reflect the fact that they are based upon the duty paid landed value rather than the c.i.f. value. In each case it would result in a border tax about 1 percent higher than shown on this table.

[3] Tariff plus border tax equals total barrier.

Since the conclusion of the Kennedy Round negotiations, the number of countries which have adopted or are considering adopting the VAT is increasing. In some cases, turnover taxes are being switched to a VAT resulting in further increases in border taxes and export rebates. As this development continues and as the three additional countries which have joined the Common Market adopt the value added tax, the U.S. competitive disadvantage will be further accentuated.

The Time has Come to Take Some Action

It was apparent during the Kennedy Round that the theory on which the GATT interpretation was based was outmoded and our negotiators were concerned about the coming VAT increases which would exacerbate the border tax-export rebate problems. All we did, however, was to file a note reserving the right to initiate action if changes in taxes nullified the Kennedy Round cuts.

Section 121(a)(5) of the bill directs the President to seek "the revision of GATT articles with respect to the treatment of border adjustments for internal taxes to redress the disadvantage to countries relying primarily on direct rather than indirect taxes for revenue needs." There are several courses of action which should be explored.

(1) GATT could be amended to permit countries which primarily rely upon direct taxes to adjust for such taxes in the same manner as countries which primarily rely upon indirect taxes are now permitted to do.

(2) GATT could be amended to permit all countries to adjust for both direct and indirect taxes at the border. (Both of these two alternatives would involve the use of complicated formulae to determine the appropriate adjustments for each country.)

(3) The simplest solution would be for the GATT to be neutral on indirect taxes as it now is on direct taxes. Thus, neither direct nor indirect taxes would be assessed at the border or rebated on exports. If value is added to the U.S. import *after* it enters the European market, the VAT will be paid on the value added *within* the country—not on the price at the border. In countries such as the U.S. which do not have a VAT, but do have sales taxes, some adjustment in the form of exemption or rebate would have to be made if strict neutrality is to be obtained.

While the present bill takes a step in the right direction we do not believe that it will overcome the combination of inertia and foreign resistance that have so far stalled all progress on this issue. However, if our negotiators and their foreign counterparts know that future trade agreements depend on this problem being resolved we are convinced that it will be. We therefore urge that the bill require all trade agreements to be conditioned upon a revision of GATT along the lines we have suggested within the five year period for trade negotiation provided in the bill. Alternatively, we should receive direct compensation from our trading partners through lower tariffs, import rebates and a freeze on border taxes.

The border tax problem is urgent and the bill should require the Administration to do something about it. The VAT is becoming more and more widespread. Unless something is done, its harmful effect on our trade will grow and future concessions will be cancelled or offset by increases in VAT and increased use of VAT.

SOCMA MEMBERSHIP

Aceto Industrial Chemical Corporation.
Allied Chemical Corporation.
American Color & Chemical Corporation.
American Cyanamid Company.
American Hoechst Corporation.
BASF Wyandotte Corporation.
Baychem Corporation.
Benzenoid Organics, Inc.
Berncolors-Poughkeepsie, Inc.
Celanese Corporation.
Ciba-Geigy Corporation, Dyestuffs & Chemicals Division.
Cities Service Company, Levey Division.
Crompton & Knowles Corporation.
The Dow Chemical Company.
Dow Corning Corporation.
Drake Chemicals, Inc.
E. I. du Pont de Nemours & Company.
Dye Specialties, Inc.
Emery Industries, Inc.
Evans Chemetics, Inc.
Fabricolor, Inc.
Fairmount Chemical Company, Inc.
First Chemical Corporation.
FMC Corporation.
GAF Corporation.
Gane's Chemical Works, Inc.
The Harshaw Chemical Company, Div. of Kewanee Oil Company.
Hatco Chemical Division, W. R. Grace & Company.
Hercules, Inc.
The Hilton-Davis Chemical Company, Div. Sterling Drug Inc.
ICI America, Inc.
Industrial Dyestuff Company.
Inmont Corporation.
H. Kohnstamm & Company, Inc.
Koppers Company.
Lakeway Chemicals, Inc.
Lonza, Inc.
Martin Marietta Chemicals, Sodyeco Division.
Otto B. May, Inc.
MC&B Manufacturing Chemists.
Miles Laboratories, Inc., Sumner Division.
Milliken Chemical, Div. Magnolia Industries, Inc.
Monsanto Company.
Morton Chemical Company.
Nyanza, Inc.
Olin Corporation.
Parsons-Plymouth, S. B. Penick & Company.
Passaic Color & Chemical Corporation.
Pennwalt Corporation.
Pfister Chemical, Inc.
Pfizer, Inc.
Pitt-Consol Chemical Company.
P.P.G. Industries, Industrial Chemical Division.
Reilly Tar & Chemical Corporation.
Salsbury Laboratories.
Sandoz Colors & Chemicals.
Scholler Brothers, Inc.
Sherwin-Williams Chemicals.
Sobin Chemicals, Inc., Montrose Chemical Division.
Southwest Specialty Chemicals.
Standard Chlorine Chemical Company, Inc.
Stauffer Chemical Company.
Sun Chemical Corporation.
Synalloy Corporation, Blackman Uhler Chemical Division.
Tenneco Chemicals, Inc.

Toms River Chemical Corporation.
The Upjohn Company.
USS Chemicals, Division of U.S. Steel Corporation.
Virginia Chemicals, Inc.
White Chemical Corporation.
Young Aniline Works, Inc.

DRY COLOR MANUFACTURERS ASSOCIATION

Allied Chemical Corp.
American Cyanamid Co.
American Hoechst Corp.
Apollo Collors.
BASF Wyandotte Corp.
Binney & Smith.
Chemetron.
Ciba-Geigy Corp.
Cities Service Co.
Day-Glo Color Corp.
Du Pont De Nemours & Co., E. I.
Ferro Corp.
GAF Corp.
Glidden-Durky Div. of S.C.M.
Harshaw Chemical Co., the Div. of Kewanee Oil Co.
Hercules, Inc.
Hilton-Davis Chemical Co., Dic. of Sterling Drug Inc.
O. Hommel Chemical Co.
Hoover Color Corp.
Inmont Corp.
Keystone Color Works.
Kohnstamm, H. & Co., Inc.
Magruder Color Co.
Max Marx Color and Chemical Co.
Mineral Pigments Corp.
Pfizer, Inc.
Reichard-Coulstan.
Ridgway Colors and Chemicals.
Sandoz Colors and Chemicals.
Sun Chemical Corp.
Tenneco Chemicals, Inc.
Thomasset Colors Div. of Sterling Drug Inc.
Paul Uhlich & Co.

PROPOSED ADMINISTRATIVE CHANGES IN THE AMERICAN SELLING PRICE SYSTEM

Section 14.5 of Title 19 of the Code of Federal Regulations to include the following new provisions:

(a)(1) Any manufacturer or producer of any article dutiable under Schedule 4, part 1, Tariff Schedules of the United States may at any time certify to the Bureau of Customs that it manufactures or produces such article in commercial quantities in the United States. The term "commercial quantities" shall mean normal sized industrial lots and container sizes as distinct from specialty situations such as laboratory reagent or sample quantities.

(2) The Bureau of Customs shall publish a List of Benzenoid Chemicals or Products Manufactured or Produced in the United States which shall include each article for which the Bureau has received the certification provided for in paragraph (a)(1) of this section. Thereafter, the Bureau of Customs shall each month publish a Supplement to the List of Benzenoid Chemicals or Products Manufactured or Produced in the United States, which shall:

(i) add to such List each article not previously contained therein, for which the Bureau has received the certification provided for in paragraph (a)(1) of this section; and

(ii) delete from such List any article for which no certification provided for in paragraph (a)(1) of this section has been received in the preceding 12 month period.

(3) For purposes of Headnote 5, Part 1 of Schedule 4 of the Tariff Schedules of the United States, no article manufactured or produced in the United States

shall be considered similar to, or competitive with, any imported article until a reasonable period (60–90 days) after the inclusion of such domestic article in the List of Benzenoid Chemicals or Products Manufactured or produced in the United States, or any Supplement thereto.

(b)(1) The Bureau of Customs shall publish a List of Non-Competitive Imports which shall contain any article provided for in this part that has been entered, or withdrawn from warehouse, for consumption in the two year period prior to enactment for which it has been determined that the most recent entry of such article was not similar to, or competitive with, an article manufactured or produced in the United States.

(2) Upon receipt of a claim and supporting evidence providing reasonable cause to believe that any article contained in the List of Non-Competitive Imports is similar to, or competitive with, an article manufactured or produced in the United States, the Bureau of Customs shall promptly publish a notice removing such article from the List of Non-Competitive Import effective within a reasonable period (60–90 days) after publication of such notice.

(3) The Bureau of Customs shall each month publish a supplement to the List of Non-Competitive Products which shall:

(1) add to the List of Non-Competitive Imports any article that has been entered, or withdrawn from warehouse, for consumption since the publication of such List or the most recent Supplement thereto for which it has been determined that such article was not similar to, or competitive with, an article manufactured or produced in the United States;

(2) add to the List of Non-Competitive Imports any article which the Commissioner of Customs has ruled to be non-competitive pursuant to the provisions of Section 16.10a of Title 19 of the Code of Federal Regulations; and

(3) list any article to be removed from the List of Non-Competitive Imports and the date such action shall become effective.

(4) For purposes of Headnote 5 to Part 1 of Schedule 4 of the Tariff Schedules of the United States, no article contained in the List of Non-Competitive Imports published by the Bureau of Customs pursuant to paragraph (b)(1) of this section shall be considered similar to, or competitive with, an article manufactured or produced in the United States.

(c) *Advance Rulings*—Section 16.10a of Title 19 of the Code of Federal Regulations relating to "Tariff Classification of Prospective Imports" is hereby amended to insert the words "(including, where applicable, its competitive status)" after the words "tariff classification" each time that they appear in such section. Tentative rulings as to the competitive status of an article shall be issued within 60 days after the application is filed and a final ruling shall be issued within 120 days after the application is filed.

(d) *Effective Date*—These regulations shall become effective 30 days after their publication in the Federal Register, except that:

(1) The List of Benzenoid Chemicals or Products Manufactured or Produced in the United States provided for in paragraph (a)(2) shall be published 90 days after the effective date of these regulations and shall be based upon the certification received by the Bureau in the first 60 days after the effective date. Section (a)(3) shall become effective 30 days after publication of the List of Benzenoid Chemicals or Products Manufactured or Produced in the United States; and

(2) The List of Non-Competitive Imports shall be published within 30 days after the effective date and Section (b)(4) shall become effective 90 days after the publication of the List of Non-Competitive Imports.

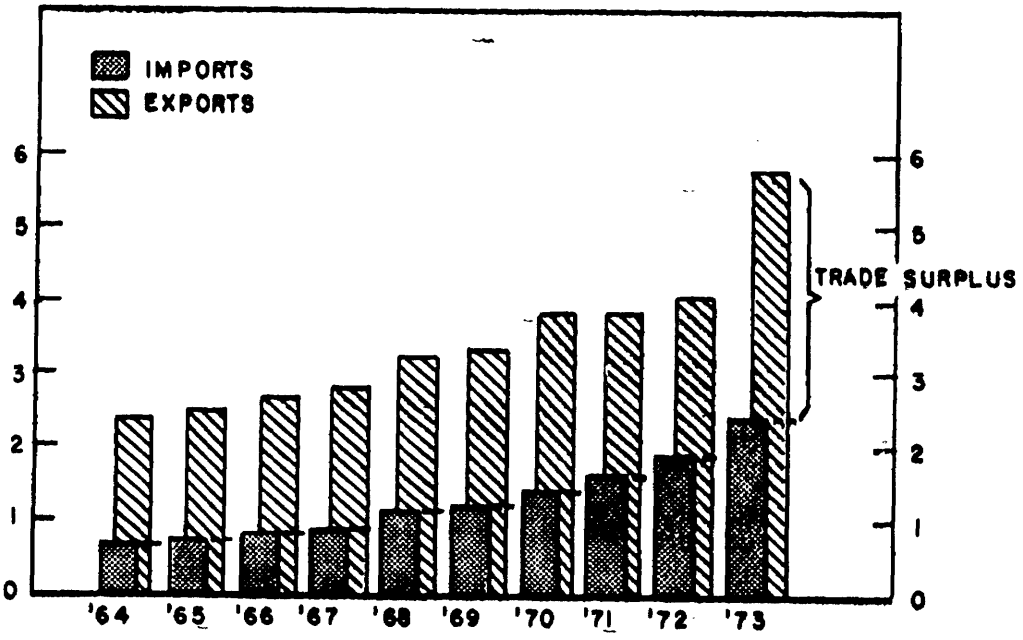
PREPARED STATEMENT OF THE MANUFACTURING CHEMISTS ASSOCIATION
PRESENTED BY RICHARD M. BRENNAN

INTRODUCTION

The Manufacturing Chemists Association is a nonprofit trade association having 176 United States members representing more than 90 percent of the production capacity of basic industrial chemicals within this country. The United States chemical industry has a substantial interest in international trade as is clearly indicated by the 1973 U.S. exports of chemical products of $5.785 billion, and imports of $2.437 billion.

CHEMICALS AND RELATED PRODUCTS

(BILLIONS OF DOLLARS)

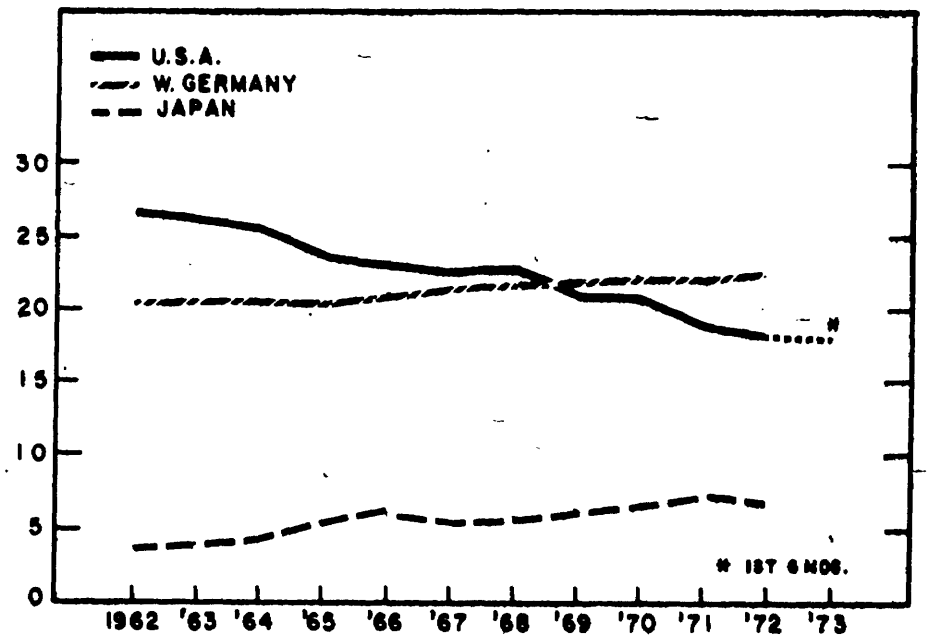


SOURCE: DEPT. OF COMMERCE

The graph above demonstrates the strength as well as the stake of the chemical industry in U.S. foreign trade.

SHARE OF WORLD TRADE IN CHEMICALS

PER CENT



SOURCE: DEPT. OF COMMERCE

As the share of market graph above shows, the United States competitive share of the world trade in chemicals has declined from approximately 26.4 percent in 1962 to 18.3 percent in 1972, with indicated further decline to 18.0 percent in the first six months of 1973. During the 1962–1972 period, the shares enjoyed by West Germany and Japan have gained.

The current energy crisis and its resultant adverse impact on the supply of petrochemical feedstock is expected to have a major impact on the viability of this country's chemical industry in the years to come. Among the manufacturing industries, the chemical industry is unique in its heavy reliance on petroleum and petroleum-related materials in that it depends on oil, natural gas, and natural gas liquids for primary feedstocks.

The international economic and trade systems are so intertwined that individual countries cannot hope to be self-sufficient and still prosper. It would be extremely shortsighted to believe that the United States could unilaterally restrict exports of commodities vitally needed by and historically traded to its foreign trading partners without their retaliating by imposing reciprocal constraints in the form of export restrictions on raw materials not available in the United States in addition to imposing import restrictions on U.S. products. The resultant trade and balance of payments deficit and increased unemployment could have a staggering effect on our economy. The effectiveness of the OPEC cartel needs no elaboration. The formation of similar cartels controlling other needed materials would have disastrous effects.

We support, in principle, the concept proposed in Senator Mondale's amendment which would authorize the President to negotiate agreements which hopefully would insure an uninterrupted supply of raw materials, including food, to all who need them. We recommend, however, that the Committee consider providing appropriate direction that such authority be carefully exercised lest it initiate more severe sanctions from nations supplying raw materials.

BASIC AUTHORITY

The atmosphere today is substantially changed from 1962 when the Kennedy Round began serious incubation. The two devaluations of the U.S. dollar and currently unprecedented world-wide demand for chemicals have added new complications.

We were disappointed in the results of the Kennedy Round where tariffs were reduced 50 percent in the chemical sector while we only received a 20 percent reduction from the European Community and the United Kingdom. Consequently, we echo the remarks Senator Long made before this Committee on March 4, 1974 when he indicated he supports open and free trade so long as the United States receives equitable treatment.

During 1973, more than one-half of U.S. chemical imports entered duty free. Approximately another 20 percent were charged with duties equivalent to or less than 5 percent ad valorem, the products on which it is proposed to permit elimination of duties. The remaining nearly 30 percent of 1973 chemical imports are those that would be most affected under the tariff cutting program to be authorized in this legislation. We propose limiting that authority below the levels proposed in the bill because of the circumstances outlined below.

The chemical industry has been through an extended period of low profitability since 1967. At the very moment when the circumstances began to permit a change, price and profit controls were imposed and have been operative for more than two and one-half years. Meanwhile, there has been an extraordinary rise in demand for many chemical products, demand which the industry has been unable to meet in some instances. This is due in part to the controls and their tendency to discourage some needed expansions in capacity. On top of this essentially domestic economic problem, a crisis in raw material availability developed as the supply of petroleum products became insufficient to meet demands aggravated by the embargo of the Arab nations.

The chemical industry now faces severe feedstock supply questions and a great deal of doubt about the price level at which those supplies available may be obtained. Resolution of the uncertainty surrounding world oil prices is anticipated at levels significantly above where they were a year ago.

The United States depends upon imported oil to a far lesser extent than do Japan and our European trading partners. In all instances, petroleum requirements are bound to affect seriously the balance of payments position for those

who must purchase on the world market. Because of foreign exchange pressures, our trading partners must look to some combination of substantial export expansion and diminishing of imports. In the case of exports, this could easily lead to appreciable subsidization. In the case of imports, they may have no alternative to increasing restrictions thereon. Even before this crisis arose, our foreign trading partners were substantially dependent upon export sales. Therefore, the increasing exchange burden of future oil purchases can only emphasize the increased threat of subsidized exports. As the Congress considers this legislation to diminish trade barriers, it must be borne in mind that the United States would be seeking long-term commitments of relaxation in trade barriers, relaxations which our trading partners may be unable to meet.

Accordingly, we believe that the authority to reduce duties above 5 percent ad valorem should be limited to 50 percent. Duties over 25 percent ad valorem should not be reduced below 15 percent ad valorem. The breadth of authority within these limits above is substantial and should provide U.S. negotiators with ample discretion to negotiate successfully.

ADVICE FROM INDUSTRY

The public hearing procedures to develop advice within the government are quite helpful and necessary as far as they go. The Tariff Commission, the Trade Information Committee of the Office of the Spceial Trade Representative, and the efforts of the various Administrative agencies actively encourage views from the interested public. H.R. 10710 recognizes the importance of these procedures in sections 131–135. No better source of advice exists than that available from informed industry experts on the likely impact of proposed actions on their industry. We respectfully urge that this Committee retain section 135 which requires industry consultation throughout the entire negotiations procedure wherever such advice could be appropriately given. We believe that had this kind of liaison existed during the Kennedy Round, the chemical sector might have received more equitable treatment. We cannot stress too much how importantly we regard the utilization of this kind of advice.

Representatives of the chemical industry over the past several years have actively proposed a positive role for industry advisors, with substantial encouragement for the proposal from within the Administration wherever offered. Along with a number of other chemically-related trade associations, we have established an advisory structure for liaison with the Special Trade Representative, Ambassador Eberle, in conjunction with the GATT negotiations. We would endorse any language in the bill that encourages arrangements of this nature, especially in requiring two-way consultation on advice so developed.

CONGRESSIONAL ADVISORS

Section 161 of H.R. 10710 requires the delegation of congressional advisors to trade negotiations. We encourage a formal congressional advisory structure to take an active part in trade policy implementation, reporting on accomplishments to the Congress and recommending on the appropriate method of review for those matters requiring formal congressional attention.

RECIPROCITY WITHIN SECTORS

The inequities surrounding the Kennedy Round 50–20 deal on chemicals point up another matter which we regard as important—the maintenance of reciprocity within sectors during the negotiation process. Although restoration to a level equivalent with former status may not be practicable, nevertheless the repetition of any such patently one-sided arrangements in any sector should be avoided. Naturally, we within the chemical industry have registered complaint regarding such inequity.

As we look back on developments, it is interesting to note that our trading partners managed to establish new barriers to the flow of U.S. farm commodities, with the European Community playing a leading role in this regard. It makes little sense to overpose the products of industry for some illusory or disappearing advantage for agriculture. We recognize that complex trade negotiations cannot be strictly governed by a quid pro quo requirement. However, insofar as is reasonably possible, we urge that reciprocal benefits be sought on a sector-by-sector basis. We believe the House-passed bill deals fairly with this

issue, and we encourage the Committee to build on the appropriate language in section 102 of H.R. 10710 expanding the concept to embrace as much as possible each sector negotiated for tariff as well as nontariff barriers.

NONTARIFF BARRIERS

Section 102 of H.R. 10710 directs the President to seek arrangements for the removal of nontariff barriers. We feel this may be an extremely important issue for many U.S. exports. How nontariff barriers are defined and how broadly this authority may be exercised would determine its effectiveness in removing trade deterring effects. It seems appropriate generally for arrangements negotiated by the President to accomplish nontariff barrier removal, to be subject to prior review by this Committee and also by the Committee on Ways and Means and to subsequent review by Congress.

A major matter of interest to the chemical industry would be the potential elimination of the American Selling Price (ASP) provisions. We believe that elimination of ASP should provide the benzenoid sector with equivalency of protection. Any such agreement should, of course, be subject to the congressional review procedures. Any prospective shift from the present valuation system to that of the Brussels Tariff Nomenclature (BTN) similarly should require affirmative congressional approval. In both these instances of conversion, careful study is required to develop a program providing the necessary equivalency of protection. In the schedule proposed for the forthcoming round of GATT negotiations, there does not appear to be time for a sufficient examination by the Tariff Commission. In the current BTN investigation, haste would serve poorly the interests of those industries whose products are more intricately bound in complex tariff rates and classifications.

IMPORT RELIEF

Title II deals with import relief resulting from disruption due to fair foreign competition. MCA agrees with the easing of criteria for determination of eligiblity for import relief. The concept of relief envisioned by the Trade Expansion Act of 1962 has not been adequately tested for effectiveness because of what proved to be extremely limiting criteria determining qualification for relief. We agree that there should be no causative linkage between increased imports and past trade concessions as a required qualification for relief. We also agree that increased imports need not be the "major cause" of serious injury or threat thereof. The "major cause" of injury has been interpreted to mean the single cause greater than all other causes combined. This interpretation is unworkable conceptually and statistically. Its replacement by the criteria of "substantial cause" defined in section 201 as meaning a cause which is important and not less than any other cause will make available the relief provisions of the Act when they are legitimately required.

We agree that no specified numerical criteria are appropriate for triggering prescribed safeguard actions. Each case is unique in the competitive situation confronted as is the appropriate remedy. Each should be dealt with by a range of options such as provided for in the bill. We feel that under section 201, the Tariff Commission, whenever it reaches an affirmative finding of injury or threat thereof, should be required to make a further investigation as to the reasons for the increased injurious imports.

UNFAIR TRADE PRACTICES

Relief from unfair trade practices that reduce export markets may be expected to become an increasingly important need. An effective remedy for such actions will be difficult to find. Section 252 of the Trade Expansion Act provided authority to deal with these problems. But in the almost twelve years that this authority has been available, it has been used only once—in the celebrated "chicken war." A unilateral authority may not provide the most effective way to resolve inequity. Instead, emphasis must be placed on appropriate international forums such as GATT for the arbitration of unfair trading practices.

To support this international effort, specific authorities should be available to the President, and we endorse the proposals included in section 301. We especially commend the new direction to confront and deal with unfair practices of trading countries that place our trading position in third country markets at a disadvantage.

Both congressional and industry liaison with the executive branch authorities will be an important part of any effective program to deal with this area of trade discrimination.

ANTIDUMPING AND COUNTERVAILING

We support the procedural changes to the Antidumping Act in chapter 2 of title III and the strengthening of the countervailing duty statute in chapter 3. We also support section 341's proposed limitation of section 337 of the Tariff Act of 1930 to patent infringement cases with an appropriate review forum in the Court of Customs and Patent Appeals.

BALANCE OF PAYMENTS AUTHORITY

Despite two devaluations in the last several years, the U.S. dollar remains in an uncertain condition. Department of Commerce reports have indicated an optimistic turnaround in the U.S. foreign trade statistics for late 1978, and more time will be needed to see the solution of our national payments problems as well as to meet expanded petroleum requirements at elevated price levels. This state of affairs highlights the need for the President to have standby emergency authority to deal with payments crises where action in the trade sector may be in order. This is favorably provided for in section 122 in terms limiting the use of this authority as well as requiring continuing review to determine when a crisis has passed.

"HOUSEKEEPING" AND COMPENSATION AUTHORITY

In the administration of any continuing trade program, there are bound to be individual agreement problems cropping up from time to time which will require minor negotiating adjustments. It makes little sense to allow such to lead to major upheavals or realignments because of the absence of some standby authority for dealing with them. Chapter 2 of title I addresses this problem by providing the President with a continuing discretion for such adjustments. Section 124 delegates to the President authority to decrease duties by 30 percent for dealing with import relief problems. Consistent with the dimensions of "housekeeping" authority sought in section 125, we believe a 20 percent limit on such reductions to be adequate.

INFLATION AUTHORITY

In section 123, H.R. 10710 proposed temporary reduction of import barriers by the President to restrain inflation. While an action under this section is limited to not more than 150 days' duration, it could affect up to 30 percent of U.S. imports. Despite the bill's admonition that the President take such actions only where they would not be harmful to some segment of the economy or to the national security, the potential impact of this authority could be substantial. This legislation is designed to promote U.S. trade, and insertion of this nontrade matter appears inappropriate. Accordingly, we recommend deletion of section 123. We recognize the importance of dealing with inflation, but believe that it should be taken up as a matter of separate concern by this Committee.

TITLE I. CHAPTER 3—HEARINGS AND ADVICE

Section 133 requires the President to hold public hearings for actions under chapter 1 and sections 124 and 125 in this title. Absent is any requirement for hearings on proposed actions under the balance of payments authority in section 122 or the inflation authority of section 123. We hope that section 123 will be deleted. In any event, we do recommend that not only should hearings be held for all actions proposed under this title, but that the requirements for hearings and advice be the same as required in chapter 3 of title I.

EAST-WEST TRADE

H.R. 10710 proposes in title IV to authorize the President to extend most-favored-nation treatment to countries now denied same if, in his judgment, such action would promote the purposes of the Act and serve the national interest. Utilization of this authority could make the products of Communist nations eligible for the lower most-favored-nation tariffs on entry into the United States. We in the chemical industry can visualize significant market opportunities this would provide for the export of our products. We believe that the attention the

President must give national security considerations, together with the market disruption provisions of section 405, should adequately deal with any real problems domestic producers might encounter due to the domestic market impact of goods from those countries. Section 405 may be needed since the general provisions for relief from import disruptions might not be adequate in dealing with the state trading organizations of the socialized nations.

However, the House has decided to preclude utilizaton of this title for those countries which restrict the emigration of their citizens. We feel this issue merits individual attention outside the scope of any trade legislation.

PREFERENCES FOR LESS DEVELOPED COUNTRIES

The generalized system of preferences for less developed countries as proposed in title V merits support. We agree that the extension of such preferences should be contingent upon a comparable effort on the part of other major developed countries, and that receipient countries must not accord preferential treatment to the products of other developed countries. We agree with the exclusion from preference eligibility of sensitive products which are subject to import relief actions as provided in section 203 of this Act and in section 351 of the Trade Expansion Act of 1972. The ten-year commitment of section 505(a) appears excessive. Preferable would be a three-year commitment similar to the reduced tariff commitments under the General Agreement with extension thereafter automatic unless cancelled upon six months' notice. Instead of a Presidential review and report to the Congress after five years, the President should report to the Congress after three years, and perhaps annually thereafter, on the effect of these preferences on the domestic economy and on the degree to which our trading partners are adhering to their obligations in this area of joint international cooperation.

Senator CURTIS. Our next witness is Mr. Vaughn Border of Outboard Marine Corporation.

Mr. Border, we welcome you here. Will you give the reporter your full name and where you reside and your business connection, and then we shall have your two associates identify themselves.

STATEMENT OF VAUGHN E. BORDER, DIRECTOR OF MARKETING, OUTBOARD MARINE CORP., ACCOMPANIED BY CHARLES O. VERRILL AND BART S. FISHER, COUNSEL

Mr. BORDER. My name is Vaughn Border. I am director of marketing of OMC Lincoln, a division of Outboard Marine Corp. We are manufacturers of Cushman golf cars.

Mr. VERRILL. My name is Charles Verrill with the firm of Batten, Boggs, and Blow. We are counsel to Outboard Marine Corp.

Mr. FISHER. My name is Bart Fisher. I am also with Batten, Boggs, and Blow.

Senator CURTIS. Mr. Border, we in Nebraska are very happy with the long record of Cushman Motor Works and products which appear in all parts of the United States, and are in sympathy with the problems they face in the field of international trade. We are very happy to have you here to present your statement.

You may proceed.

Mr. BORDER. Thank you, Senator Curtis. We appreciate your concern.

I would like to state at the outset that Outboard Marine Corp., in essence, supports the trade bill, and that we are in favor of such legislation. We do, however, in the golf car industry have a peculiar problem which we would like to explain to you and answer any questions you may have.

The golf car industry began about the middle 1950's and continued to grow at a modest rate to about 1970. There are some 17 manufacturers in the industry now, or were about a year ago, at least. The peculiarity of this industry is primarily in the fact that practically all sales of golf cars throughout the world as of this moment occur in the United States. There is a small market in Canada, it is probably less than 10 percent of our own. There is the beginning of a small market right now in Japan. But this has only been going on the last 6 months or so.

As of this moment, there are very few golf cars actually in existence in Japan. There is a sprinkling of golf cars in the United Kingdom, but only a very few. The golf car is the product of an affluent society that is quite interested in the game of golf. As a result, the only true market for golf cars in the world right now is in the United States.

The manufacture of golf cars was limited to United States manufacturers until recently. In 1970 all the manufacture was domestic. Beginning immediately thereafter, a golf car began to be imported into the United States that was manufactured in Poland. The golf car is a direct copy of one of our principal competitors; in fact, the copy is so great that it is difficult to tell them apart even if you are in the industry.

In 1970, there was no foreign import. By 1973, this had grown to 15 percent of the industry by our estimate. Incidentally we calculated quickly as best we could the employment involved in the manufacture of golf cars, and we estimate that each worker in the golf car industry produces about 200 units a year. Total shipments of new golf cars annually are about 55,000.

So this would indicate that there are some 2,200 to 2,500 employees within the United States who rely on the golf car industry for their employment.

As I mentioned a moment ago, we estimate right now that the Polish golf car is 15 percent of our total sales in 1973. We project that they will probably reach 22 to 25 percent in 1974, and I shall explain briefly why that is true.

The rate of growth of golf courses within the United States is about 3.5 percent annually, and has continued at that rate for the last 8 to 10 years. However, there has been one significant change in the type of golf courses that have been established in the last few years. In recent years, they are far more likely to be involved in a land development operation rather than to be an independent country club. This means that the management of the club is far more profit-oriented than they are concerned about the comfort and desires of the membership.

This has implications on the purchase of golf cars, which I shall explain briefly. One other statistic you should know first. Golf car sales are quite unlike the automobile industry, for instance, because only 15 percent, according to our returns, are sold to individuals. In other words, 85 percent of all golf car sales are in fleets to country clubs.

Now, the Polish golf car normally sells at $150 to $200 less per unit delivered to the club than domestic models, and if you multiply that by the size of the average fleet, which is about 30 golf cars, you find that we are quoting of a differential of $4,500 to $6,000 per fleet. To a land development company who is just beginning their own golf course, these are quite important figures, and they very frequently buy the less expensive golf car.

We also estimate that sales of Polish golf cars should skyrocket in the next 2 or 3 years if something is not done, because once they get a good parts availability and service availability within this country, many clubs who would not consider them at the outset may very well do so later on.

We have two basic recommendations, gentlemen. The first recommendation, and by far the preferred one from our point of view, is the Curtis bill, S. 2374. This bill provides that the fair market value for the purpose of assessing antidumping duties would be based on the ex-factory U.S. sales price of golf cars.

Now, you may say at the outset that this is in contravention to our general attitude of obtaining costs in the country of origin, and it is a good point. The problem there is that the only good cost figures that we are likely to be able to develop are cost figures that you would develop in this country.

Our second recommendation would be to give the Treasury explicit authority to calculate a constructed value in the controlled economy country, and this would require an amendment to the Trade Reform Act. As I mentioned a moment ago, these figures could be very difficult to obtain. The controlled economy countries, as I understand them, are not necessarily operated on a profit-making basis, and it is quite possible that they do not even develop a product cost in their accounting procedures as we know them in our country.

Therefore, our request could be something that they do not even have.

Second, if they have it, it might be quite difficult to obtain it, and if we obtained it, there would be some question as to its accuracy.

Our third recommendation would be under title IV of the Trade Reform Act that the market disruption section be strengthened and that it apply to all controlled economies, whether they are most favored nations or not. They specifically should include Poland and Yugoslavia. We feel that this was a serious drafting mistake in the original draft of the bill.

Section 405 of the bill provides that the Tariff Commission provide remedies if there is market disruption, and the definition of market disruption is that, (a) it be substantial; (b) there be a rapid increase both in percent of market and in absolute units; and (c) that the sale be at substantially lower prices. The bill also provides that material injury be proved.

We feel that this provision is unnecessary, and history indicates that those who have attempted to seek relief under this section have found material injury very difficult to prove. We feel that the material injury section should either be removed entirely or made to apply on the basis of a de minimis injury standard.

I timed that pretty well apparently. I want to thank you gentlemen for your time. I shall be happy to answer any questions you might have.

Senator CURTIS. May I say that you are the final witness on this panel this morning. If you have something further you were about to add before the bell, please proceed.

Mr. BORDER. No, sir; I had just finished.

Senator CURTIS. I would like to get a clear picture of this situation. These Polish golf carts retail, or sell rather for $150 below comparable products in this country?

Mr. BORDER. It is common in the industry to quote each country club separately. It is virtually impossible to say that it is a specific figure each time. But the range is from $150 to $200.

Senator CURTIS. Yes.

Now, at the present time, what duty, tariff, is applied to a Polish import?

Mr. BORDER. 3 percent.

Senator CURTIS. And what is that based on?

Mr. BORDER. The automotive category is my understanding, sir.

Senator CURTIS. That is its origin in the Tariff Act, the automotive tariff?

Mr. BORDER. Yes.

Senator CURTIS. But 3 percent of what figure?

Mr. FISHER. Golf carts presently are classified as a recreational vehicle, and the 3 percent tariff is levied on the price that it is delivered into the United States, to the port.

Senator CURTIS. I see.

In other words, it is based upon what the Polish say their price is?

Mr. FISHER. That is right.

Senator CURTIS. Now, in countries that have a free economy, private enterprise economy, is it possible to ascertain a reasonable amount of figures as to what their costs and prices really are?

Mr. BORDER. It would be possible, sir, but the level of believability would be quite questioned for this reason: certain components of that product are very technical, very difficult to build. I shall give you two examples. Either an engine or a differential are very difficult to manufacture, and if you went to a company and said, what would it cost you, hypothetically, to build this product, they could not really give you an accurate answer unless you were prepared to spend thousands of dollars to employ their engineering and production staff to really look into it; precisely how they would build each one of these components, how they would assemble them, how they would test them.

Senator CURTIS. What I am trying to do is build an example here of just what actually takes place when this Polish golf cart arrives here subject to a 3 percent tax on what they say is the price——

Mr. BORDER. That is correct.

Senator CURTIS. And at least in a controlled economy, there is no practical way you can question what that price was?

Mr. BORDER. That is our feeling, yes.

Senator CURTIS. And that is the price that they offer to dealers, or do they use dealers?

Mr. BORDER. They use distributors—that is their term. Four of those distributors are actually importers. They divide the United States geographically, and it is up to them to either sell directly or establish other distributors.

Senator CURTIS. Now, what is the range of price that you would estimate one unit that they would apply that 3 percent tax to?

Mr. BORDER. Those figures are available, sir, because the only automotive products imported from Poland are golf carts.

Senator CURTIS. What does it amount to?

Mr. FISHER. The average price of the Polish cart moving into the United States through the importer last year was $383.

Senator CURTIS. $383?

Mr. FISHER. Yes, sir.

Senator CURTIS. About $11.50 tariff?

Mr. FISHER. Yes, sir.

Senator CURTIS. Now, if we enact the bill that I have introduced, S. 2374, what would be the results of the—how much tariff would be charged?

Mr. FISHER. Well, under your bill?

Senator CURTIS. Take it through step by step.

Mr. FISHER. Sure. Under your bill, you would permit the calculation of the home market value to be based on what it would cost to produce a similar product here in the United States. So let us say in the case—I think it is around $800 to $900 here in the United States. So that 3 percent tariff would be levied on—well, the point is that the 3 percent tariff would continue to be levied for whatever the Polish people moving the golf carts into the United States say that their price is.

However, your bill goes to the problem of dumping, the antidumping law of the United States. We have two levels here.

Senator CURTIS. Yes.

Mr. FISHER. Now, that is the problem conceptually. So the 3 percent tariff will continue to apply to whatever the Polish are selling it to the importer here in the United States for.

However, step two is for the purposes of the antidumping law, the home market value that we would use in order to calculate the margin of dumping, which is the difference between the foreign market price and the U.S. market price, would be the price in the United States. In other words, under your bill, we would construct a home market value in Poland based on what it would cost to produce a similar product here in the United States.

So if there were an affirmative dumping determination, you would have, No. 1, the 3 percent duty which is presently under the antidumping laws in the United States; and No. 2, we would have a dumping duty equivalent to the margin of dumping, which we would then be able to calculate under your bill.

The problem presently is that under the dumping laws in the United States, if you have an alleged dumping situation from a controlled economy, the Customs will permit you to construct a value based on what that similar product sells for in a noncontrolled economy. And usually they pick a country in Western Europe, France, or Germany. The problem here is we have a unique situation. We only have two producers in the world, Poland and the United States. Therefore, there is no other third country on which a constructed value abroad could be made. And we have a vacuum or a void here in the law that has been pointed out by commentators and people who are in the field.

What we are saying is let us amend the dumping laws one way or another. We prefer your bill because your bill gives us certainty, and it is easy to prove because we can be sure of our figures in the United States.

Senator CURTIS. Senator Packwood?

We have a rollcall, but I think we can make it after the second bell.

Senator PACKWOOD. I do, too.

What you are suggesting is that we implement an American selling price for these carts based on manufacturing costs, because we have no other basis on which to compare it?

Mr. BORDER. Yes.

Senator PACKWOOD. Who else sells golf carts besides Cushman?

Mr. BORDER. There are 17 manufacturers. Several of the larger manufacturers would include Harley-Davidson, Easy-Go.

Senator PACKWOOD. Are you the largest?

Mr. BORDER. We are one of the largest, sir.

Senator PACKWOOD. Let me get some quick figures from you. You indicate that in 1973, 6,000 Polish golf carts—which is 15 percent of the market?

Mr. BORDER. Correct.

Senator PACKWOOD. I calculate that has to be about 34,000 remaining sold?

Mr. BORDER. About 55,000 totally sold every year.

Senator PACKWOOD. 55,000?

Mr. BORDER. Totally; you have 34,000 on top of the 6,000.

Senator PACKWOOD. That is 40,000.

Mr. BORDER. 55,000 is the total number of golf carts sold in the United States, gasoline and electric. Polish golf cars account for 15 percent of the U.S. electric golf car market.

Senator PACKWOOD. Let me get into the last part of your statement about material injury and disruption of the market.

In 1970, the Poles had none of the market. In 1973, they have 6,000 of whatever is sold. How much have the domestic sales gone up from 1970 to 1973?

Mr. BORDER. Virtually none at all.

Senator PACKWOOD. Not at all?

Mr. BORDER. No.

Senator PACKWOOD. How does it happen that the Japanese have never gotten into this?

Mr. BORDER. The Japanese produced a couple of prototypes. They actually put them into this country and nothing came of it. Perhaps the market is not big enough to interest them; I do not know.

Senator PACKWOOD. I should think they would take a wheel of a small Toyota.

I have no other questions, Mr. Chairman.

Senator CURTIS. I regret that we have to go to the floor for a roll-call vote, but following through the questions that I was proposing to show just what would take place if this measure were enacted, if there is any further addition or clarification to make—because our staff and the other members of the committee will be looking at this record when this matter is called up—I would be very pleased if you would add any material that you choose to show in dollars and cents what you face now and what you are seeking and an explanation of it.

We thank you very much for your attention.

Mr. BORDER. Thank you. We appreciate your time.

Senator CURTIS. The committee is recessed until tomorrow morning at 10 a.m.

[The prepared statement and a letter to Senator Packwood of Mr. Border follows. Hearing continues on p. 1329.]

PREPARED TESTIMONY OF VAUGHN BORDER, DIRECTOR OF MARKETING, CUSHMAN VEHICLES, OUTBOARD MARINE CORP.

Mr Chairman: My name is Vaughn Border. I am Director of Marketing for Cushman vehicles and am responsible for the sale of golf carts that are produced by Outboard Marine Corporation. We generally support the Trade Reform Act of 1973 and regard it as constructive legislation which will hopefully lead to a more open world economy.

In my comments today, I would like to draw your attention to a practical problem that arises form trade with the state-controlled communist economies, the so-called non-market economy countries. Specifically, in training with those non-market economy countries, there is a potential for sales below fair market value in this country from which American manufacturers are not adequately protected by either the existing antidumping laws or the legislation pending before you. This problem is of particular concern to us at this time because the Trade Reform Act would give the President authority to grant many non-market economy countries Most-Favored-Nation (MFN) treatment which all such countries except Poland and Yugoslavia are now denied. The grant of MFN treatment to non-market economies such as the U.S.S.R., Czechoslovakia and Hungary will expand East-West trade and therefore increase the possibility of dumping from such countries.

We are presently in the process of preparing and presenting to the Treasury Department a complaint alleging that golf carts manufactured in Poland are being sold in this country at "less than fair value." The problem which we confront in this action, however, is that there is no real market for golf carts in the world other than the United States and the only two significant golf carts manufacturing countries are the United States and Poland. Accordingly, the normal procedures used by the Treasury Department to ascertain whether or not "less than fair value" sales, or dumping, are occurring do not apply. The price that is generally used is the internal or external sales price in a *noncontrolled economy* where a similar product is produced. As I have just stated, however, we are in the position of having no other uncontrolled economy that produces significant numbers of golf carts to use as a referent. We are urging the Treasury Department to calculate a constructed value for golf carts in Poland, under the present antidumping law, but this is an uncharted area and precedents are lacking. Nevertheless the problem is real.

Let me give you an example of what has occurred under the present statutory framework. There has been a devastating market influx of golf carts from Poland into the United States in recent years. In 1970 no electric golf carts from Poland were exported to the United States. By 1973, at outrageously low prices that we believe are at "less than fair value," or dumbping prices, 6,087 golf carts were imported into the United States, accounting for 15 percent of the U.S. electric golf carts market. In other words, we believe that Poland has taken over 15 percent of the U.S. electric golf cart market through dumping. However, we are in a dilemma because antidumping laws does not clearly address the situation where a communist country and the United States are the only producing countries and the United States is the only true market in the world for the product in question.

In order to improve the Trade Reform Act of 1973, and the administration of East-West trade relations after the enactment of the Act, we propose that three approaches to our trading problems with controlled economies be considered:

1. The first avenue of relief that might be considered when a controlled economy and the United States are the only producers of a product marketed solely in the United States and dumping is alleged, would be to base the home market price on the cost of producing the product involved in the United States plus the standard profit specified in the constructed value provisions of the antidumping law. This approach is suggested in S. 2374, introduced by Senator Curtis on September 5, 1973. Under the Curtis bill when the evidence is not available upon which to base a "foreign market value," the cost of producing a similar article at its place of manufacture in the United States would be ascertained by the Secretary of the Treasury, and would be used as the "value" for the purpose of calculating the antidumping duty. We feel that use of U.S. costs is justified in these circumstances simply because no other price is available unless a constructed value is calculated for the item in the communist country itself.

2. The second approach would be to provide the Department of Treasury with explicit authority to calculate a constructed value in the communist country itself when there is no true market for the product involved other than the United States. We believe that this should be an amendment to the Trade Reform Act

of 1973, and would fit logically under the technical amendments to the Anti-dumping Act of 1921 in the trade bill.

3. The third approach that we suggest is consistent with the prior two and would greately strengthen the trade bill. We propose that the portion of Title IV that deals with "market disruption" as a result of community country imports be strengthened substantially.

First, the system should apply to all non-market economies, and not just those granted MFN treatment under Title IV of the trade bill. Poland and Yugoslavia, which have already been given MFN treatment, would be exempted from the trade bill's East-West Trade "safeguard" system as it is presently written. This would obviously be inequitable, and we feel that this was merely a technical drafting mistake, but one that is serious and should be corrected.

Our second criticism of the East-West Trade Safeguard system deals with the criteria of injury to domestic interests. Section 405 of the trade bill provides that the Tariff Commission can propose remedies if it finds both market disruption and material injury from communist country imports. Market disruption would be found to exist when imports are substantial, are increasing rapidly both absolutely and as a proportion of total domestic consumption, and are offered at prices substantially below those of comparable domestic articles.

We believe that the market disruption test alone is sufficient, and that the "material injury" test is redundant and unnecessary. Accordingly the "material injury" test should be eliminated from the bill. If the test of "material injury" is *not* removed from the bill, U.S. industries might be in the position of not being able to obtain needed relief even if market disruption was proved if "material injury" is administratively defined in a way that is impossible to prove. As this Committee will recall, dumping cases in years past were very difficult to prove because the Tariff Commission applied a material injury test that has since been discarded. Therefore if the injury test is retained the injury required to be proved should be *de minimis*. As an alternative the concept of market disruption could be eliminated and the concept of "injury" retained. That injury, as stated above, should be *de minimis* in nature, and not material.

Mr. Chairman, we have tried to address our comments to the trade bill itself, proposing changes to provide for the type of economic competition that I have described and which will be increased after Most-Favored-Nation treatment is granted to more non-market economies. Our country must have fair trade as well as free trade. Thank you very much for listening to my remarks today. I will be glad to try to answer any questions you might have.

OMC-LINCOLN,
April 11, 1974.

Hon. ROBERT W. PACKWOOD,
U.S. Senate,
6327 Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR PACKWOOD: Please accept my thanks for taking time from your busy schedule to listen to my testimony regarding the dumping problem we are presently experiencing from Polish golf cars in the United States.

You questioned an apparent discrepancy in my figures, and, at the moment, I couldn't account for it. Subsequent investigation cleared it up quickly, however.

Polish golf cars presently constitute 15% of all the electric golf cars in the United States. We analyzed our statistics in that matter because the Polish presently manufacture only an electric golf car. We hear rumors, however, that they are presently working on a direct copy of a U.S. manufactured gasoline-powered golf car and that they will have it on the market within a few months.

Whether they produce a gasoline-power golf car or not, we feel this unfair foreign competition is having a devastating effect on the domestic golf car manufacturing market, Senator Packwood, and it will undoubtedly get much worse rapidly, unless some legislative protection is provided by the Trade Bill. We support equitable world commerce, but certain safeguards from unconscionably low-priced foreign products must be provided.

Attached is a complete set of figures for new golf car sales, both gasoline- and electric-powered for 1973 and unit and percent share-of-market figures for the Polish import. If you have any further questions, I will be happy to try to answer them.

Thank you again, Senator Packwood, for your interest.

Sincerely,

VAUGHN E. BORDER,
Director of Marketing.

GOLF CAR INDUSTRY SHIPMENTS, 1972-73

	Total	Total gasoline powered	Total electric powered	Polish electric	Polish share of total electric (percent)
1972	47,300	17,400	32,700	2,809	9
1973	54,500	20,200	40,387	6,087	15

Source: National Golf Foundation, Department of Commerce—Polish golf car information.

[Whereupon, at 11:40 a.m., the hearing recessed until 10 a.m., Friday, April 29.]

TRADE REFORM ACT OF 1973

FRIDAY, MARCH 29, 1974

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

The committee met, pursuant to recess, at 10 a.m. in room 2221, Dirksen Senate Office Building, the Honorable Vance Hartke presiding.

Present: Senators Long (chairman), Hartke, Ribicoff, Packwood, and Roth.

Senator HARTKE. Good morning. Today, we are going to resume hearings on H.R. 10710, the Trade Reform Act.

Our first witness will be I. W. Abel, President of the United Steelworkers of America. Mr. Abel is appearing as head of his union and also on behalf of the Industrial Union Department of the AFL-CIO.

Mr. Abel, the 5-minute rule will be in effect here in the first round of interrogation. Let me say to you that I have a conflict this morning, as I have told you personally. I am chairman of the Veterans' Affairs Committee and I have hearings scheduled to begin immediately upstairs. We have a whole room full of people up there and I have mixed emotions. On the one hand, I want to be here listening to your testimony because you have been such a staunch supporter of trade principles which I think are very important and I support myself. On the other hand, I think that it is vital that my Veterans' Affairs Committee prod this administration into giving something other than rhetoric to the veterans of the Vietnam war. So, Mr. Abel, if you will proceed, we will be glad to hear from you.

STATEMENT OF I. W. ABEL, PRESIDENT, UNITED STEELWORKERS OF AMERICA, AFL-CIO, ACCOMPANIED BY JACOB CLAYMAN, SECRETARY-TREASURER, INDUSTRIAL UNION DEPARTMENT-AFL-CIO

Mr. ABEL. Thank you, Mr. Chairman. I want to point out that accompanying me this morning is Mr. Jacob Clayman, secretary-treasurer of the industrial union department. I want you to know that we appreciate this opportunity to appear before this committee and express our views on this trade bill.

Mr. Chairman, the development of an effective and constructive foreign trade policy is one of the most important and most difficult issues facing the Nation and the Congress today. I am grateful to this committee for the opportunity to testify today on this important sub-

ject on behalf of the United Steelworkers of America, AFL–CIO, and the industrial union department of the AFL–CIO.

I am particularly pleased because I think that in recent months the position of the labor movement in regard to foreign trade policy has often been misunderstood, or misinterpreted. We are not isolationists. We are certainly not against foreign trade, nor are we against international cooperation in the economic sphere as well as in the political arena. In the IUD, however, our first concern is to advance the interest of working men and women—and particularly to advance the interests of working men and women in the United States. For us, this means a primary emphasis on jobs and job security, but it also means that we are concerned with overall economic and social objectives in the United States.

Our concern with foreign trade policy is directly related to our concern with the economic and social health of the United States. Therefore, we cannot support policies which seem to us to be detrimental to the economic and social well-b ing of this country even though they are wrapped in red, white, and blue bunting, or are tagged with the outworn labels and code words of another era. To a large extent, this is what has happened.

For the past 3 years or more we have consistently argued that our present foreign trade policy is not helping us to build a strong and healthy domestic economy, but in fact has had the opposite effect. Jobs are being lost to imports. U.S. industry is being encouraged to invest overseas rather than in the United States because of tax incentives or other nation's discriminator trade practices, or both. The erosion of the U.S. industrial base continues. And our jobs, income, and even the quality of our life seems to be more and more dependent on the profit-motivated decisions of increasingly powerful multinational corporations whose activities are not subject to any kind of control. Under these circumstances, we believe our concern is justified.

But I would like to speak to the legislation which you have before you. The Trade Reform Act is claimed by its supporters to provide the answers to the chief trade problems facing the United States. It is supposed to deal with the issues involving the elimination of barriers to the free movement of U.S. products in world trade, and the trade related disruptions that have severely affected some industries and workers. But that claim is a delusion. The Trade Reform Act does not provide the answers because it fails to attack the basic causes. In addition, since the time when the legislation was drafted and developed, the world of international trade and finance has been hit by a tidal wave of change—change which the present legislative proposal scarcely recognizes. As a result, the legislation, which was already inadequate, is now obsolete. We are left with a situation where the basic factors which lie behind our trade problems remain untouched—the problems remain unresolved.

U.S. products are still subject to discriminatory trade practices by other nations.

These include such practices as the imposition of nontariff barriers, special tax levies, export subsidies, and preferential trading blocs. As a result, U.S. exports have been hampered, and U.S. companies acting in

completely logical self-interest have been encouraged to export technology and capital instead of products.

The tax incentives to overseas investment are still in force. Accordingly, it is still more profitable for U.S. based multinational companies to increase investment overseas than it is to increase investment in the United States. That these companies take advantage of these incentives should certainly not come as a surprise to anyone.

We still cling to the myth that the free market principle of comparative advantage will work. The fact is that the development of managed economies and of monopolistic industries, such as the oil industry, have long since relegated such theories to the scrap heap.

As a result of this sort of head-in-the-sand attitude and our lack of attention to the basic causes of our international trade problems, we have a situation which is unchanged from that of 3 years ago.

The CHAIRMAN [presiding]. Mr. Abel, if I might interrupt you, you could not be more right. I agree that the principle of comparative advantage must be carefully reexamined in this time of managed economies and export controls. With regard to the oil industry—and I say this coming from a State which produces more oil for its size than any State in the entire Nation—we were led to believe that we could get all that foreign oil much cheaper than we can nowadays. Those who fought to let that foreign oil in are today complaining about the price of it. Foreign oil now costs twice as much as what we have in this country. Just because they can produce it at 15 cents a barrel does not mean that they will sell it to you at that price. The OPEC nations are organized, and are selling it for $10 or $15 a barrel, when it costs 15 cents to produce it. So it turns out that the cheap oil is the expensive oil to produce, the oil here.

Senator RIBICOFF. Mr. Chairman.

The CHAIRMAN. Senator Ribicoff.

Senator RIBICOFF. How do you do, Mr. Abel? As long as the chairman has gotten philosophical, may I interrupt?

The CHAIRMAN. Yes.

Senator RIBICOFF. One of the great myths we still have is the phrase, "comparative advantage." As a practical matter there is no such thing any more, just as you can't really talk about free trade or protectionism. The theory of comparative advantage certainly goes out of window, not only from the chairman's comment, but when you consider how capital, technology, management, can be shifted at will from nation to nation. Workers without skills can be trained. When you combine them with the latest machines, and computerized programs you can produce goods with very little manpower. You do have completely different economic trade problems in the world today. If a nation does not have a comparative advantage they substitute a quota system or other methods to make sure that whatever disadvantage they have is offset with the protection that they need. What we are going to have to make sure is that it is not a one-way street, with jobs and technology going out of the United States and little coming in in return.

Mr. ABEL. Right.

Mr. RIBICOFF. I am glad you brought that up, because this is a very important factor as we delve into this entire problem.

Mr. ABEL. Well, Mr. Chairman, continuing, U.S. imports of manufactured goods are still rising.

U.S. tax incentives still encourage overseas private investment.
U.S. export of capital and technology is still increasing.
The U.S. industrial base is still subject to erosion, and
U.S. jobs are increasingly vulnerable to the hard-nosed decisions of evermore powerful, and less controllable, multinational corporations.

If we are ever to achieve a balanced trade policy, we must begin to correct some of the conditions which led to this imbalance. The trade policies proposed by the administration and encompassed in the trade reform legislation you have under consideration will not accomplish this purpose.

U.S. IMPORTS OF MANUFACTURED GOODS STILL RISING

The improved performance in the 1973 U.S. trade balance, although a welcome development, does not by any means signal the end of the problem, nor the end of the IUD concern. The significance of the 1973 trade surplus is tempered by the fact that although exports rose, so did imports. Not only was there an import increase, but it occurred at an accelerated rate. Last year imports rose by more than 24 percent compared to a 22-percent increase the previous year and a 14-percent increase the year before that. In addition, manufactured goods are taking up an ever-increasing share of total imports, approximately 66 percent of the total last year compared to only 52 percent in 1965. In other words, the time has long gone when we could lull ourselves into complacency with the thought that the United States is primarily an importer of raw materials and an exporter of manufactured products. It just isn't so today. Agricultural products have become our fastest growing export, and, except for oil, manufactured goods have become our fastest growing import.

A close look at the 1973 surplus makes this clear. This surplus in effect represents an $8 million shift, from a deficit of $6.4 billion in 1972 to a surplus of $1.7 billion in 1973. The biggest contributors to this shift are food products, including grains, which account for approximately $5 billion of the shift, and other raw materials (excluding fuels) which make up another $2 billion. On the other hand, there was virtually no change in the trade balance in manufactured goods classified by materials such as steel products, and a worsening deficit in the balance of miscellaneous manufactured goods which includes such items as scientific goods, sound and photographic equipment as well as footwear, apparel, and sporting goods. Although the trade balance for machinery and equipment improved by $2.7 billion, half of this improvement was accounted for by the aircraft industry—which, of course, is in a special situation. The hard fact is that if it had not been for the Russian grain deal, and the crop shortages throughout the world which led to the tremendous increase in U.S. agricultural exports, our trade balance would have remained in the red. With the rising cost of oil imports, we can expect that last year's gains will be quickly wiped out.

This rise in imports of manufactured goods is a serious concern to the Steelworkers and to the IUD for three reasons:

First there is a direct loss of jobs by American workers. When plants are closed down and the domestic market supplied with prod-

ucts manufactured overseas, the direct impact on U.S. employment is all too painfully clear. As you all know, this has already happened in many industries, most notably but not exclusively in the electronics industry, the textile and garment industries, my own steel industry, the glass and pottery industries, footwear, office machines and many, many others.

Second, we are concerned because the increase in imports represents a loss of job opportunities. Imported manufactured goods replace products that *might* have been manufactured in the United States if U.S. companies had made a management decision to supply the domestic market from domestic sources. Increased imports, therefore, provide a crude measurement of lost job opportunities. With our fast growing labor force, and the chronic difficulty our economy has in creating jobs fast enough to keep up with labor force growth, a loss of job opportunities is a serious matter.

Third, the increase in imports of manufactured goods is of concern to us because it provides the clearest evidence of the shift that is taking place in the U.S. economy from the production of goods to the production of services.

Conceivably, in a considerably more perfect and more friendly word than presently exists, an entirely service-oriented economy would pose no threat to U.S. workers and to the U.S. standard of living. But the recent oil embargo should serve to remind us that the world we live in is far from perfect, and that the U.S. economy is dangerously vulnerable to international economic and political gamesmanship. It is neither safe nor sensible for the United States to let our economy continue to drift—as it has over the past two decades—into complete dependence on the service segment and continual downgrading of the production segment. If we are to maintain our high standard of living, we must maintain our industrial base.

A FLEXIBLE SYSTEM OF IMPORT RESTRAINTS

One way to assure that the industrial base and the potential for productive employment are maintained in the United States is to establish a flexible system of measured restraints on imports of manufactured goods; particularly on those products which can be produced as easily in the United States as in other countries.

A flexible system could be based on some sort of triggering arrangement which, on the one hand, clearly recognized the need for continued imports, and on the other, prevented severe disruptions of important U.S. industries. It should be selective, easy to administer, and economically justifiable; applied only when the relationship between imports and exports is so far out of line that special measures are clearly dictated. The triggering factors that come most readily to mind are those that relate to penetration by imports of the U.S. market, industry employment trends, and the relationship between industry import trends and domestic production trends.

A flexible system would not only permit the retention of a manufacturing capacity in competitive industries, and help to prevent the loss of jobs and job opportunities, but also it would serve as a useful counterbalance to the existing incentives to overseas investment. These incentives are basically of two kinds; the positive incentives—pri-

marily the result of U.S. tax laws which provide favorable conditions for increased foreign investment; and the negative incentives—primarily the laws and practices of other nations which force U.S. managers to establish foreign plants because if they didn't, they would lose the foreign market.

MORE AND BETTER INFORMATION NEEDED

The development of an effective foreign trade policy is not a simple matter under the best of circumstances. The issues are difficult, the relationships between economic, social, and international policies are intricate and complex. The subject is made more difficult, however, by an astonishing lack of hard data on which policy decisions can be based. The dependence of the Government on the oil industry for information on supply, demand, price, and profit is a case in point. Another example concerns the relationship between U.S. imports and exports and domestic employment. Not since 1969 has the U.S. Bureau of Labor Statistics undertaken a study to determine export and import related employment—a study which used to be performed with some regularity. So no one knows with certainty the real impact of our shifting trade balance. We do not have adequate statistics on investment abroad, licensing of production or technology flows. Without full information, our policy decisions at best are gambles, at worst reckless. We suggest however, that such information will not be forthcoming unless Congress requires it.

THE TAX INCENTIVES

The trade legislation before you fails to deal with the problem of foreign investment tax incentives. This is a most flagrant manifestation of the administration's apparent unwillingness to face up to the most crucial trade issues—the export of capital and technology and the uncontrolled rise of the multinationals. There is a definite link between the present U.S. tax laws, the accelerating export of capital and technology and the resultant loss of jobs and job opportunities. This has already been established. It cannot and must not be overlooked, or avoided. Not only is there a direct relationship between the present tax incentives and loss of job opportunities, but the U.S. foreign tax credit is also a major cause of our present energy shortage. The hard fact is that the U.S. tax code encourages foreign investment and actually discourages investment in the United States, especially investment in energy resource development.

Let me explain how this occurs: The principles that lie behind the U.S. tax code are to prevent double taxation of U.S. companies. These principles are observed by application of the foreign tax credit, under which a U.S. company with income earned outside of the United States is allowed to subtract all of the income taxes it has paid to the foreign government from the taxes it would owe to the U.S. Government. This is different from the way a domestically based company is required to treat its State and local taxes, where such taxes are considered a cost of doing business and therefore, can be deducted from gross income, but not credited dollar for dollar against Federal taxes. The credit of course, gives the company a better break than a deduc-

tion. The result of foreign tax credit is that if a company located overseas pays a foreign income tax lower than the U.S. tax of 48 percent—the U.S. corporate tax rate—only the difference between the foreign tax and the U.S. tax is due and must be paid as U.S. taxes.

If the rate is equal to or higher than 48 percent, the U.S. company need pay no taxes on its earnings to the U.S. Government. So we see that in theory, at least, a company would never pay less than 48 percent.

That should be incentive enough for many companies to locate facilities abroad, but there is more to it than that. Two provisions of the tax code make it possible for U.S. companies abroad to pay less than 48 percent and to turn the foreign tax credit into a system which can be used as a gigantic tax dodge. One of these provisions allows a company to use its excess tax credits (the amount it pays to a foreign government in excess of the 48 percent U.S. rate) to shelter income earned in enterprises located in other foreign countries—with a lower tax rate—from U.S. taxation. The other provisions allows a company to apply its excess credits on a 2-year carryback and a 5-year carryforward option. Taken together, these provisions give a big company—specifically multinationals with diversified operations in many foreign countries, such as the oil industry—tremendous flexibility, and tremendous potential for avoiding U.S. taxes.

The big challenge for an able multinational corporation manager is to devise ways to take full advantage of the options open to him, or her. The oil companies are especially favored under this arrangement because of the high per barrel foreign royalty payment which is counted as an income tax. But all diversified multinationals benefit under this system because large amounts of excess tax credits are constantly generated. These credits are like money in the bank, but only if the companies can find ways to use them.

Obviously, the only answer is to find an appropriate overseas investment with earnings on which the credit can be applied. Since the credits cannot be applied to U.S. earnings, there is no incentive to increase investment in the United States. This may explain why refineries have not been built, why research, development, and exploration in the United States has not kept pace with our growing requirements, and why we, indeed, now find ourselves with an energy shortage. Unless and until these tax inequities are corrected, we can expect further increases in overseas investments, and further deterioration of the U.S. manufacturing capability.

There is another tax incentive which tends to encourage overseas investment. This is the provision that says earnings of American companies overseas are not taxable until they are repatriated. The effect of this provision is to encourage companies to retain earnings overseas for reinvestment purposes. The change in the overseas direct investment position between 1971 and 1972 is indicative of this effect. In 1971, reinvested earnings accounted for $3.2 billion or about 39 percent of total direct foreign investment. But in 1972, reinvested earnings increased to $4.5 billion and accounted for 59 percent of the total.

A NEW LOOK IS REQUIRED

U.S. trade problems are not caused by a lack of authority and flexibility in the executive branch to deal with economic disruptions, as is implied by the administration's approach to trade reform.

U.S. trade problems grow out of many causes. The most serious among them are the proliferation of the nontariff and other barriers which work to discriminate against U.S. goods in the world markets; the U.S. tax laws which make it more profitable for our companies to build plants and factories overseas than at home; the phenomenal development of the multinationals which operate freely throughout most of the world; and most recently, the fast changing relationships between nations which produce raw materials and those industrial countries which use them. Indeed the oil crunch makes its painfully clear that all of these problems will probably worsen, particularly since the industrial countries—our major competitors in the world markets—will have to increase their own exports in order to earn the foreign exchange necessary to pay the higher prices for both oil and other raw materials. As a result, not only will there be increased pressure from imports on the United States and further pressure on U.S. jobs, but we can also look forward to increasing resistance to U.S. products in the world market, particularly, Mr. Chairman, in the European market for example, or in Japan. None of these problems is dealt with by the Trade Reform Act. At best, the proposed bill is inadequate medication for a misdiagnosed ailment. In the present situation, it is nothing more than quackery. What we need, Mr. Chairman, is a new look and a fresh start to meet the problems that face all of us in this country in the field of foreign trade.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Abel, you have made a very fine statement here today. Between the statement that you have made and the statement that George Meany has made, a very strong case has been made against this bill, and we are going to have to reconsider our views about some of these matters.

Basically, what you are saying, as I see it, is that we had a lot of policies after World War II where aid and trade were regarded as being all the same thing.

Mr. ABEL. Right.

The CHAIRMAN. Those policies, in some instances, were developed for the benefit of the other guy. Now we are getting to the point where if we continue them in that fashion, we are going to be a bankrupt country. It is unfortunate that this bill does not appear to face up to that problem. That is what you are saying in your statement, basically.

Mr. ABEL. Very much, sir.

The CHAIRMAN. We have done so much to help the other guy that we are either going to have to ask the other guy to help us or else we are going to have to have to do a lot more helping ourselves.

Mr. ABEL. Right.

Mr. Chairman, I would like to point out that the basic steel industry is one example.

The CHAIRMAN. Excuse me, Mr. Abel, I am just trying to find out why we are having an energy crisis in this room. We cannot seem to get any heat up at all.

Mr. CLAYMAN. They are putting some pressure on the Senate.

The CHAIRMAN. I really did not plan this. It was not my purpose to try to freeze you out, Mr. Abel. They are freezing us all out.

Mr. ABEL. I wanted to make an observation, Mr. Chairman, to the committee.

The CHAIRMAN. The coal miners are not on strike these days, are they?

Mr. ABEL. In our basic steel industry, I would remind you that it was primarily or largely responsible for our ability to meet the demands of the free world during World War II. It was the U.S. steel industry that provided the steel to build our industries, our ships, our tanks, all of the things necessary to meet the Nazi attacks, not only for ourselves but for our allies. And we were the real producing power in steel at that time. At the end of the war, the Japanese produced 5 million tons of steel. That was their capacity. Today, they have a capacity not only equal to ours in productivity but a much more modern basic steel industry.

In 1973, as an example, there was imported into our domestic market 19,300,000 tons of foreign-made steel, which represents the jobs of 108,000 steelworkers. Now it has been reduced since that time to a little over 15 million tons last year. But again, that is almost, you see, 20 percent of our domestic capacity and market that has gone.

Not only have we lost the market, we have lost the jobs, but there is less inducement to invest and modernize the American steel industry today. If we ever face a world situation again, and God forbid that we do, that confronted us at the outset of World War II, this country can be in a very serious situation.

The CHAIRMAN. I am going to ask Senator Roth to take charge. I have been called to the telephone for a moment.

Senator ROTH [presiding]. Thank you, Mr. Chairman.

I have long awaited the opportunity of chairing this committee. I think we shall be able to get a lot of action this morning.

I want to express my appreciation to you, Mr. Abel, for your appearing and for your very fine statement. I would like to ask you first of all, as I understand your position, you do favor trade?

Mr. ABEL. Correct, sir.

Senator ROTH. As long as it is in the U.S. interest?

Mr. ABEL. Yes.

Senator ROTH. One of the things that has interested me, both Mr. Meany and particularly many of the management representatives who have been here seem to have the feeling that in our negiatations in the past, the primary purpose of our negotiators has not been to promote the interests of this country but to promote world trade. Do you consider that a fair assessment?

Mr. ABEL. I think very definitely, and using a misnomer, in my opinion, in using the term "free trade" we like to say that we are interested in fair trade. You just do not have free trade when our markets are opened to anybody that wants to ship in but we are forbidden for various reasons to trade in other countries or where we, as a capitalistic system or free enterprise system, if you will, have to compete with industries that are from socialized countries or industries that are subsidized by their governments. There is no such things as fair trade under those conditions.

Senator ROTH. I shall be frank with you, I am very much interested in promoting trade, but I still share this concern that has been expressed by a number of people. I think that this has been a problem with our negotiators in past.

Going down your testimony a little bit, one of the interesting points you raise is about the lack of adequate information, adequate data. As one who has been quite critical about the lack of adequate information on the oil companies, I think you make a very valid point. I think there are some industries where trade has actually helped increase jobs in this country, as I understand it. For example, I would say we had the chemical people here yesterday and probably that is one industry where the trade picture has meant more jobs in America not less. But others, such as steel, the contrary has been true. So I take it that what you are suggestion is that the Government ought to have more adequate information, that is collated and collected by itself——

Mr. ABEL. That is correct.

Senator ROTH [continuing]. As a means of securing it.

Do you have any suggestions as to how this information should be secured? One of the problems I have found is that in the area of the oil companies, whether we like it or not, you have few experts on energy outside of the oil companies, so that you are almost forced to depend in large measure—although you could make some independent audits—on their figures. How do you suggest that we proceed?

Mr. ABEL. Well, I think one of the reasons we have this is we have just more or less relied on industry to operate their own business and develop their own facts and statistics to justify their operation, their expansion, and their relationships. So long as we have operated on this free enterprise theory, we have had the feeling that the less Government is involved, the better.

Well, it is proving now and has certainly been driven home with the energy crisis that this is not necessarily the proper thing or good for the country. So I think Congress itself has to spend some time analyzing this problem and the magnitude of it, and then developing ways to do it as we have done it in many instances in the Department of Labor.

The Bureau of Labor Statistics is an example. I think the Commerce Department and the State Department have some similar agencies whose responsibility it would be to compile these facts and this information. The Government then would be able to observe and somewhat oversee, if you please, the activities of business, not only domestically but in their foreign aspects.

Senator ROTH. You have made a number of suggestions with respect to tax treatment. One of the areas is the treatment of tax credits for foreign taxes. Would you agree that perhaps the situation with respect to oil companies is somewhat different than in other areas because of the fact that companies are negotiating directly with the oil producing countries themselves so that they are in a better position to exert influence on, for example, whether it is called a royalty or a tax, whereas generally speaking, the companies abroad probably do not have the opportunity to influence the nature of what they pay abroad?

Mr. ABEL. Well, I want first of all to plead guilty to the fact that I am not a tax expert. But second——

Senator ROTH. I join you on that.

Mr. ABEL. Second, I think that the treatment that we give to the taxes or royalties or whatever they might be termed that companies pay other governments can be regulated here. As an example, the one-for-one tax credit offset that we permit American multinational corporations rather than reducing foreign taxes as a cost of doing business. That is the sort of thing that should be and could be corrected.

Senator ROTH. Would you agree that it is in our Nation's interests to promote not only trade but perhaps investments abroad, so long as it is not moving jobs from here to other countries?

Mr. ABEL. Yes.

Senator ROTH. And I also feel very strongly the need of a manufacturing base here.

Mr. ABEL. And we are not against foreign imports, even that of manufactured goods, as long as we have some regulation and control so that it is not used to the detriment of the people of this country. There may well be times when we need the import of manufactured goods, too.

Senator ROTH. Let me play the devil's advocate for a moment, if I might, from the consumer's standpoint, and labor, as well as everybody else, are consumers as well as workers. One of the concerns, or one of the benefits, of trade is that, presumably, there are some countries who are in a better position to manufacture certain products than we are. I think we are all in agreement that this should not be based upon cheap labor and we are concerned about that. But what do you say to the consumer, why should we ask the consumer—let me put it that way—to pay higher prices?

Mr. ABEL. I think there may be various reasons. One, of course, and the overriding one, I think, is the maintenance of an American standard of life. Now, we can all compete, and I think there is no question that the ultimate of so-called competition and free enterprise is self-destruction. If we wanted to have workers in this country work for 10 cents or 12 cents an hour as they do in Taiwan and other places, we can compete with any country in the world in any kind of industry, providing we adopt and accept their standards of life. We do not believe the American people want to do that. So as a result, we do have to pay higher prices for different things than we could probably get them from other countries.

Senator ROTH. If we adopted a harder bargaining stance, as you were talking about earlier, do you think that by doing a better job there, we could create new opportunities in international trade for the country?

Mr. ABEL. I do not think there is any question about it. I think our trade decisions perhaps have been influenced more by political considerations than they have economic considerations. There should be more consideration given to the economic aspects of it.

Mr. CLAYMAN. Senator Roth, I would like to respond quickly to your question relating to the consumer.

Senator ROTH. I think it is an important question, particularly with the problems we are having with inflation today.

Mr. CLAYMAN. There is a notion abroad that if we permit foreign merchandise, goods, to come to our shores, without any restraints,

somehow, this will redound to the benefit of the ordinary consumer. I must say that that is very much a myth.

For example, Hong Kong silk—remember those lovely Hong Kong suits? And they were cheaper, and men rushed to them, women rushed to them. But as soon as they penetrated the American market, those prices became the same prices as the normal American trade price standard and this is true virtually of every item that comes to our shores, whether it is electronics or what have you. In the first instance, those companies offer some inducements; but when penetration has been made, the inducements dissolve.

So I think that any careful look at this question, a search of the basic facts, will demonstrate that the ordinary consumer in America does not find and get advantage from unrestrained trade from abroad. And this hard fact may very well deserve attention on the part of this committee.

Mr. ABEL. I think one more example that I live with on this in steel again. Three years ago, foreign steel was being sold in this country up to $100 less than domestic steel. Today, because there is a better market and because the American steel industry is still under price controls, foreign steel is receiving $100 to $150 a ton more than domestic-made steel. So you see, it is a regulated proposition again.

We have maintained all along that the Japanese will undersell the American steel market regardless. You can reduce prices and they will keep lowering it. And the same with—well Britain is an example. It is a subsidized industry so it makes no difference to them whether they make a profit or not.

Senator ROTH. One of the reasons given for our problems with inflation is, of course, shortages, not only in the area of agricultural products, but fertilizers and many other areas of manufactured products as well. The suggestion has been made that it might be desirable at this time to increase production capacity by providing special incentives. I think it was the chairman of the House Ways and Means Committee who suggested that perhaps we should provide a 5-year writeoff for new capital expansion programs. This would be a matter, it seems to me, of considerable interest to the steel industry.

At least one of—and I am no expert in this area, either—one of our concerns has been our plants are not as modernly equipped as those in Japan and other parts of the world. It has been suggested that this would not only come about by increasing capacity and, of course, increasing the supply, would help bring down prices, but it would also take up any slack in unemployment. I wonder if you have any comments on that proposal?

Mr. ABEL. Yes. We feel very definitely there should be consideration in these fields. We have in the past, as you probably are aware, supported the 7 percent accelerated depreciation, investment tax credit, and particularly, again, I have to say, being from steel, that steel has a real peculiar problem and a serious problem in the fact that it is a heavy capital industry. You do not build a steel mill for $1 million. It now runs $500 million to $1 billion to build a modern integrated steel mill. This is just an awful lot of capital to raise and to invest and, when there is the danger of foreign competition taking all the business from you, it is hard to raise that kind of money. I really think that our tax people are going to have to give consideration to special problems such as the steel industry.

Senator ROTH. In other words, it has seemed to me important, if we are going to compete abroad, that we maintain the most modern technology and plant capacity possible. If you have any further suggestions in this area, I would be very happy to receive them.

Mr. ABEL. I would just make this further observation, not only from the need and the competitive standpoint, but I think too little attention is being given to the importance of the steel industry in the defense of this country, the security of this country. Certainly, we cannot wage another world war with an obsolete steel industry, especially when the potential enemies have modern facilities.

Senator ROTH. I agree very much with that observation. Let me ask one further area. That is the area of adjustment assistance. I think, generally speaking, it has been felt in the past that it has not been adequate. Some steps have been taken in the current legislation to strengthen that. I think maybe in recent years, a little better job has been done, but I still do not think it is still adequate. Do you have any suggestions in this area?

Mr. ABEL. Well, we think it is a very poor substitute for meeting the problem. Again, we have had some experience because of the displacements resulting from imports. But it is like pulling teeth, quite frankly, to prove your justification to assistance. Many industries, and workers in these industries, have failed to get any approval for assistance. We think a better approach is some type of quota arrangement or some type of arrangement to regulate the flow of imports related to the condition of our domestic markets.

Senator ROTH. Would you not agree that in some measure, if you are going to increase trade, there are going to be some losses in some industries?

Mr. ABEL. Oh, yes, sure; we recognize that.

Senator ROTH. I have wondered why the cost of that should not be a cost of doing international business. In other words, there might be some kind of special excise tax or something to finance these economic adjustments. Has your organization given any thought to this kind of approach?

Mr. ABEL. Well, I would have to say, Senator, we have considered every kind that you can think of.

Senator ROTH. Mr. Abel, I appreciate very much your appearing here, as does the chairman, who regrets that he cannot come back. I think that your testimony has been most helpful. As I said earlier, any suggestions you might have as to tax provisions that might make our industry more competitive, which means more jobs, I, speaking for myself, would be interested in having them.

Mr. ABEL. Fine. Thank you, Senator.

Mr. CLAYMAN. Senator Roth, if you will permit us to make some additions to the record—we are in the process of preparing some additional information, conceivably some that will answer more directly, more adequately and inclusively, the questions you have raised. We would be pleased if we could submit them to you for the record.

Senator ROTH. I would appreciate that very much. That is very fine.

Mr. ABEL. Thank you, sir.

[Appendixes to Mr. Abel's statement follow. Hearing continues on p. 1371.]

APPENDIX

THE CASE FOR A MODERNIZED FOREIGN TRADE POLICY

Objective—The objective of U.S. foreign trade policy is much the same as that which applies to the development of any economic policy; namely, the promotion and development of a strong, healthy, and vigorous economy.

This in turn implies increased opportunities for business and industry to market their products, increased productivity through the establishment and conservation of a sound and stable industrial base, and increased job opportunities consistent with labor force growth. Business must be able to sell its products. Workers must be able to find and keep decent jobs. And, there must be an industrial base which can support increased growth and an ever improving standard of living. Since foreign trade represents a significant part of the total economic fabric, and since by its very nature, it is subject to external as well as internal forces, particularly the actions of other governments, it is in a particularly vulnerable position. As a result, we need legislation both to help assure that our foreign trade can be conducted in a climate conducive to market, employment and productivity growth, and to give us the policy instruments necessary to forestall or compensate for the actions taken by other nations when such actions restrict U.S. opportunities.

TRADE PROBLEMS

There are at least six major trade problems for which legislation is required. These include the problem of non-tariff barriers maintained by other nations, the tremendaus growth of U.S. imports, the increase in U.S. private direct investment in foreign countries, the dramatic deterioration in both our balance of trade and in the overall balance of payments, (only temporarily alleviated this past year), the rise of the multinational corporations and the recently developing threat of economic warfare by the raw-materials producing nations of the world. Precise delineation of the issues is difficult at best, since many of the problems are related to each other, and indeed one problem usually growing out of another, and leading to a third, etc. All of these issues however, have one thing in common. If left unresolved the result will be a further erosion of the conditions necessary to maintain U.S. economic growth. Each of these problems is discussed briefly below.

NON-TARIFF BARRIERS

One of the most difficult issues that must be resolved concerns the establishment of barriers to foreign trade, particularly the proliferation of non-tariff barriers. These barriers, originally condoned by the United States as being necessary to help the recovery of war ravaged countries, take many forms, ranging from special taxes to the formation of preferential training blocs. The Common Market itself, for example, presents a barrier to the U.S. in that it discriminates in favor of intra-mural trade and against trade from outside the market. Third country preferential agreements make matters worse. Other barriers, such as the variable levy, special administrative practices, licensing requirements value added taxes, restrictions on extra-national ownership, and even export subsidies, have not only remained unaffected by the GATT rules and procedures (which was supposed to promote "free" trade) but in recent years they are used increasingly by more and more countries as they prove to be effective instruments for the promotion of national policy goals and objectives. The recent bi-lateral trading agreements between France and the oil producing nations are a case in point. The end result of this kind of activity, of course, is to close access to world markets for the U.S. In fact, we seem to be the only country which is still promoting the concept of most favored nation treatment. The shutting off of access to world markets has a predictable result.

Insofar as foreign trade is concerned, there are three ways in which U.S. companies can expand markets. They can increase exports, or they can license foreign companies to produce the same products, either charging a fee or accepting royalties, or they can establish a foreign affiliate, and produce and market the product overseas. When barriers are imposed, making it difficult or impossible to market U.S. made products, the company will make use of alternative methods to increase markets and profits. The increase in licensing by U.S. companies and in investment in plant and equipment abroad is direct evidence of the impact of non-tariff barriers on the activities of U.S. companies. As U.S. companies increase exports of technology through licensing and other agreements

and increase export of capital through direct investment in plant and equipment in foreign countries, the result is a further loss of U.S. employment opportunities, contributing further to U.S. economic and social stagnation. Here is what has happened since the early 1960's.

The book value of U.S. foreign direct investment has tripled since 1960, from $32 billion to more than $94 billion in 1972. It must be assumed that the 1973 figure is over $100 billion. Moreover, it should be noted that the real market value is considerably higher, probably more than $150 billion.

In 1972, more than forty percent of this investment growth was in manufacturing industries, accounting for nearly half of the total growth in investment that year—up from the previous average when manufacturing accounted for only 43 percent of the growth.

Despite two devaluations of the dollar and other international economic developments which might conceivably have made foreign investment less attractive, the increase in direct foreign investment by American companies is continuing. In the first three quarters of 1973, the amount of new funds exported for direct investment abroad was almost as high as for all of 1972, $3.2 billion compared to $3.4 billion. Projecting at the same rate for the rest of the year, it can be estimated that the investment flow could reach $4.3 billion when the final totals for the year are in.

Not only is the export of capital continuing, but so is the export of technology. Since 1960, the fees and royalties paid on direct investment overseas has increased more than sixfold from $.4 billion to an estimated $2.6 billion in 1973. This covers only fees from U.S. affiliates and does not include fees and royalties paid by unaffiliated foreigners—that is to foreign companies which have no direct connection to U.S. companies. The total paid to unaffiliated foreigners amounted to another three quarters of a billion dollars in 1973 or a total technology export of approximately $3.4 billion for the year.

INCREASED IMPORTS

In the decade since 1963, imports have increased from $17.2 billion to $69.1 billion or an average annual growth rate of 30.2 percent.

Not only are imports increasing but the rate of increase is accelerating. In 1971 imports rose by 14 percent; by 22 percent in 1972 and by 24 percent last year, 1973. Exports, on the other hand, have increased from $22.5 billion to $70.8 billion or an average annual growth rate of only 21.5 percent. As a result, we moved from a comfortable trade surplus to a trade deficit in 1971 and 1972, only temporarily relieved this past year, primarily because of the Russian grain deal. In manufactured goods, the area where the United States complacently believed it would always have a technological advantage, the U.S. moved to a deficit position in 1971—a deficit which still remains. In 1963, the U.S. showed a trade surplus in manufactured goods of $6.2 billion. This slipped to a zero balance in 1971, and then to a deficit of $4.1 billion in 1972. Despite the tremendous increase in manufacturing exports during the past year—(due primarily to the temporary palliative of devaluation) manufactured goods still showed a slight deficit of $.1 billion in 1973.

TABLE 1.—U.S. TRADE IN MANUFACTURED GOODS

[In billions of dollars]

	Exports[1]	Imports	Balance of trade
1963	14.3	8.1	+6.2
1964	16.5	9.1	+7.4
1965	17.4	11.2	+6.2
1966	19.2	14.4	+4.8
1967	20.8	15.8	+5.0
1968	23.8	20.6	+3.2
1969	26.8	23.0	+3.8
1970	29.3	25.9	+3.4
1971	30.4	30.4	0
1972	33.6	37.7	−4.1
1973	44.7	44.8	−.1

[1] Totals include reexports as well as shipments under AID and food for peace programs, and military grant-aid shipments.

Source: Economic Report of the President, 1971, 1972, 1973.

The accelerating rate of increase in imports of manufactured goods is especially worrisome. Since 1963, while exports of manufactured goods have increased at an average annual rate of approximately 21 percent, imports of manufactured goods have increased at an average annual rate of 45 percent, or more than twice the rate of increase in exports.

In addition, any elation we might have felt at the turn in the 1973 total trade balance, was mitigated by the knowledge that imports of manufactured goods are taking up an ever-increasing share of total imports, approximately 66 percent of the total last year compared to only 52 percent in 1965.

The table below indicates the increasing importance of manufactured goods in the total import picture.

TABLE 2.—IMPORTS OF MANUFACTURED GOODS AS A SHARE OF TOTAL IMPORTS

[Dollar amount in millions]

Year	Total imports	Imports of manufactured goods	Manufactured goods as a percent of total
1965	$21,247	$11,244	52.3
1966	25,618	14,446	56.4
1967	26,889	15,756	58.6
1968	33,226	20,624	62.0
1969	36,043	23,011	63.8
1970	39,952	25,906	64.8
1971	45,563	30,414	66.8
1972	55,555	37,748	67.9
1973	69,121	44,788	64.5

In contrast to this trend, manufactured goods as a proportion of total exports have actually declined in the past three years. In 1971, approximately 71 percent of total export trade was in manufactured goods. But by the end of 1973, the proportion of manufactured goods in export trade slipped to 64 percent. Exports of machinery and transportation equipment (all high technology goods slipped from 44 percent of the total in the first 11 months of '72 to only 39 percent in the comparable period in 1973.) The significance of this steady upward creep of manufactured goods as a proportion of total imports and the downward trend of manufactured goods as a percentage of exports is directly related to the American workers jobs. It is also clear evidence that the time has long gone when we could full ourselves into complacency with the thought that the United States is primarily an importer of raw materials and an exporter of manufactured products. It just isn't so today.

A close look at the 1973 surplus makes this clear. This surplus in effect represents an $8 billion shift, from a deficit of $0.4 billion in 1972 to a surplus of $1.7 billion in 1973. The biggest contributors to this shift are food products, including grains, which account for approximately $5 billion of the shift, and other raw materials (excluding fuels) which make up another $2 billion. On the other hand, there was virtually no change in the trade balance in manufactured goods classified by materials such as steel products, and a worsening deficit in the balance of miscellaneous manufactured goods which includes such items as scientific goods, sound and photographic equipment as well as footwear, apparel and sporting goods. Although the trade balance for machinery and equipment improved by $2.7 billion, half of this improvement was accounted for by the aircraft industry—which, of course, is in a special situation. The hard fact is that if it had not been for the Russian grain deal, and the top crop shortages throughout the world which led to the tremendous increase in U.S. agricultural exports, our trade balance would have remained in the red. With the rising cost of oil imports, we can expect that last year's gains will be quickly wiped out.

CAUSES OF INCREASED IMPORTS

There are many causes which have contributed to the tremendous increase in U.S. imports. Certainly one of the most important underlying factors is the dynamism of the U.S. high consumption market. However, the penetration by foreign countries of the U.S. market as evidenced by the huge increase in imports is not solely a phenomena of free market economics. Far from it. The fact is that

whatever strictly market incentives exist have been bolstered by a number of other developments, most of which act to contravene the hallowed free market principles. Among these developments are:

1. The artificial inducements to U.S. companies to locate plant and equipment abroad and to export technology rather than products. These include the positive inducement such as tax incentives, and the negative inducements such as non-tariff barriers.

2. The increasing ability of companies to operate on an international scale, and the consequent ability to take advantage of low-wage economies, particularly in the less developed countries of the world. The shift of production facilities by U.S. companies in the electronics industry and in the office equipment industry are prime examples of this situation. The primary reason why most of our TVs, radios, typewriters, tape recorders, and other similar products are imported is because U.S. companies have shifted production to foreign shores in order to take advantage of low wage situations.

3. Items 806.30 and 807 of the Tariff Code further encourage U.S. firms to locate abroad sending the products fabricated abroad back for sale in the U.S. market. These code items apply to partially fabricated articles which are exported to another country for further processing or finishing and then reimported into the United States for sale in the domestic market. Under these provisions a duty is assessed only against the value of the processing in the foreign country. U.S. firms are therefore encouraged to ship parts either to affiliates or contracted processors overseas. As a result, instead of simply permitting export for supplementary processing, what has happened is that the whole product is frequently manufactured abroad with only a few supplementary parts being supplied from the U.S.

4. The development of managed economies throughout the world has reduced the so-called free market system to a fiction in most instances and has resulted in government supported assaults on the U.S. market by foreign suppliers. Although dumping is prohibited in theory, it is not prevented in practice. Export subsidies can be and are hidden under a variety of disguises—resulting in increased imports to the U.S.

5. In addition to the tax incentives which encourage overseas production, the extension of integrated multinational corporations in certain industries has also contributed to the increase in imports. When a few companies control all facets of industrial production and marketing, they gain a flexibility that permits management decisions to be made without regard to national, social or economic objectives. Certainly, a share of responsibility for increasing U.S. dependence on oil imports can be attributed to the integrated nature of the oil industry, which permitted management to make the decision not to expand producion and refinery capacity within the U.S., but instead to expand these activities outside the U.S. where the potential for higher profits was greater.

RESULTS OF INCREASED IMPORTS

The increase in imports has had a direct impact on U.S. economy, resulting in a loss of jobs and job opportunities, in a erosion of the industrial base and in a deterioration in both the balance of trade and the balance of payments, which in turn affects the U.S. position as a leader for world peace and stability.

Jobs are lost directly when plants close down and either are shifted to other countries, or are replaced by imports made by non-U.S. companies. The IUD's continuing study of plant shutdowns resulting directly from imports indicated a direct loss of more than 95,000 jobs in two years. As of December 1973, the IUD data center had reports showing that 169 plants had shut down and another 51 had permanently curtailed employment as a result of imports.

In addition to this direct los of jobs, there is the further and more serious loss of job opportunities to imports. This indirect loss is the number of job opportunities that *might* have been available to U.S. workers if competitive imports (imports which could have been produced in the U.S.) had remained at a constant level, as compared to exports. Estimates of import-related employment used to be made on a regular basis by the U.S. Bureau of Labor Statistics. Export employment was also estimated on a regular basis. However, no new estimates have been made since 1969—perhaps because the estimates would undercut the administration position. Lacking such statistics but using the BLS 1966 and 1969 estimates as a basis, we have projected that the increase in competitive imports since 1966 has resulted in a loss of approximately one million job opportunities.

In view of the stubbornly high U.S. unemployment rate—signifying an apparently chronic inability of the economy to generate sufficient employment to keep up with labor force growth, such a job loss cannot be countenanced.

The erosion of the U.S. industrial base is equally disturbing. In 1948, of all U.S. workers employed in the non-agricultural sector of the economy, 39 percent were employed in the production of goods and 61 percent were employed in the provision of services. By 1969, the proportion employed in the goods producing industries had dropped to 33 percent. The trend is still continuing and in 1972 the percentage dropped another percentage point. According to Department of Labor projections, we can expect this trend will continue over the next decade. This shift, which might itself appear to be unworthy of comment, is particularly disturbing to the labor movement for two reasons; first because continued improvements in the U.S. standard of living are dependent on improvements in productivity, for which the goods producing sector has the greatest potential; and second because of the inherent danger in dependence on other nations for our basic industries. The first point is proved by the historically consistently greater productivity growth in manufacturing over other segments. For example, between the fourth quarter of 1971 and 1972, productivity increased in the manufacturing sector by 7.4 percent compared to a 4.2 percent increase in all sectors. Between the fourth quarters of 1972 and 1973, comparable figures were 2.8 percent growth in manufacturing compared to only .9 percent in the total private sector.

To drive home he second point, we need only remind ourselves of the oil embargo of 1973–74, and its impact on our economy. It would be dangerous in the extreme to allow ourselves to get into the kind of situation where our basic industries on which the economy depends could be subject to that kind of international political and economic gamemanship.

INCREASED DIRECT FOREIGN INVESTMENT

As we have seen, foreign direct investment, the flow of U.S. capital into foreign business enterprise in which U.S. residents have a significant control, is one of the major new developments on the international economic scene over the past decade. The flow of investment increased from $1.6 billion in 1960 to $4.4 billion in 1970 and $4.8 billion in 1971. This was primarily a one-way street with the flow of foreign capital into the U.S. for direct investment remaining miniscule in comparison. As a result of the investment flow, the book value U.S. direct foreign investment had reached almost $93 billion by the end of 1972, representing true market value considerably higher, probably more than $150 billion. This increase in foreign investment was the result of several factors, including the development of non-tariff barriers which discriminate against U.S. made products, the ability and apparent eagerness of U.S. companies to take advantage of the lower wage scales that exist in other parts of the world, and finally the incentives provided under our own tax laws.

TAX INCENTIVES

The U.S. tax laws not only provide an incentive for the export of capital and technology, but also actively discourage investment in the United States, especially investment in energy resource development. Incentives take two major forms: (1) the foreign tax credit; and (2) the tax deferral on non-repatriated income.

The principles that lie behind these special provisions of the U.S. tax code are designed to promote international equity. They include the prevention of double taxation of U.S. companies and U.S. residents, the neutralization insofar as taxes are concerned, of the decision whether or not to invest in a foreign country, and taxation of income only when it is received. Although the elimination of unfair competition may have been the goal, as it has developed, the end result is to load the dice in favor of investment overseas and against investment in the U.S.

Under the foreign tax credit a U.S. company with income earned outside of the United States is allowed to subtract all of the income taxes it has paid to the foreign government from the taxes it would owe to the U.S. government. This is different from the way a domestically based company is required to treat its state and local taxes, where such taxes are considered a cost of doing business

and therefore, can be deducted from gross income, but not credited dollar for dollar against federal taxes. The credit, of course, gives the company a better break than a deduction. The result of the foreign tax credit is that if a company located overseas pays a foreign income tax *lower* than the U.S. tax of 48 percent (the U.S. corporate tax rate), only the difference between the foreign tax and the U.S. tax is due and must be paid as U.S. taxes. If the rate is equal to or higher than 48 percent, the U.S. company need pay no taxes on its earnings to the United States government. So in theory, at least, a company would never pay less than 48 percent.

That should be incentive enough for many companies to locate facilities abroad, but there is more to it than that. Two provisions of the tax code make it possible for U.S. companies abroad to pay *less than* 48 percent and to turn the foreign tax credit into a system which can be used as a gigantic tax dodge. These are the provisions which (1) allow a company to use its excess tax credits (the amount it pays to a foreign government in excess of the 48 percent U.S. rate) to shelter income earned in enterprises located in other foreign countries—with a lower tax rate—from U.S. taxation, and (2) the timing provisions which allow a company to apply its excess credits on a two year carry-back and a five year carry-forward option. All of the provisions taken together give a big company—specifically multinational companies with diversified operations in many foreign countries—(the oil industry comes most readily to mind)—tremendous flexibility, and tremendous potential for avoiding U.S. taxes. The big challenge for an able multinational corporation manager is to devise ways to take optimum advantage of the options open to him, or her (and they didn't go to the Harvard Business school for nothing). Particularly for the oil companies—which are specially favored because of the high per barrel foreign royalty payment which is counted as an income tax—but also for all diversified multinationals, the system is such that large amounts of excess tax credits are constantly generated. These credits are like money in the bank; but only if the companies can find ways to use them. Obviously, the only answer is to find an appropriate overseas investment with earnings on which the credit can be applied. Since the credits cannot be applied to U.S. earnings, there is a clear disincentive to increase investment in the U.S. No wonder that refineries have not been built, that research, development and exploration in the U.S. has not kept pace with the burgeoning requirements, that—indeed we now find ourselves with an energy shortage. Unless and until these tax inequities are corrected we can expect further increases in overseas investments, and further deterioration of the U.S. manufacturing capability.

The second tax incentive which tends to encourage overseas investment is the provision that earnings of American companies overseas are not taxable until they are repatriated. The effect of this provision is to encourage companies to retain earnings overseas for reinvestment purposes. The change in the mix of new direct investment between 1971 and 1972 is indicative of this effect. In 1971, reinvested earnings accounted for $3.2 billion or about 39 percent of new foreign direct investment, but in 1972, reinvested earnings increased to $4.5 billion and accounted for 59 percent of the total.

It has been estimated that together these tax incentives represent a loss in tax revenues of more than $3 billion.

RESULTS OF INCREASED FOREIGN INVESTMENT

The increase in foreign investment results in a loss of jobs and job opportunities, further erosion of the U.S. industrial base, the continued deterioration of the balance of payments, and the elimination of any technological advantage which the U.S. might have had. The impact is particularly severe on jobs.

While domestic employment of the U.S. multinational firms increased by 11 percent between 1966 and 1970, employment in the foreign affiliates of these multinational companies increased by 23 percent. In the area of manufacturing, the contrast is even sharper. Domestic employment of the MNC's increased by 7.6 percent, but employment by their foreign affiliates increased in the same period by 26.5 percent. Even in absolute terms, the increase in overseas employment for manufacturing companies was greater in the foreign affiliates than it was for the domestic plants, 452,000 new jobs overseas compared to 450,000 jobs at home.

APPENDIX

TIME IS RUNNING OUT

WE CAN'T DELAY ACTION ON TRADE

(By I. W. Abel, President, Industrial Union Department, AFL–CIO)

It is now three years since the Industrial Union Department publicly warned in this publication that outmoded and ill-conceived foreign trade policies were leading our nation toward a permanent world trade deficit.

Since then, our foreign trade surplus became a deficit, then returned to surplus again. But those who claim our foreign trade posture once more is strong are deluding themselves and their listeners. Our imports of foreign goods—including the high technology manufactures in which we once were the world's undisputed leader—grow by leaps and bounds. More and more U.S. technology and capital are exported, taking along more and more American jobs.

A new complication, the "energy crisis", has arisen to point up in the starkest terms the role of multinational corporations in draining American strength from the world economy. Partly as the result of manipulations of the tax, foreign trade and other laws of the U.S. and other nations by these world-girdling and often irresponsible oil industry giants, we now suffer dizzying price increases, disruptive shortages, and an alarming lack of control over the availability of our major source of energy.

Yet nothing constructive has been done to modernize or reform our foreign trade law.

The export of technology and capital is as much in need of regulation as it was three years ago. Foreign nations still are encouraged to discriminate against U.S. products; there has been no real progress toward the dismantling of trade barriers abroad.

Worse, the worldwide energy crisis promises to disrupt the recent progress of workers abroad toward the type of living standards the U.S. has enjoyed. In view of our failure to reform our own foreign trade laws, this discouraging new factor could erase the only cause we had for hope of slowing the move of U.S. manufacturing operations to other countries.

In short, the United States needs foreign trade reform more than ever.

There has been much public discussion in recent weeks of the so-called "turnaround" in our foreign trade accounts. In the following pages, the IUD's economic consultant, Stanley H. Ruttenberg, and his associates, subject current foreign trade activity, and the decisions and events that shape activity, to thoughtful, rigorous analysis. The conclusions of that analysis are inescapable:

- We must act to revitalize and modernize our foreign trade policy.
- We must curb irresponsible exports of the technology and capital upon which our economic life and stanadrd of living depend.
- We must regain control over the economic decisions that determine our national well-being, so that these decisions are made in the public interest rather than for the private gain of a few multinational corporations.

Time has run out. We must act now.

LOTS OF TALK, NO ACTION

THE FOREIGN TRADE PROBLEM IS STILL WITH US

Like a broken record, U.S. foreign trade policy continues year after year in the same rut, going round and round with little or no progress. Propaganda prophecies to the contrary, the trade problem is still very much with us, and particularly with the American worker.

A year ago when the U.S. international trade balance skidded deep into the red, with U.S. imports exceeding exports by more than $6 billion, even the most ardent supporters of the current U.S. foreign trade policy lost some of their cool and began to admit there was a problem. Today, however—two devaluations later—the trade balance has shifted again and this year will be back into the black. There are some who are now looking at the current small surplus—estimated to be $1.7 billion for the past year—and claiming that the trade problem has been resolved. But they are wrong. The bitter truth is that the conditions that created our problems in the first place have not been changed.

The economic and social dislocations that are the result of our out-dated international trade policy have not changed either. If any relief is provided by the shift from a trade deficit to a trade surplus it is only temporary, illusory, and more shadow than substance. Not that it's not pleasant to have a surplus, but this one is only a sugar coating, covering a host of unsolved problems. Look beneath the surface and you will see that the improved U.S. trade position has not resulted in an improvement in the position of U.S. workers. Unfortunately, unless corrective action is taken soon, it will get worse before it gets better.

U.S. products are still being discriminated against abroad;

U.S. imports of manufactured goods are still rising;

U.S. export of technology is still increasing; and

U.S. jobs are still vulnerable both to imports and to the hard-nosed market place decisions of increasingly powerful multinational corporations.

THE SHIFTING BALANCES OF TRADE

Up until the second half of the Sixties the United States had enjoyed a healthy trade surplus, exporting more goods than it imported and thereby earning the dollars needed to meet its international security commitments around the world. In the mid-Sixties however, as the industrialized countries of Europe and Japan reached a stage of full recovery from the devastating effects of World War II—a recovery that was immeasurably helped by U.S. aid as well as by U.S. concurrence with unilateral protectionist measures designed to help their rebuilt industries get a start in world trade—the full impact of U.S. foreign trade policy began to be felt here at home. Imports began to increase faster each year than exports.

By the end of 1972 more than one million job opportunities had been lost to imports over a six-year period. Moreover the trade balance continued to decrease each year until in 1971 the United States showed the first trade deficit since 1893—approximately $2 billion. In 1972, the deficit plunged to $6.4 billion. Even though exports increased by more than 12 percent, and imports rose at a rate of 22 percent, 1972 marked the biggest deficit in history. The past year, 1973, both exports and imports have continued to rise, with imports again increasing at an accelerating rate. By the end of 1973, imports grew by almost 25 percent over the 1972 level. Exports, helped by the devaluation of the dollar which made them relatively cheaper, increased during that year by 44 percent. Even with this tremendous increase in exports, however, the average annual rate of increase for the past three years for imports was higher than the average annual rate of increase for exports. It's true that the U.S. exported more than ever before last year, but we also imported more than ever. Moreover, it is not just raw materials and fuel imports that have increased. Every year, the U.S. has brought in more and more manufactured goods; goods which are in competition with products manufactured here.

In the first 11 months of 1973, the U.S. imported $13 billion worth of manufactured goods, (including products made of iron and steel, non-ferrous metals, textiles, and newsprint), and another $21 billion of machinery and transportation equipment. These two categories together made up more than 70 percent of our total imports for that period. In contrast, imports of mineral fuels, (i.e., oil) lubricants, and related materials accounted for only 11.6 percent of our total imports. (Note this was even before the full impact of the oil embargo took effect. Crude materials except fuels, such as metal ores, rubber, textile fibers and paper base stocks accounted for only 7.2 percent of our imports while chemicals accounted for 3.5 percent of the total.

THE TRUTH ABOUT IMPORTS

In view of these figures, it is hard to understand how the widely held myth can continue that U.S. trade consists of imports of raw materials and exports of manufactured goods. The facts show otherwise. The corollary of this myth is that the U.S. need not worry about rising imports because it has the ability to redress any adverse balance through the export of high technology goods in which it is supposed to have a perennial comparative advantage over other nations. Aside from the questionable nature of the assumption about the U.S. technological lead (diminished by the increasing export of U.S. technology abroad) the hard fact is that manufactured goods, including goods which incorporate a large

degree of sophisticated technology, make up a major proportion of total U.S. imports.

The U.S. Commerce Department uses many different systems for reporting U.S. trade. In one set of reports all imports are divided into three classifications; the first being food, beverages and tobacco; the second crude materials and fuels; and the third lumps together all manufactured goods. The last category includes manufactured goods and machinery and transportation equipment, chemicals and miscellaneous manufactured articles. It is interesting to note that this general category of manufactured goods has made up an ever-increasing proportion of our total imports since 1965 and the trend is still continuing.

The table below indicates the increasing importance of manufactured goods in the total import picture.

In contrast to this trend, manufactured goods as a proportion of total exports have actually declined in the past three years. In 1971, approximately 71 percent of total export trade was in manufactured goods. But by the end of 1973 the proportion of manufactured goods in export trade slipped to 64 percent. Exports of machinery and transportation equipment (all high technology goods) slipped from 44 percent of the total in the first 11 months of '72 to only 39 percent in the comparable period in 1973. The significance of this steady upward creep of manufactured goods as a proportion of total imports and the downward trend of manufactured goods as a percentage of exports is directly related to the American workers jobs.

IMPORTS OF MANUFACTURED GOODS

[Dollar amount in millions]

Year	Total imports	Imports of manufactured goods	Manufactured goods as a percent of total
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1971	45,563	30,414	66.8
1972	55,555	37,748	67.9
1973	69,121	44,788	64.5

Note: The trend continued upward for the 1st 11 months of 1973, but was disrupted by skyrocketing fuel oil import prices in December.

The U.S. standard of living, which is the envy of the rest of the world, is based on a high wage-high consumption economy. This in turn, is based on the goods producing industries, where steady increases in productivity and a strong trade union movement assure that American workers can look forward to an opportunity to enjoy the benefits of productivity increases, and to improve their standard of living. The fact that we import more and more manufactured goods from abroad, and export less, only serves to underscore the basic shift in the U.S. economy from the production of goods to the production of services. Although there are many good jobs in the service sector, and it is unlikely that everyone will end up taking in his neighbor's washing, the productivity increases on which real economic improvement depends are not as great in the service industries as in the production of goods. That basic fact has not been changed by the current trade surplus.

DEVALUATION HAS NOT HELPED

In 1971, the worsening U.S. trade balance, plus a chronic deficit in the U.S. balance of payments, resulted in serious undermining of international confidence in the stability of the U.S. dollar. Devaluation became the fashionable panacea for our trade problems. After several panicky runs on the dollar in the European currency markets, the United States along with the other major industrial countries took the unprecedented step of a general revaluation of currencies. The so-called Smithsonian Agreement resulted in an upward revaluation for the nations of Europe and Japan and a devaluation of approximately 8 percent for the

United States. It was hoped that this agreement would bring to an end the recurrent monetary crises which had been plaguing international finance and which threatened to upset the conduct of international trade.

However the hope for stability did ot materialize. The growing accumulation of surplus Euro-dollars, fed by increased U.S. investment abroad and rising erosion of the dollar. In February, 1973, just 14 months after the first devaluation, the United States again resorted to devaluation, but this time unilaterally. This devaluation—amounting to about 10 percent—took competitors by surprise, engendered considerable ill feeling, but still did not restore confidence in the dollar. Far from it, throughout the spring and well into the summer the value of the dollar continued to slide, so much so that by mid-summer 1973 it was generally considered to be overvalued. However, the conditions that led to undermining of the dollar still remained uncorrected. U.S. overseas investment flows continued, leading to the accumulation of ever growing amounts of dollars abroad.

The deficit in the balance of payments showed little improvement. And to make matters worse, the national crisis of confidence stemming from Watergate and related developments, as well as the accelerating pace of inflation within the U.S., further undermined foreign confidence in the U.S. position. Although the value of our export trade benefited somewhat from devaluation, the full impact on our trade was slow in coming, and relatively minor in scale.

Perhaps more significant is the fact that devaluation is a double-edged sword, making essential raw material imports more costly at the same time that exports become relatively cheaper. Moreover, the advantage which one country gets over another by devaluing its currency is of necessity a short term one. When the industrialized nations abandoned the system of fixed exchange rates that had governed international trade ever since the Bretton Woods agreement and adopted a system of floating exchange rates, clearly devaluation was available as a temporary cure for every country. It is a game at which ny one country cn play. With inflation raging in Japan and the European Economic Community in the late summer of 1973, the dollar slide finally stopped. Since then there has been a steady improvement in its position in relation to other currencies, and a corresponding weakening of those currencies against the dollar.

This situation was accelerated by the oil crisis which has threatened to wipe out the foreign exchange reserves of the Common Market countries of Europe and of Japan, but which has put the dollar in a better position since the United States is less dependent on Middle East oil. As a result of these new developments, the effective value of the dollar in relation to other hard currencies is just about up to where it was before the official devaluation of last February—and any advantage which might have accrued to our export trade, has just about disappeared.

INVESTMENT FLOWS CONTINUE

Just as devaluation has not and cannot by itself bring about basic changes in the conditions which lie behind U.S. foreign trade problems or resolve the problems inherent in U.S. foreign trade policy, neither have there been any significant changes in the U.S. direct foreign investment picture.

One of the most important factors leading to the recent imbalance of trade, increased imports and loss of employment in the United States has been the steady and indeed, unstanched flow of capital and technology overseas, a flow which continues to grow year by year. By the end of 1972 the book value of direct investments overseas by U.S. corporations amounted to more than $94 billion, an increase of $8 billion or approximately ten percent more than the level of investment the year before.

More than 40 percent of this investment was in manufacturing industries. Investment in manufacturing industries. Investment in manufacturing accounted for nearly half of the total growth in investment in that year, up from the previous five year average, when manufacturing accounted for only 43 percent of the growth each year. In addition most of the new manufacturing investment—approximately 83 percent—was in the developed countries, primarily in Europe. Japan, and Canada, while only 17 percent of the total is located in the less developed countries.

The reasons for the continuing flow of direct investment overseas are easy to understand:

1. There has been no change in the tax laws and or in regulation of accounting procedures. The same tax incentives and tax accounting rules which made foreign investment attractive in the past remain on the books. Indeed the ad-

ministration has indicated that what few controls on investment there are will be removed and that no future change in the tax laws is contemplated. As long as U.S. corporations can get a better tax break by investing overseas they will continue to do so. Presently there are several important tax advantages to a company to locate overseas. One is the provision that permits a corporation with foreign affiliates to take a dollar-for-dollar tax credit against its U.S. domestic tax liability for all taxes paid to a foreign government. This is different from the procedure that applies when a manufacturer has his plant in the United States. In that case he can take a deduction, not a credit, for state and local taxes as a cost of doing business. A direct tax credit, however, provides greater benefits than a tax deduction—and is therefore an incentive to overseas investment.

Also, the foreign investor does not have to pay any tax on the earnings of his overseas affiliates, unless and until they are repatriated as dividends to the United States. This of course is an incentive to retain earnings overseas and to use them for additional investment. Indeed this is just what has happened. The change in the direct investment position between 1971 and 1972 was marked by a substantial increase in the proportion of reinvested earnings as compared to new net capital outflows from the United States. In 1971, reinvested earnings accounted for $3.2 billion or about 39 percent of the total direct foreign investment. In 1972, however, reinvested earnings increased to $4.5 billion, and accounted for 58 percent of the total.

2. The trade barriers which have worked to force U.S. companies to establish plants overseas at the risk of losing their foreign markets if they did not, still remain and will probably stiffen as a result of the world wide oil crisis. For many years the Common Market countries and Japan have maintained an ingenious assortment of nontariff barriers which discriminated against U.S. made products. It is these barriers, which the multinational companies claim have been the primary determinant of investment plans. Rather than lose their export market to foreign competitors, U.S. companies have established plants overseas. In many cases these plants have produced goods for third country markets and even for shipment back to the U.S. It has not seemed to bother them that the United States is the only country practicing an open door policy, while all of its major competitors are taking a protectionist stance—long after the need for protection had disappeared.

Although the recent international textile agreement is an indication that other nations have become aware of the necessity to correct an essentially unfair system and to provide for orderly marketing arrangements, for the most part there has been no significant progress toward the elimination of trade barriers. As long as this situation continues, U.S. companies will continue to build new plant and equipment overseas, and if necessary close down plants within domestic plants in the U.S.

3. The cost of labor is still lower overseas than it is in the United States, even though, in some countries of Europe, labor has made substantial progress in recent years.

Some wage levels have increased in the past two years more rapidly than in the United States, but the U.S. still boasts a higher standard of living, and the highest wages in the world. The table below compares the average wage in manufacturing with average wages paid by our major competitors, as well as in some of the less developed countries.

It is worth noting that recent U.S. productivity increases have matched those of our competitors. Moreover, because U.S. wages have not increased as rapidly as those in the Common Market and in Japan, U.S. unit labor costs rose only 1 percent in 1972, compared with a 14 percent growth in 11 of the other major nations.

SITUATION WORSENED BY THE OIL CRISIS

Three years after the Industrial Union Department first launched its efforts to call national attention to the impact of changing world trade patterns, and to ask for a redirected, constructive foreign trade policy, the nation is still faced with the same problems, and the basic causes of those problems still remain unresolved. Now, today, the oil crisis threatens to make the situation much worse.

Whatever progress, however slight, had been made toward a reduction of international trade barriers is now in jeopardy. Whatever the effect of devaluation, it has proved only a temporary pain killer. Whatever improvement was made in U.S. employment is endangered.

There is reason to believe that the tough stance taken by the U.S. labor movement was beginning to have some effect on foreign nations, as they realized that they could not forever discriminate against this country. Today however, the astronomical increase in the price of oil is making them reexamine their positions.

Since most of the industrialized countries, particularly EEC and Japan, are heavily dependent on oil imports to supply their energy needs, they must somehow earn the foreign exchange necessary to pay for those oil imports. They cannot afford to spend national reserves either on other imports nor on anything but essential commodities.

As a result we can expect to see increasing barriers to the import of U.S. made goods. Furthermore, in order to earn the dollars to use for the purchase of oil, most countries will try to further expand their exports to the United States. This, coupled with a currency devaluation which will temporarily improve the competitive position of their products, will result in additional import pressure.

Therefore, in addition to new trade barriers we can also expect a further tide of imports. The impact on U.S. employment, on jobs already threatened by our domestic energy problems, could well be disastrous.

Thoughtful attention must be given immediately to these new pressures on our foreign trade policy if the U.S. economy and U.S. jobs are to be safeguarded.

How U.S. Tax Law Works Against U.S. Interests

THE FOREIGN TAX CREDIT IS A BOON TO OIL MULTINATIONALS

Riddle: How is an energy crisis related to a foreign tax credit?

Answer: Through discouraging investment in the United States.

For nearly a year now, the public has been deluged by article after article on the oil industry, oil companies, and the energy crisis. Every newspaper, every magazine, and every radio and television network has been analyzing the problem—has been asking how we got into this mess and how we are going to get out of it. The oil companies, for their part, are taking full page advertisements in newspapers and magazines to tell their version of the story. Most of us are left wondering why we are standing in line for an hour to buy gasoline at 50 cents or more a gallon.

THE ENERGY CRISIS AND U.S. INVESTMENT

There is no one simple answer. But if you have managed to wade through some of the millions of words on the subject, some things become pretty clear. What is clear is that the oil companies have been reluctant to make sufficient investments within the United States. We can see the results of this lack of investment. For example:

Production of crude oil within the United States has been declining since 1970.

Few new refineries have been built within the United States for a long time, and U.S. refinery capacity has not nearly kept up with growing demand.

Almost all oil is imported in the U.S. on tankers registered in foreign countries. The U.S. has negligible oceangoing shipping capacity for oil.

Investment is the key to understanding why the situation is what it is today. Keeping up or expanding production requires far more investment in the United States than has been made in domestic exploration and in research and development for new techniques of producing oil in the United States. Keeping U.S. refinery capacity expanding as fast as demand requires investment in the capital equipment to build new refineries and to expand and modernize older facilities. Importing oil on U.S. flag ships requires investment in ships built in U.S. shipyards.

As the oil companies are fond of saying, there has not been sufficient incentive to invest in producing or refining in the United States. We would agree that there has been a lack of incentive, but we would not agree as to the reasons why.

The oil industry lays the blame for the lack of incentive to invest in the United States on prices which it says were too low, or environmental safeguards which were felt to be too stringent, or oil company profit margins which it claims were too low.

THE CULPRIT—THE FOREIGN TAX CREDIT

But these are not the real problems. The real problem is the U.S. tax code. U.S. tax laws give U.S. multinational corporations every incentive to invest abroad and little reason to invest in the United States.

This is true for the shipping of oil as well as for production and refining. Oil companies have consistently refused to use U.S. ships. They cite the high cost of American labor for building ships and for crews. But, again, the real reason lies in our tax laws, particularly the foreign tax credit.

The concept of the foreign tax credit seems reasonable on the surface, but it has a treacherous interior. Although the oil companies are undoubtedly the most expert manipulators of the possibilities for tax avoidance inherent in the foreign tax credit—witness the average of 8.3 percent of income paid as U.S. taxes for 1972—the foreign tax credit is not a special tax break to the oil industry. It applies to all companies (or people) who earn income and pay taxes outside of the United States.

The idea behind the foreign tax credit is to prevent double taxation of U.S. companies. The proponents of the foreign tax credit claim that it makes neutral, as far as taxes are concerned, the decision between investing in the United States and investing in a foreign country. A U.S. company with income earned outside of the United States is allowed to subtract all income taxes it has paid to foreign governments from the taxes it would owe to the U.S. Government.[1] This is distinct from the way a domestic company would treat its state and local taxes. These are considered a cost of doing business, a deduction from gross income just as rent or labor costs are a deduction for a business; or just as city and state taxes and property taxes are a deduction for an individual. But the foreign tax credit does not operate in this manner. Under the foreign tax credit, the company subtracts every dollar paid in foreign taxes from the taxes owed in the U.S., not from gross income. In effect, the U.S. Treasury gets what is left over after all foreign governments are paid.

As a concept, this seems quite simple. This is how it works: If a U.S. company earns $100 in a country with a 40 percent tax rate, the foreign government gets $40 in taxes. When that income is reported for U.S. tax purposes, the U.S. Treasury gets $8—the difference between 48 percent rate in the United States and the 40 percent rate in the foreign country. If the foreign country had a 48 percent tax rate, the company would pay no taxes to the U.S. Government on the $100 earned abroad.[2] In theory, if the foreign tax rate is higher in the U.S. tax rate, the foreign rate is paid. If the foreign rate is lower than the U.S. tax rate, the foreign rate is paid and the difference—to make up the 48 percent rate—is paid to the United States. In theory, then, a company would never pay less than 48 percent in taxes. No refunds are supposed to be given—a foreign tax rate of 53 percent should not entitle the company to a 5 percent rebate.

But that is in theory. In fact, two provisions of the foreign tax credit turn what seems to be a straightforward dollar for dollar credit—a bad enough law in itself—into a system which can be used as a gigantic tax dodge. While the law provides that the foreign tax credit is limited to taxes owned on income earned outside of the United States, these provisions allow the sharing of the tax credit among all foreign earned income. We feel certain that these two provisions, taken together, are responsible for the reluctance of certain companies, particularly within the oil industry, to invest in the United States. Specifically, the law provides:

1. The "overall limitation" option. This allows tax credits in excess of U.S. tax liability—stemming from a 50 or 60 percent tax rate in the foreign country, for example—to be used to shelter income earned in other foreign countries—with a lower tax rate—from U.S. taxation.

2. The timing options. Excess or leftover tax credits can be applied with a two-year carryback and a five-year carry-forward option.

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[1] Taxes paid to foreign governments are defined quite broadly. Foreign taxes which qualify for crediting are: (1) foreign taxes on profits of foreign branch operations, (2) foreign withholding taxes on dividends paid by foreign corporations (not necessarily subsidiaries) to U.S. stockholders, and (3) foreign taxes paid by foreign subsidiaries on profit underlying dividends paid to U.S. parent corporations. This means that foreign subsidiaries credit both foreign income taxes and foreign withholding taxes on dividends.

[2] If foreign taxes were a deduction rather than a credit, the companies would pay 28.8% U.S. tax instead of 8% with a 40% foreign tax, and 25% U.S. tax instead of no U.S. tax with a 48% foreign tax rate.

It is clear that any large U.S. based company operating in several countries has tremendous flexibility; it has tremendous potential for avoiding U.S. income taxes on all income earned outside of the United States. But because the application of the foreign tax credit is limited to tax due on foreign income, an investment problem is created in the United States.

A hypothetical example will illustrate how the disincentive to U.S. investment occurs:

Imagine a U.S. company which does a major amount of business in a foreign country called "Overseas" which has a 60 percent tax rate. If $200 is earned in "Overseas," the company pays the "Overseas" government $120 in taxes. The company's U.S. tax liability on the $200 profit would be $96, but the company uses $96 of the $120 paid to "Overseas" as a foreign tax credit. Thus, no money is owed to the U.S. government as taxes. Let us assume that the company has no other foreign operations. This means that the company has $24 in foreign tax credit which it cannot use—the difference between the $120 paid to the "Overseas" government and the $96 which would have been owed to the U.S. government if no allowance were given for foreign taxes. The $24 cannot be applied to profits earned from operations with the U.S.

Now let us assume that this company is expanding. After 5 years of operations in "Overseas", it must choose a site for a new operation—let's call it operation-2. Operation-2 is of such a nature that it can be conducted in a wide variety of countries—either in the United States or in a foreign country. If the company locates operation-2 in the United States, the company would pay $48 federal tax for every $100 of profit— the normal corporate profit rate. But let us look at what happens if the company locates operation-2 in another country called "Foreignland," where businesses are only taxed at a 10 percent rate. For every $100 of profit erned in "Foreignland," the company pays $10 to the "Foreignland" government in taxes. Under the theory of the foreign tax credit, the company would compute its U.S. tax on the $100 earned in operation-2 as $48, subtract the $10 paid to "Foreignland" as a foreign tax credit, and owe $38 in U.S. tax. But that is not what actually happens, because this is where the "overall limitation" comes in.

A CHOICE OF TAXES

Companies which have operations in more than one foreign country can choose between two methods of U.S. taxation, the per-country limitation and the overall limitation. With the per-country limitation, tax is computed separately for each country of operation. Under the overall limitation, income and credits from all foreign operations are lumped together. Thus a foreign tax credit which is left over from one foreign country can be used as a credit against taxes due from operation in another foreign country, if the overall limitation is chosen.

Our hypothetical company will clearly choose the overall limitation. Now let us assume that the "Overseas" operation earns $200 per year and the new "Foreignland" operation earns $100 per year. In that case, the $38 in tax the company would owe the United States on its "Foreignland" operations ($48 U.S. tax less the foreign tax credit of $10 paid to "Foreignland") would be still further reduced by the $24 leftover foreign tax credit from "Overseas" operations. This would reduce the company's U.S. tax liability to $38 less $24 or $14 for the $100 of "Foreignland" profit. But this is still not the end of the story.

The company had been operating for 5 years in "Overseas" with no use for its leftover foreign tax credits. But these credits are good for five years after they accrue. If we still assume that the company had earned $200 per year for each of the past five years in "Oversea,s" there would be $120 of unused foreign tax credit ($24 per year for 5 years). This $10 could be applied as credit against the remaining $14 which we computed the company would owe as U.S. taxes on "Foreignland" profit of $100. Thus the U.S. tax liability is reduced to zero for the first five years of operations in "Foreignland."[1]

Even after the five year carry-forward expires, the company will only be paying a total of $24 of tax on its operations in "Foreignland"—$10 to "Foreignland" and $14 to the United States. Chart 1 summarizes just what happens to the 48% corporate tax rate under the assault of the foreign tax credit. If operation-2 had been located in the United States instead of in "Foreignland," the company

[1] In fact, only $70 of the $120 available from Overseas operations will have been used, so the company could quickly open a third operation and profit even further from the tax situation.

would be paying a total of $18 tax per year to the U.S.—instead of taxes of $10 for the first 5 years and $24 thereafter to the U.S. and "Foreignland" combined. Chare 2 shows how this stacks up after 10 years of operation-2. With operation-2 in "Foreignland," the company will have paid total tax of $1,370 on its "Overseas" and "Foreignland" operations—$1,200 to "Overseas," $100 to "Foreignland," and $70 to the United States. With operation-2 in the United States, however, the company would have paid a total of $1,680 in taxes— the same $1,200 to "Overseas," and $480 to the United States.

The company is richer by $310—equal to over three years of gross profit of operation-2—and the U.S. Treasury is poorer by $410. Any reasonable businessman would, without question, locate his operation in "Foreignland" if at all possible. This is a far cry from preventing double taxation, or from making the decision between investing in the United States and investing in a foreign country tax-neutral.

The decision-making in this hypothetical case is as clear as it could be. No business in the situation described would or could possibly invest in the United States rather than a foreign country unless the choice of the United States were dictated by factors overriding the tax benefits, such as access to materials or markets, or legal restrictions. But how hypothetical is this case? Does the situation created for the company in "Overseas" and "Foreignland" actually exist? The answer is a resounding yes. This is exactly the situation in which the international, integrated oil companies operate, and it is a good bet that this as a major reason why they have been so loathe to invest needed funds in the United States.

The "Overseas" of the oil companies is their Middle East oil production operations. By and large, oil is drilled and pumped in the Middle East by the major U.S. based oil companies—Exxon, Texaco, Mobil, and Standard Oil of California in Saudi Arabia; Shell, Mobil, Standard of California, Exxon and Texaco along with British Petroleum in Iran; Gulf Oil with Brishing Petroleum in Kuwait; and so on throughout all the countries.

For every barrel of oil these companies take out in the Middle Eastern countries, they pay the local governments a certain amount. Prior to 1951, this per barrel payment to the governments of the producing countires was called a royalty, and was deducted as a business expense from the gross incomes of the oil companies, just as the costs of production were deducted. But in 1951, the producing countries, particularly Saudi Arabia, were looking for a way to get more money from the oil companies, and the oil companies were looking for a way to give the producing countries more money without its really costing them anything. The U.S. Government provided a solution to this dilemma.

The U.S. government sent out a Treasury Department official to explain tax credit—and what it could mean to the oil companies—to the Saudi Arabian officials. If the Saudi Arabian government could just write a law which called most of the per barrel payment an income tax, then the oil companies could subtract the amount paid from their U.S. tax liability. A lawyer was sent out from Washington to assist, and the Saudi Arabian "income tax" was born. The other Middle Eastern countires quickly followed suit. What actually happened was that the oil companies could take the taxes they had been paying to the U.S. Government any pay them instead to the Middle Eastern government. In 1949, the U.S. companies in Saudi Arabia had paid $38 million to the Saudi government in royalties and leases and $42 million to the U.S. Government in income taxes. In the first year of the new system, 1951, the Saudi government got $110 million and the U.S. Government got nothing.

That much is history. The per barrel payment seems to be firmly established as a tax eligible to be considered a foreign tax credit against U.S. taxes on foreign income. This per barrel tax equalled approximately one-half of the oil companies' operating earnings at the time when it was instituted—so it just about evenly canceled U.S. taxes. But in recent years it has come to much more than that because of the way it is computed. As a consequenct, substantial foreign tax credits have become excess or leftover, much as in the case of "Overseas" operations.

POSTED PRICE IS FICTITIOUS

Payments to the producing governments are based on the posted price, a fictitious price which used to be set by the oil companies and which is now set by the Middle East governments. The sole purpose of the posted price is as a tax base. The posted price has almost always been higher than the selling price. Since

the tax to the producing government is set at 55 percent of the posted price less a minimal producing cost and royalty,[4] the per barrel tax usually has amounted to 60 or 70 percent or more of the oil companies' operating income— the taxable income for U.S. tax purposes. Since 60 or 70 percent is far greater than the 48 percent U.S. corporate tax rate, substantial excess or leftover foreign tax credits are generated Chart 3 shows the posted price, selling price, tax to producing government, and estimated leftover tax credit per barrel for four recent periods for oil produced in Saudi Arabia or Iran. The same anaysis would be true for oil produced in any of the Middle East countries—give or take a few cents.

It is difficult to comprehend the importance of this leftover tax credit on a per barrel basis. In round numbers, U.S. oil companies produced about 5.5 billion barrels outside of the U.S. in 1972—3.5 or 4 billion barrels of oil in the Middle East. If we consider a 54 cent leftover tax on each barrel, the oil companies would have had between $1.9 billion to $2.2 billion with which to shelter profits on operations in other foreign countries.

The major U.S. oil companies clearly have found themselves in the same position as our hypothetical company with operations in "Overseas" and a decision to make about where to locate operation-2. The production of oil in foreign countries, and the high per barrel royalty which can be called an income tax, combine to keep generating large amounts of leftover foreign tax credit. And the situation is clearly getting worse, as you can see on Chart 3. As the price of oil goes up, so do the taxes and royalties paid to the foreign government. The result is a large increase in the leftover tax credit. If the oil companies were to produce 5 billion barrels of oil in the Middle East in 1974, they would end up with over $12 billion in leftover tax credit.

These leftover tax credits are the same as money in the bank—if the companies can find a way to use them. Unused, they are worth nothing. How can they be used, turned into cash, so to speak? They can be used only if the company owes taxes on income earned outside of the United States, in which case the leftover tax credits can be used to offset those taxes. A company would have to be stupid to locate any operation within the United States and pay taxes on that U.S. operation, if it had the alternative of locating the operation outside of the United States, using leftover foreign tax credits, and paying no taxes on that operation. Of all the things people are now accusing the oil companies of being, nobody is seriously suggesting that they are stupidly managed.

There are two areas in which the cumulative effects of oil company decisions to invest outside of the United States are quite evident—and are becoming painfully apparent to the American people. These two areas are refining and shipping. The emphasis seems to be on keeping oil outside of the United States until the last possible moment—the moment when it is sold as its derivative products. Profits made in shipping and refining are thus foreign profits to the maximum extent possible, exempt from U.S. taxation because they are sheltered by leftover tax credits.

FOREIGN FLAG SHIPPING

Virtually all oil that is imported into the United States comes in on foreign flag ships—a large proportion of it on ships registered in so-called flag-of-convenience countries such as Liberia and Panama. These countries have one tremendous appeal for shipowners—who are none other than the major U.S. oil companies. Liberia and Panama have no income tax on corporate profits.

If there were no such thing as a leftover foreign tax credit, the oil companies would have to pay U.S. taxes on repatriated dividends from their Liberian and Panamanian shipping subsidiaries. Shipping under U.S. flag or shipping under a flag-of-convenience would thus be equal—at least for tax purposes. But since there is a leftover foreign tax credit from production of oil, and since this tax can be applied against any foreign income, the integrated, international oil companies can repatriate to the U.S. $1.00 for each $1.00 of earnings in Liberia, while they theoretically only would be able to keep $.52 out of each $1.00 earned in the United States.[5] This is a benefit which is only available to integrated, international

[4] There is still a payment to the local government called a royalty, set at 12½ percent of the posted price. This royalty is a deduction for tax purposes, not a credit.

[5] A gimmick has actually been set up by Congress to mitigate the U.S. tax on shipping profits. This gimmick, the Capital Construction Fund, allows deferral of taxes on profits deposited in the fund for the building of new ships in the United States. Subsequent tax treatment of the new ship makes this gimmick worth less than complete cancellation of U.S. tax liability. The important point is that it would not have been necessary to set up this gimmick if U.S. companies were not able to operate ships totally free from taxation under flags-of-convenience.

companies who also produce oil or otherwise have excess foreign tax credits. If an independent U.S. company which did not have other excess tax credit generating operations wanted to compete with the majors in shipping oil, it would be at a tremendous disadvantage. This is why the integrated international oil companies control the lion's share of international shipping, and this is why nearly all of the oil which is imported into the United States comes in on foreign flag ships.

The U.S. people lose from this arrangement in four ways. First, the oil companies are free to charge high prices for shipping of oil using their control of the field-to-pump flow to put as much of their profit into tax exempt shipping as possible—rather than taking those profits, for example, in taxed U.S. marketing activities.[6] Second, the shipping companies pay no taxes to the United States—that is revenue lost which must be made up by individual taxpayers. Third, the U.S. balance of payments suffers from the money leaving the country to pay for shipping of our oil imports. And fourth, foreign nationals rather than U.S. citizens hold the jobs aboard the foreign flag ships.

FOREIGN REFINING

The same thing is true on a smaller scale in refining. Imported crude oil can be shipped all the way to the United States where it can be refined and marketed. Alternatively, crude oil can be shipped to an intermediate point, such as an island in the Caribbean, or in Southern Europe, refined there, and then imported into the United States as petroleum products. The choice of the Caribbean refinery has become quite popular with the oil companies in recent years, while domestic refining capacity lagged far behind the growth in domestic demand for oil products. Again we come back to the basic fact that the oil companies have ample excess foreign tax credit to shelter any business they undertake from U.S. taxation—as long as it is outside of the United States.

DECLINING U.S. PRODUCTION

It is probable that the effect of the foreign tax credit on shipping and refining is related to the third area in which the oil companies have been reluctant to invest in the United States—the exploration for oil and the production of crude oil. We have seen that the oil company has the opportunity to ship imported oil—for a tax free profit somewhere in the neighborhood of 60 cents per barrel—and also has the opportunity to refine that oil outside of the United States for additional tax free profit of about 25 cents per barrel. Money invested to produce more oil in the United States, on the other hand, produces oil which is taxable throughout its progress to the final consumer.[7] Although there are undoubtedly many factors responsible for the declining production of oil within the United States, the foreign tax credit certainly could be an important consideration.

ABOLISH THE FOREIGN TAX CREDIT

There are many approaches now being suggested as solutions to the "energy crisis." Most of them center on giving the oil companies sufficient incentive to invest in the United States; many proposals suggest higher oil prices, greater profits for the companies, and government paid research and development. Before diving in too deeply, it might be wise to instead consider taking away the incentive to invest outside of the United States. It might be wise to consider the abolition of the foreign tax credit—the foreign tax credit which renders location of any operation in the United States a poor business decision.

The oil companies have shown us what can be done with the foreign tax credit, the overall limitation on foreign tax computation and the carry-back and carry-forward of excess foreign tax credits. But they are not the only industry to benefit.

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[6] It is widely thought that the oil companies practice transfer pricing—an unchecked prerogative of vertically integrated corporations. Because the companies control production, transportation, refining and marketing, they can take profits in some activities and losses in others at will, just by changing the price charged for a product or service by one part of the organization to another. In the case of the oil companies, shipping prices can be kept high—since all profits are tax exempt—while marketing operations can show a loss—since profits are taxed. Since all of these operations involve internal bookkeeping entries and accounting practices and take place over international boundaries, the U.S. Government has not control over them.

[7] Industry tax breaks such as the depletion allowance and the intangible drilling expense certainly do cut down on U.S. taxation even on domestic operations, however.

The same incentive to invest abroad, the same disincentive to invest in the United States applies to all U.S. based multinational corporations who do business in one country with a tax rate greater than 48 percent.[8] As the less developed countries of the world, who control most of the raw materials needed by the industrial countries, begin to feel their power, more and more multinational companies will find themselves in the position of the oil companies, with much excess tax credit which they must find a way to use. Before all of our major corporations are pushed into increasing foreign investment and decreasing domestic investment, Congress ought to abolish the foreign tax credit in favor of the treatment of foreign taxes just as U.S. state taxes are treated, as a simple deduction.

With the abolition of the foreign tax credit, and with it the concept of leftover tax credit which can carry-back and carry-forward, we are likely to see many more corporate decisions in favor of U.S. investment than we are now seeing.

Adjustment Assistance

A good idea that didn't work

A year or so ago a popular slogan going the rounds of work places, offices and schools was, "if you're not part of the solution, you're part of the problem."

This slogan applies to adjustment assistance with particular relevance. It is certainly not a part of the solution—but because so many public officials have thought it was for so long, it has now become a significant part of the problem. In order to shed some light on the problems of adjustment assistance, we have tried here to answer some of the most frequently asked questions.

Question. What is adjustment assistance?

A. Adjustment assistance is primarily a theoretical concept. The theory holds that if there are individuals and companies who are hurt by governmental actions taken in the interest of the country as a whole, these individuals and companies should not be asked to bear a disproportionate share of the cost of such policies. Instead they should be assisted through a government financed program to enable them to overcome the temporary dislocations which affect them as a result of government policies.

As applied to international trade, adjustment assistance was intended to alleviate the dislocations that occurred as the increased imports which were expected as a result of U.S. free trade policies forced factories to close and workers to lose their jobs. The theory of adjustment assistance can also be applied in relation to other economic dislocations caused by governmental policies, for example, in relation to the energy crisis or environmental protection. However, at the present time, the only adjustment assistance program going is the one that relates to international trade dislocations.

Question. Isn't adjustment assistance a good solution to the problem of trade related job losses?

A. No. It's not a good solution. In fact, it is not a solution at all. As applied to internatioinal trade, the theory of adjustment assistance makes three incorrect assumptions: (1) that rising imports are good for the country because under a free trade policy they will be primarily either raw materials or low technology goods, and will therefore encourage the U.S. to concentrate on high technology goods where productivity is greater and wages higher; (2) that the dislocations that result from rising imports will be minor and can easily be taken care of; and (3) that there will be sufficient government funds available to ease the pain for those few unfortunate enough to be caught in the bind. These assumptions do not jibe with the facts.

Imports are not concentrated in raw materials and low technology goods. Only 7 percent of 1973 imports were crude materials (this does not include fuels) but manufactured goods made up 64 percent of total imports, and imports of the high technology machinery and transportation and equipment amounted to 30 percent of all imports—more than four times as much as imports of raw materials.

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[8] Although not many countries tax corporate profits at a higher rate than 48 percent, it must be remembered that for subsidiaries the foreign tax credit is computed as the sum of withholding taxes on repatriated dividends *and* income taxes on profits underlying those dividends. If the corporate income tax is 40% and the withholding tax 15%, the tax rate for the foreign tax credit becomes 55%—yielding a leftover credit. In 1964—the latest year for which statistics are available—36 percent of taxable income from foreign sources was taxed at an effective rate of foreign tax of 60 percent or more.

The impact of rising imports on employment is not a minor matter. Since 1966, more than one million job opportunities were lost to imports. Here is what happened to employment in just three manufacturing industries particularly hard hit by rising imports between October, 1966, and October, 1973:

Transportation industry—74,300 fewer production workers employed
Electronic communications equipment industry—73,400 fewer production workers employed
Apparel industry—96,100 fewer production workers employed
Total—243,800 workers who formerly had good jobs in three industries

There is not now and never will be enough government money to alleviate the problem. To pay for adjustment assistance and retraining just for the above 243,800 workers would have cost about $1.3 billion. This assumes that these workers would be paid an average adjustment assistance allowance of $70 per week for 32 weeks (the Labor Department's estimated average benefit) plus retraining in some federally supported manpower program averaging about $3,000 per enrollee. In contrast, the federal government spent nothing at all for the first seven years of the program, and between 1969 and 1973 allocated only $71.8 million for adjustment assistance to workers in all industries, or only one-twentieth of what would be necessary to help the workers in just three industries. Only 37,000 workers actually got any assistance. Since no provision has ever been made for separate training funds for the trade-displaced workers, practically no training or retraining has ever been provided.

Question. If adjustment assistance is not working now, why don't we improve it so it will work better?

A. Adjustment assistance can't work. It is unworkable both in theory and in practice. As explained above, the premises on which it is based are erroneous. In addition, even if it were a good idea to solve the import problem by buying off those most directly affected, adjustment assistance can't work because the cost is too high. If the supporters of adjustment assistance were really serious about it, they have to accept increased federal expenditures amounting to billions of dollars. A serious trade adjustment assistance program could easily amount to as much as $10,000 or more for each individual and, in addition, would set a costly precedent for similar programs for other government induced dislocations. That's more than even the strongest supporters of adjustment assistance want to bite off.

IMPORT JOB LOSSES

An IUD continuing study of plant shutdowns resulting from imports indicates a loss of more than 95,000 in two years.

Reports to the IUD Data Center as of Dec. 1, 1973, showed 169 plants shut down in the U.S. and Canada and another 51 with permanently curtailed employment as a result of imports. The closings cost an average of 426 jobs each and the curtailments an average of 482.

The administration's new budget proposal for FY '75 clearly illustrates the normal double-talk approach to adjustment assistance. At the same time that it is arguing for an "improved" assistance program as the answer to our trade problems, the administration has proposed a budget reduction of more than 20 percent below last year's program level. And if that were not enough, the administration has also proposed the eventual elimination of a separate system of adjustment assistance, suggesting instead that the only assistance that should be given to displaced workers is the same inadequate non-standardized unemployment benefit system available to all unemployed workers, plus a suggestion—which is unenforceable—that governors and mayors give these displaced workers priority in their manpower training programs.

Question. If adjustment assistance is no good, how is it that the labor movement used to be for it and even worked hard for the enactment of the Trade Adjustment Act of 1962?

A. Like most progressive elements at that time, the labor movement believed that the concept of adjustment assistance was correct. The labor movement, along with the majority of those concerned with international trade policy, accepted as a truism that the U.S. technological lead was not only insuperable but would remain forever unchallenged. As a result, it was thought that the U.S. would always be able to export more than it imported and furthermore would always have plenty of high technology jobs to which displaced workers could turn.

Today, twelve years later, it is clear not only that the U.S. exports its technology almost as fast as it is developed, but that we no longer export more than we import. Moreover, the availability of high technology jobs to take up the slack is seriously jeopardized as the nation's economy shifts increasingly to the provision of services instead of the production of goods. Experience is a good teacher, and the labor movement has learned its lessons. There is no reason to continue a wrong policy just for the sake of consistency.

Adjustment assistance is the wrong policy. And as long as people continue to look to adjustment assistance for practical solutions, it will be part of the problem.

The U.S. Brain Drain

EXPORTS OF TECHNOLOGY COST JOBS

American businessmen are understandably cautions about giving away their trade secrets to competing businessmen. Their profits, in the accepted success formula of free enterprise, are based on their ability to turn out a better and less expensive product than their rivals.

But where these same businessmen may jealously guard their industrial processes from their U.S. counterparts, this reluctance to share technological knowledge does not apply when it comes to providing trade secrets to business operations abroad. Exporting of U.S. technology has become an accepted and highly-profitable practice among American-based companies. The recipients are either foreign producers or foreign affiliates of the U.S. multinational companies operating abroad.

Either way, the U.S. company gains a fat profit through direct sale or license of patents of industrial procedures, or the sharing of business expertise, to foreign companies or its own affiliated companies. The U.S. company profits either from fees for the technology it furnishes or from the products produced abroad by that technology.

The practice of selling technological knowledge can be of benefit to consumers of the products developed by the new technology. Research and development, on whatever side of the ocean it is successfully processed, can add to the well-being of citizens of any nation that shares in its fruits. The U.S. is no exception.

To be sure, the United States has shared the benefits of such foreign technology as the jet engine, the Wankel rotary engine, insulin and penicillin, magnetic tape, and polyethylene.

Obviously, it would not be in the best interests of the United States to put an embargo on the transfer of technology. But it should be a two-way street.

To be beneficial, the exchange should be relatively equal. This is far from the case today. The export of technology from the United States is so far out of balance with incoming technology that it is virtually a one-way street.

The consequence of this outpouring of U.S. technology is an expansion of foreign-produced goods utilizing U.S.-developed techniques. This foreign expansion is often accompanied by a curb on U.S. production and facilities.

The end result is the loss of work opportunities in the United States and developing unemployment among U.S. workers. This has been the trend since the 1960's and it is ever-widening.

The International Economic Report of the President in 1973 detailed the uneven technological flow. Measuring the transfer of technology by the royalty and license fee transfer payments, the report shows the income to U.S. companies "has consistently and widely outstripped the payments by U.S. companies to foreign firms."

LITTLE TECHNOLOGY IS IMPORTED

Between 1960 and 1971, U.S. firms received almost $20 billion in payments. Of this total, U.S. multi-nationals received $15.2 billion in royalty and fee payments from firms with which they were affiliated. The remainder of the $20 billion was collected from independent foreign producers.

Technology coming in from abroad was only one-tenth of this amount, or less than $2 billion. And the gap is growing. The President's report notes that for 1972 alone, "the net royalty and fee earnings were in surplus by $2.8 billion," with that much more in technology leaving the U.S., compared to what was coming in.

While U.S. multinationals were registering sizable financial gain from the sale of technology, the process has proved damaging to this nation's industrial leadership and to the employment prospects of its workers.

The techniques that are sent abroad are funneled into the productive channels of other nations. The transferred technology helps to boost the productivity of foreign companies and the products that result end up in worldwide markets in competition with U.S. goods.

American workers are the victims of this technological sale. They have lost their jobs to foreign production sources that use U.S.-developed technology. They have been left stranded by the U.S. corporations that once utilized their services but now find the benefits that go with foreign production more in keeping with their search for profits.

They have assured that this foreign production will be effectively competitive by furnishing foreign plants with the technology developed in the United States. And they have collected a price for this technology, despite the cost to U.S. employment.

The practice of exporting technological developments has been growing since the 1960's. In 1960, fees and royalties paid for U.S. technology amounted to $840 million. By 1972, revenues from this source had increased to $3 billion. In the year 1968 alone, some 800 corporations reported income from royalties and license fees paid by independent foreign companies while another 900 corporations reported similar income from their own foreign branches or subsidiaries.

The expanded technological transfer has helped to create a mushrooming of manufactured imports. As the outflow of technology grew, so did the import of a wide variety of products that had been manufactured primarily in the United States. Imports of steel, autos, machinery, electrical products and communications equipment were added to these products already filling the ship holds—the imported shoes, textiles, clothing, glass and leather goods.

THE CORPORATION BENEFITS SEVERAL WAYS

Today, the export of technology is enveloping increasingly sophisticated equipment. Within the aerospace industry, some of the latest innovations in air and space technology have been made available to foreign markets almost from the time they left the drawing boards of the U.S. engineers.

And when the U.S. multinationals collect their technological fees, they pocket profits from sale of a product that was financed in good part by U.S. taxpayers. The government supports research and development in the aerospace industry to the tune of billions of dollars. The product that results reverts to the exclusive domain of the U.S. corporation, which first collects profits from production within this country, then collects additional profits from aboard when the technology is sold.

Business Week magazine recently reported on developing technological exchanges between U.S. aerospace firms and the Soviet Union. It reports on concerns expressed by Pentagon officials over the effort by these aerospace companies to sell goods and technology that have military as well as civilian application. Discussions between Soviet leaders and U.S. firms have included a sales range from computers and communications to shipbuilding and aircraft.

"What the Soviets really want to buy, apprehensive Pentagon spokesmen claim, is not planes but the knowledge that would allow them to build their own production facilities—complete with all the systems and quality control that are the hallmarks of U.S. defense plants," *Business Week* reports.

Defense Department officials are concerned about the military aspects of the technological transfers. For aerospace industry workers, the implications of trading away technological and production knowhow are obvious: the U.S. would not be the source of these products that would be produced in foreign countries, and the need for aerospace workers would be further diminished.

These new technological trade discussions with the Soviet are an extension of already-existing agreements between that nation and U.S. multinationals. As an example, General Electric Co. last year worked out an accord for the mutual exchange of technology with the Soviet Union, leading to the licensing arrangements for the manufacture of GE products in that nation.

Nor is the shipment of aerospace technology abroad new to this nation's trade patterns. Last year, the AFL–CIO reported on the sale by the McDonnell-Douglas

Corporation of the Thor-Delta launch rocket and its entire missile launch system to Japan. This system, considered to be the nation's most dependable launch unit, was developed from millions of dollars in research paid for by U.S. taxpayers. Multinational McDonnell-Douglas was due to pocket the entire profit from the sale.

U.S. WORKERS LOST JOBS

From this exchange, the Japanese stood to gain a sensitive and critical piece of technology, McDonnell-Douglas stood to gain a high profit and U.S. aerospace workers stood to gain—nothing. In effect, their jobs were sold along with the technology, with no indication that further technology will be developed requiring such highly skilled labor.

These single corporate examples are magnified many-fold in a number of U.S. industries. Among those trading heavily in the licensing and patent sharing arrangements with foreign nations are the electrical-electronics and communications industries. Together they provide a graphic picture of the damage to this nation's economy and the workers in those industries from technological transfer.

Research and development in these industries is a major cost exceeding $2.5 billion annually. This massive expenditure is financed in good part by the U.S. taxpayer, since the U.S. government provides more than half the development funds.

Utilizing these funds, technological development in electronic-electrical devices and systems has become far advanced in the United States, performing in a variety of fields including communications, transport, manufacturing, aerospace, government, banking, retailing, and education. Their influence in the industrial and service processes are widespread.

American firms have readily shared this technology with foreign competitors through licensing arrangements and joint ventures. Their private profit, however, has been made at the expense of this nation's technological advantage. The foreign competitors who have paid for the technology are reaping their own rewards in product development. And so are the U.S. multinationals using the technology to produce abroad.

What the U.S. multinationals have sold in the way of licenses, patents, and through investments in foreign firms has been returned to this country as product imports. These products have taken the place of U.S. produced goods, and the American worker has lost out.

Between 1969 and 1972, this U.S. industry has lost many thousands of jobs. The International Union of Electrical Workers estimates a loss of 450 thousand jobs in the industry sectors where it has members. These included 57,300 jobs in electronic components and accessories; 98,500 in communications equipment; 30,700 in office and computing machines and 17,700 in radio and T.V. receiving equipment.

Japan is one of the biggest competitors to the U.S. in production of electronic products. It is also one of the biggest importers of U.S. technology.

U.S. electronic and communications firms, between 1960 and 1970, made 516 patent licensing agreements in Japan. These included agreements by such multinational firms as RCA (817); GE (80); Western Electric (61) and IBM (28). In that decade, there was a six-fold increase in the number of agreements. In 1970 alone, the returns on technological sales brought U.S. firms an estimated $2.2 billion.

U.S. CAPITAL FOLLOWS TECHNOLOGY

The extent of Japan's use of U.S. technology is cited by Lester Brown of the Overseas Development Council in this book, *World Without Borders*. He points out that Japan "has the largest technological balance of payments deficit of any country . . . the United States has the largest surplus . . ." which is another way of saying that Japan buys the most foreign technology, the U.S. sells the most technology.

These same multinationals, when not selling new technology abroad, have gone another route to utilize foreign production processes. Along with technology, they have exported U.S. capital to invest in plant and equipment overseas.

Commerce Department figures indicate the growth of plant and investment expenditures abroad. Between 1950 and 1970, such investment increased more than six times, from $12 billion to $78 billion. By the end of 1971, direct investment abroad had climbed to $86 billion and through 1972 it had risen further to

$94 billion, including a one-year record $3.8 billion invested in manufacturing abroad. Indicative of the heavy foreign investment, between 1969 and 1971, the gain in U.S. direct investment abroad was 31.5% while a comparable percentage of U.S. capital spending in the U.S. amounted to only 7.4%.

Using capital from the United States, these foreign production facilities—operated or shared by US. multinationals—produce goods not only in the country where their factory is located but for markets around the world, including the U.S. They are competitive not only with U.S. exports, but in domestic U.S. markets as well.

The International Report of the President put the amount of U.S. foreign investments in manufacturing and assembling at $35.5 billion by the end of 1971.

The lure for U.S. investments primarily has been the low-wage labor available in foreign countries. Where the United States could effectively compete in production and marketing processes, the wide disparity in wages along with the other benefits allotted U.S. multinationals have been instrumental in foreign products underselling U.S.-made goods.

Investment by U.S. firms in low-wage countries has also been instrumental in perpetuating these low wages. American firms operating in Japan, Taiwan, Korea, Mexico, Malaysia, Jamaica, the Philippines and elsewhere have encouraged sub-standard wages as part of their willingness to do business in those areas.

Heavy investments by U.S. multinationals in foreign production has helped to force U.S. electronic products off the market. Domestic production of home radios has been almost eliminated. Imports of television sets, first from Japan and now from Taiwan and Mexico, has forced the shutdown of many U.S. production facilities. Taiwan is now the largest exporter of TV sets, having passed Japan two years ago.

Other private employers who have trimmed or closed down U.S. facilities in favor of foreign operations, include Philco-Ford operating in Taiwan and Brazil: Admiral Corporation in Taiwan; Texas Instruments in Hiji, Japan, Kuala Lumpur, Malaysia, and Campinas, Brazil. Other major U.S. electrical manufacturers are also expanding operations in these low-wage areas.

As these U.S. multinationals extend their operations abroad, they withdraw from U.S. production and, as the process increases, the number of American jobs declines.

NO REMEDY IS PROPOSED

This trend has gone unchecked, and despite the damaging impact on U.S. jobs, there is no remedy in the Trade Reform Act before Congress.

Without effective regulation, the productive capacity of this nation will continue to dissipate. The competitive advantages held by the U.S. are increasingly shortlived and the gap in productivity grows narrower as companies producing in foreign lands utilize U.S. technology to catch up and even surpass U.S. companies.

Such trends need to be checked to prevent the U.S. from becoming a second class manufacturing nation, with a veritable army of unemployed manufacturing workers.

The solution is to apply the necessary restraints on the outflow of technology and capital. The authority to institute such restraints should be placed in the hands of the executive branch, granting it the discretionary power to limit the export of technology. This could be done through control of licenses to produce a product abroad. A holder of a U.S. patent could be prohibited from producing the patented product abroad or licensing someone else to do so.

The executive branch should also be empowered to regulate the outflow of funds to other countries for private investment by American citizens or corporations. U.S. capital expenditures abroad could be restricted under such authority, if it was determined that such expenditures would lead to employment decreases in the United States.

The export of technology and capital should not be prohibited. There should continue to be an exchange between the U.S. and foreign nations so that the benefits of research and development, along with the necessary investment capital, can be shared by citizens of all nations.

However, this process should not be allowed to continue unrestricted where it damages the productive capacity of the United States and causes continuing losses in employment opportunities for U.S. workers.

Trade Reform Proposals

THE ADMINISTRATION LOOKS TO THE PAST

To deal with the problem of international trade, the Administration has proposed a bulky new legislative program, all wrapped up in the so-called Trade Reform Act of 1973. This legislation was passed by the House of Representatives last October. The Senate Finance Committee began public hearings on the bill early in March.

However, even when it was first proposed, the Trade Reform Act was a pale substitute for a constructive trade policy, offering inadequate if not downright improper answers to current problems of international trade and finance. Today the bill is totally obsolete.

The fast-breaking events on the international economic scene, starting with the energy crisis and including wild currency fluctuations, swift changes in national balance of payments accounts, growing shortages of fuel and other vital raw materials and even of foodstuffs, and the troublesome and increasingly severe worldwide inflation have changed the picture so rapidly that in the words of the AFL–CIO Executive Council "a total re-examination of U.S. trade and investment need is in order."

Not only are the provisions of the present bill under consideration by the Senate completely irrelevant to the real problem, but some of these problems are not dealt with at all. Here are some of the inadequate and improper provisions of the Administration's Trade Reform Act:

1. The proposed legislation would give to the President authority to reduce to zero any tariffs currently at 5 percent or below. Any tariff of from 5 to 25 percent could be reduced by three-fifths and any tariffs above 25 percent could be reduced by three-fourths. All of this authority—unchecked by Congress or the public—would be for five years. The President could also raise tariffs, but no one expects that such authority would be used. It hardly needs saying that this is no time to be giving the President such unrestricted authority.

2. The President would also have authority to reduce nontariff barriers or to convert them into tariffs. Any change in a non-tariff barrier could be vetoed by either House of Congress within ninety days after it was announced. The bill requires the establishment of labor and business advisory groups for each major industry sector where the elimination of nontariff barriers was being considered, but the President could ignore their advice and the chances are that he would. The bill does nothing to tie the reduction of U.S. nontariff barriers to a similar reduction by other nations although it is not the U.S. nontariff barriers which restrict trade—it is the barriers erected by other nations against the U.S. Since nothing is done to reduce those barriers the problems will remain unresolved.

3. The legislation contains provisions which would make it possible for the President to temporarily impose import surcharges or quotas (for 150 days) if necessary to correct persistent balance of payments distortions. Along the same line, he could also reduce duties or ease import quotas on a temporary basis on items in short supply in order to restrain inflation. But in neither case, is the remedy appropriate to the problem. At the time the legislation was drafted, the major disruptions in national trade and investment balances, and the acute world shortages of raw materials had not been foreseen or even dreamed of. As a result, the kind of temporary tinkering envisaged by the Trade Reform Act is hardly worth serious consideration.

4. The Trade Reform Act purports to provide import relief to domestic industries injured by rising imports. It would do this by changing the definition of injury; authorizing relief if imports contribute "substantially" to injury rather than requiring that they be a "major" factor, as at present. The change in definition is helpful as far as it goes, but unfortunately it does not go very far. The relief is to be in the form of first, increased duties, second tariff—rate quotas, and finally direct quotas and voluntary agreements. By the time each of the priority alternatives had been tried in turn, and proved unsuccessful, the original injury will have developed into a terminal disease.

5. The new legislation also purports to solve the problems of workers who lose their jobs because of increased imports by "improving adjustment assistance." In fact, of course, the bill does not improve the situation for these workers—only making it possible for more persons to qualify for less help.

MANY IMPORTANT PROBLEMS IGNORED

There are many areas of concern which the Administration's trade bill leaves completely untouched. These include:

1. It provides no specific machinery to regulate imports or to curb the export of materials in short supply at home.

2. It does not deal with the export of U.S. technology and capital to other parts of the world where corporations, which frequently are U.S. based multinationals, can maximize profits and minimize costs at the expense of U.S. jobs and production.

3. It does nothing to close the lucrative tax loopholes for multinationals or to remove, or at least neutralize, the tax and other incentives which make it more profitable for U.S. companies to invest abroad and produce abroad rather than in the United States. Nor does it do anything to regulate accounting practices so that smart multinational managements cannot juggle their books to take advantage of favorable treatment in one country compared to another—without regard to social or economic obligations, either to host or parent country.

4. It does nothing to repeal Items 806.30 and 807 of the Tariff Code, which encourage U.S. firms to locate abroad and take advantage of low wage foreign production and a special low tariff rate on goods exported to the United States.

5. It fails to assure action against the unfair trade practices of other nations.

6. It ignores the fact that this country's industrial base and productive strength have been weakened by current foreign trade and investment policies and makes no provision for restoring the nation's critically needed industrial health. The continuing headlong shift of the U.S. economy from the goods producing to a service economy is a serious matter and cannot be taken lightly.

A NEW BILL IS NEEDED

For all of these reasons Congress should reject the bill now before it and write a new trade bill which will contain provisions which will help to solve today's problems rather than yesterday's charades. Such legislation must be comprehensive, flexible and realistic.

The new legislation should:

1. Regulate U.S. imports and exports. Specific flexible legislative machinery is necessary to control imports. A flexible mechanism can also be applied to excessive exports that are in short supply and are vital to the U.S. economy. Exports, imports and U.S. production should be linked in relation to needs for supplies, production and job opportunities within the U.S.

2. Modernize trade provisions and other U.S. laws to regulate the operations of the multinational firms, including banks and the oil companies. Without such regulation these companies can continue to use U.S. tax, trade and other laws in combination for their worldwide advantage. They will continue to export production facilities, money and jobs and to juggle prices to the company advantage and regardless of the impact of their activities on the U.S. economy.

3. Eliminate U.S. tax subsidies and other advantages for corporations investing abroad. Specifically the tax laws should eliminate the tax deferral of income earned abroad and the foreign tax credits. In addition the legislation should curb the ability of the multinationals to apply excess tax credits to any of their overseas operations, and/or to carry credit forward or backward in a way which allows them to minimize U.S. tax payments. These tax provisions not only contribute to the export of jobs, and to the erosion of the U.S. industrial base but they also encourage contrived shortages of raw materials and components for U.S. production and job needs.

4. Items 806.30 and 807 of the Tariff Code should be repealed because they encourage the foreign production and foreign assembly of goods for sale in the U.S. Imports under these provisions—which are used to shift production to cheap labor markets and away from the U.S.—have risen from $1 billion in 1967 to $3.4 billion in 1972.

5. Clear provisions should be included in the new legislation to regulate exports of capital and new technology.

6. Multilateral trade agreements with other nations should be administered in a manner which is consistent with the flexible machinery devised to regulate imports and exports.

7. Any legislative provision to authorize negotiation on non-tariff barriers should be limited and should require specific Congressional approval for the

removal of any barrier, with full information about the products affected. It is not enough to have an after-the-fact veto authority. U.S. tax laws, consumer protection laws and other social legislation, including occupational health and safety laws, should be barred from such negotiations.

8. New provisions are needed to assure speedy and effective action against foreign dumping of products on the U.S. market.

9. Clear labeling on imports of products and components to mark the country of origin is needed. All consumer protection legislation should be strictly enforced on imports.

10. The need for improved statistics on imports, exports and production has become urgent. Since important policy decisions are made on the basis of statistical evidence, that evidence must be as comprehensive and accurate as possible. This is not now the case.

The Multinationals Attack

Propaganda Campaign Hides the Truth

A decade ago the word "multinational" was unfamiliar to most people. It was used for the most part only in academic classrooms or by theoretical economists. The 1964 edition of Webster's dictionary does not carry it. But today the word is commonplace, familiar not just to readers of the financial pages of the newspaper, but to all of us. Whether standing in a gas line or an unemployment line, most Americans now are aware of the connection between the giant multinational corporations and those lines.

Oil companies, manufacturing companies, agribusiness, banks—all are engaged in worldwide operations. The rise of the multinationals is perhaps the most significant economic development of recent years. Their shift from relative obscurity to the front pages is, of course, the result of both the tremendous growth and the growing concern over the impact of these huge companies on economic and social development, not just within the United States, but on a global basis. By the beginning of the 1970's, it was hard to find a manufacturing company worth its salt which had not either already gone multinational or was busy making plans to do so.

The concern of the labor movement over the uncontrolled activities of the multinationals was voiced early and loud—loud enough apparently to strike a nerve among the multinationals themselves and to cause them to launch, through their various spokesmen, a concerted counterattack. Adopting a posture that the best defense is offense, this counterattack is designed to smother both labor's concern and the issues with a blanket—really a patchwork quilt—of spurious statistics and fictitious "facts."

As the labor movement has worked to persuade the public, the government, and Congress that regulation and control of the multinationals is essential to the conduct of effective and wise public policy, the multinationals have fought back. They are trying to convince an increasingly skeptical public that regulation is not only unnecessary but would be detrimental to the economic and social well-being of the country and the world. In this effort, the multinationals have been aided by powerful spokesmen, starting with the President of the United States, and including the U.S. Department of Commerce, the Council on International Economic Policy, the U.S. Chamber of Commerce, and their own organization created especially for the struggle, the Emergency Committee for American Trade or ECAT.

The multinational counterattack has focused on three points:

The multinationals contend that their operations are good for U.S. employment, creating more than their share of jobs—and that they do not contribute to the loss of U.S. job opportunities.

They contend that their activities are good for U.S. trade, increasing exports and not affecting imports.

They contend that they do not take advantage of the low-wage economies—that wage is not an important factor in the decision to establish plants abroad rather than in the United States.

In this article, the fallacies behind each of these contentions are examined.

It may well be that there are no absolute truths to be found in the continuing debate on the impact of multinationals, although certainly there has been no lack of searchers for the truth, including several Congressional committees. However, there have been clear distortions of the truth and these can and should be set straight.

THE EMPLOYMENT ISSUE

So many figures have been used and misused on the impact of increased overseas investment by the multinationals on U.S. domestic employment, it is no wonder that the only result of the charges and countercharges of the statistical battle is complete confusion or disinterest. Take one example: perhaps you have seen or heard the ad used by ITT—a multinational if ever there was one—to defend multinationals in general and its own overseas operations in particular. The ad starts with a picture of a newborn infant and asks the question—will there be a job for this infant when it grows up? The ad goes on to say that there must be millions of new jobs by 1990 and that one way to get these jobs is by further expansion abroad. It then advances several sets of statistics to prove the point, stating that "in the 1960's, U.S. multinational companies increased domestic employment at a higher rate (31.3%) than the national average (12.3%)," and that foreign trade (and inferentially, multinational trade) generated from 600,000 to 900,000 "new" jobs for Americans during the 1960's. Sounds very good. But it represents a gross misuse of questionable data.

The first set of figures concerning the growth of domestic employment is taken from a survey conducted by the U.S. Chamber of Commerce in 1972. The Chamber—not exactly a disinterested observer—sent out a questionnaire to 644 companies in an effort to show a favorable relationship between foreign investment by U.S. companies overseas and employment in those companies here at home. Only 121 of the 644 companies responded; presumably those with the best record. These companies did indeed show an increase in domestic employment between 1960 and 1970 of 31.1 percent.

However, a substantial part of that increase was due to mergers and acquisitions or was merely a paper increase. According to the Chamber's own figures "just over one third of the total domestic employment gains in 1960–1970 were due to acquisitions." This means that instead of a 31.1 percent increase in domestic employment, the real gain for the 121 companies was only 20 percent. Just how ITT got its figure of 12.5 percent for the national employment growth in the decade of the 60's is impossible to discover. It must be for some other country, not the U.S., because according to the data published by the Council of Economic Advisors and the U.S. Department of Labor's Bureau of Labor Statistics (which certainly should be definitive), the increase in total nonagricultural payroll employment for the decade was 30.2 percent, or more than ten percentage points in excess of the job growth in the multinational companies surveyed by the Chamber—and then reiterated as fact by ITT in a national advertising campaign.

WHERE THE FIGURES ORIGINATE

The second set of statistics used in the ITT ad is equally fuzzy and, unfortunately, equally unreliable. As far as can be ascertained, the 600,000 figure—presumably a minimum number of new jobs generated by the activities of the multinationals—is taken from an estimate made by Professor Robert Stobaugh of the Harvard Business School in the closing paragraphs of a study he made on commission from the U.S. Department of Commerce in September, 1971. The study examined the case histories of only nine U.S. companies with foreign direct investments, to determine the effect of the investment on U.S. employment and the balance of payments.

His analysis of these nine cases led Professor Stobaugh to the conclusion that after initial periods of development and transition, the number of new domestic jobs in those nine companies would settle at 3,802—a long way from 600,000 to be sure. Notwithstanding the limitations of the nine sample cases, the Harvard group then took a heroic dive into the statistical pool and estimated the total impact of foreign direct investment on all U.S. employment. On the basis of some broad and fairly iffy assumptions, they came up with a figure of 250,000 production jobs in some undefined period. To this they added another 250,000 office jobs in the headquarters of the multinationals and then for good measure tossed in an additional 100,000 jobs for undefined "supporting workers." All of this adds up to the guesstimate of 600,000 used as fact by ITT, and unfortunately by many others.

Now, how about the 900,000 maximum job figure? This apparently comes from still another multinational-supported study; this one done by ECAT. This study, also undertaken in 1971, is based on information supplied by only 74 multinational corporations on their activities between 1960 and 1970. These companies reported that they had increased employment by "nearly 900,000" from 2,432,000 to 3,348,000 or a growth rate of 36.5 percent. The ECAT tabulations, however, clearly identified that part of the increase that was due to merger and acquisition, and therefore not representative of real gain. Eliminating this paper growth, the gain drops from "nearly 900,000" to only 528,000, representing in percentage terms an increase of only 21.6 percent—a very poor showing compared to the national average growth of 30.2 percent.

A NOT-SO-GOOD RECORD

Altogether, what ITT and its friends have done is to take data from several sources, mix it up with some good advertising copy, and come up with a self-serving recipe for the continuation of the present tax and trade policy favoring the multinationals, under which profits come first and the public interest last.

In actual fact, no one can be certain what will be the long run impact of the multinationals on employment. We do have some factual information to help us in this regard. Last year, the Department of Commerce collected comprehensive data on 298 multinationals, representing the major portion of the U.S. multinational universe. This survey showed that their domestic employment increased between 1966 and 1970 by 11.1 percent, compared to a total U.S. employment growth for that period of 10.4 percent. The Department of Commerce admitted that "it does appear that some part, probably not more than ¼ of our sample, of the growth in domestic activities of the 298 enterprises is due to mergers." That being the case, it is clear that the domestic employment growth for the multinationals is not better than for the economy as a whole. If anything their record is worse.

There is one other frequently used statistic that needs to be laid to rest in this connection. ECAT has publicly stated that "the domestic employment of the 298 companies covered in the (Department of Commerce) survey rose far faster than other domestic employment. The increase in their payrolls between 1966 and 1970 by an average of 2.7 percent a year compared to the ntalonal average of 1.8 percent." The Council on International Economic Policy—the top White House group in this field—presumably using the same data, makes a similar claim, stating that "a recent survey of 298 multinational firms carried out by the Department of Commerce suggests that multinationals have helped rather than hindered the growth of domestic empolyment." The Council's report goes on to say, "the study showed for example, that while overall U.S. private sector employment grew by 1.8 percent a year, between 1966 and 1970, domestic employment attributable to multinational corporations grew by 2.7 percent a year." Both sets of figures are in error.

The total growth rate of employment in the 298 companies is correctly reported at 2.7 percent a year—but if you take into account the one-fourth increase attributable to mergers and acquisitions—which the Commerce Department itself says is a reasonable estimate—the growth rate would be only 2.1 percent a year. Now about the second figure—1.8 percent that is supposed to represent national average employment growth. Here one can only assume that the government—and ECAT made an error in arithmetic, because the growth in private sector employment between 1966 and 1970—as reported by the Bureau of Labor Statistics—is not 1.8 percent a year, but 2.3 percent a year. So even without taking into account the problem of mergers and acquisitions, the performance of the multinationals is not 50 percent better than the rest of the economy as a whole as claimed by ECAT, but only 17 percent better. And if the merger problem is taken into account, the performance of the multinationals is almost 10 percent worse than the national average.

All of this might be considered much ado about nothing. But it is not. It is about people and jobs, and about the development of a foreign trade policy that affects the lives of all of us. None of us can afford to let multinational propagandists cloud the real issues with false and fancy figures. However the same kind of misrepresentation has occurred in regard to multinational influence on imports and exports.

THE EXPORT-IMPORT ISSUE

The contention of the multinationals that their activities have contributed heavily to the expansion of U.S. exports, and have not been instrumental in bringing about the sharp increase in imports, is simply less than the whole truth. Although it is true that between 1966 and 1970 exports of the multinationals increased faster than total U.S. exports, that is not saying much, since they are naturally the biggest companies which would be expected to account for a major portion of U.S. trade.

The significant comparison is between the rate of growth of the multinationals' exports and their imports. Here we find that in the period under discussion imports of manufactured goods generated by the multinationals (the import of raw materials is not in question), as measured by the increase in exports to the U.S. by the overseas affiliates of the 298 companies surveyed by the Department of Commerce, increased by 129.4 percent. In the same period, the increase in total U.S. imports of manufactured goods was only 82.3 percent. In addition, imports of manufactured goods produced by U.S. based-multinational corporations grew twice as fast as their exports—129.4 percent compared to 58.6 percent.

In several specific industries, the performance of the multinational corporations has been decidedly inferior in comparison with total U.S. trade performance. A Tariff Commission study, using the data provided by the Department of Commerce, shows that the multinationals were inferior to all-manufacturing firm export performance in 18 industries. By inferior, the Commission means that multinational exports grew more slowly than all-firms export growth. These 18 industries accounted for almost 80 percent of the total U.S. export trade in manufactured goods. They include such industries as primary metals, industrial machinery, fabricated metals, transportation equipment, paper and allied products, instruments, industrial chemicals, electronic components, radio and television, and stone, clay and glass products. The same study shows the multinational inferior to all-firm import performance (that is their imports rose faster than all-firm imports of manufacturer goods) in 13 industries. These industries include industrial machinery and equipment, electronic computing equipment, fabricated metals, drugs, textiles and apparel, electrical equipment and apparatus and farm machinery and equipment. Not only is the quantity large of industrial production in which multinational performance is inferior to the general economy, but the types of goods are broad-based, including capital as well as consumer goods.

Serious questions can also be raised concerning the impact of the sales of foreign affiliates on U.S. exports. Quite naturally the inevitable result of the increased investment in overseas affiliates has been a substantial increase in sales by those affiliates, both within the countries where they are located and in third-country markets. The question that remains unanswered is how these sales affect the U.S. export market—would U.S. plants have been able to supply those markets without help from their foreign affiliates? The multinationals' answer is no. But there is plenty of room for doubt.

The Tariff Commission agreed that it was unrealistic to expect that U.S. industry could absorb the entire burden, but in hypothesizing that U.S. exports could absorb only half the difference between 1966–70, the increase in foreign sales would be about $4.9 billion. This, of course, would have gone a long way toward relieving unemployment in the United States, as well as toward offsetting the U.S. balance of payments deficit.

THE REAL EXPORT-IMPORT STORY

Between 1966 and1970 imports into the United States from their affiliates rose substantially in many industries, competing sharply with domestically produced goods. In the electronics subsector, for example, rapidly rising imports from manufacturing affiliates in Taiwan, South Korean, Mexico and similiar locations clearly had a strong impact on domestic production. Shipments to U.S. parent companies rose by almost 240%. In the industrial machinery subsector, total parent imports from affiliates was double. Other substantial increases in imports from foreign affiliates which exceeded the national average increase were:

chemical and allied products—up 93%, with drugs up 221 percent

rubber products—up 589 percent

industrial machinery—up 328 percent
transportation equipment— up 185 percent
printing and publishing—up 1,000 percent
electrical machinery—up 180 percent

One of the most pernicious distortions of the truth concerning the impact of the multinationals on U.S. trade is the oft-repeated statement that they account for one-fourth of U.S. exports (thereby making the point that overseas investment helps U.S. export trade), while only 8 percent of the total sales of those affiliates comes back to the U.S. in the form of imports (thereby supposedly proving that these foreign affiliates do not displace domestically produced goods in the U.S. market). The figures are misleading on several accounts.

First, the comparison is between apples and oranges. The export figure relates to all U.S. nonagricultural exports (which does not exclude other crude materials) while the import figure relates only to manufactured goods. Second, the figures are for different time periods. The export figure is quoted from a Commerce Department estimate based on 1962–64 data. The import figure on the other hand relates to a Commerce Department study using 1965 data. Third, usually no reference is made to the data year. The impression is fostered that it is current. As a result, these figures have been used in juxtaposition not only by outside organizations—which must depend on the government for factual information, but by the government itself, in its supposedly impartial report on "The Multinational Corporation, Studies in Foreign Investment."

If one uses the more up-to-date data developed in the Commerce Department's survey of the 298 multinationals, the result is somewhat different. On the basis of that information, we find that in 1970 the exports of the 298 multinationals to their own affiliates accounted for only 20 percent of the total U.S. export trade. Imports of all products from majority-owned affiliates, on the other hand, amounted to 19 percent of all U.S. imports, and 16 percent of all imports of manufactured goods. In other words, the comparison is not between 25 percent exported to affiliates, and 8 percent imported from affiliates, but between 20 percent of total exports going to U.S. firms overseas and 19 percent of total U.S. imports coming in from U.S. firms overseas. Quite different conclusions can be drawn from this data.

THE WAGE ISSUE

The supporters of the multinationals have tried hard to show that generally lower wage levels in foreign countries have not been the primary factor in the corporate decision to invest in overseas facilities. To prove the point, innumerable questionnaires have been sent to U.S. corporations inviting them to explain the basis for their foreign investment decisions. The answers invariably relegate the wage issue to the bottom of the list with other factors such as the foreign country's tariff and nontariff barriers to U.S. exports, tax and profit incentives, and the ability to better serve the foreign market all coming first.

However, the fact is that wage levels in other countries are lower than in the U.S. and are scandalously inadequate in the less developed countries. The labor movement has never argued that the wage factor is the only determinant for foreign direct investment, but it seems unrealistic, if not hypocritical, for the multinationals to claim that wages are unimportant. Even though U.S. investment is frequently made in industrailized countries where wages are relatively high (and moving up), those wages are still lower than in the United States.

Senator ROTH. Next, we have a panel consisting of Mr. Richard D. Higgins, vice president, Bell and Howell Co.; Mr. Robert McLellan, vice president and manager of International Development, FMC Corp.; and Mr. Roper, executive director of International Executives Association, Inc.

On behalf of our chairman, gentlemen, I want to extend our appreciation for your appearing here today. You may either read your statement or, if you want to speak extemporaneously, we would be happy to include in the record your statements in full. I leave it up to you.

Welcome.

STATEMENTS OF RICHARD D. HIGGINS, VICE PRESIDENT, BELL & HOWELL CO., AND SECRETARY, INTERNATIONAL TRADE CLUB OF CHICAGO; ROBERT McLELLAN, VICE PRESIDENT AND MANAGER OF INTERNATIONAL DEVELOPMENT, FMC CORP., AND CHAIRMAN, MID-AMERICA COUNCIL FOR INTERNATIONAL ECONOMIC POLICY; AND ROBERT L. ROPER, EXECUTIVE DIRECTOR, INTERNATIONAL EXECUTIVES ASSOCIATION, INC.

Statement of Richard D. Higgins

Mr. HIGGINS. Thank you, sir.

Senator Roth, I am Richard D. Higgins, secretary of the International Trade Club of Chicago, in whose behalf I appear here today. We appreciate this opportunity to express our views. Thank you, sir.

I might just mention that the International Trade Club of Chicago is the Nation's largest professional association of international trade executives, with a membership of some 800 people representing 650 firms throughout the Middle West and certain other areas of the country, engaged in international trade.

The International Trade Club of Chicago supports the intent and, in general, the provisions of the Trade Reform Act of 1973, with certain reservations that we want to point out a little later.

It is important, notwithstanding such reservations, that H.R. 10710 be enacted without delay. It is the bare minimum legislation required to promote freer international trade, to protect America's competitive position in world markets, notwithstanding previous comments, to insure the fullest possible employment of our Nation's workers.

This urgent need for action is further emphasized by the forthcoming negotiations under the general agreement on tariffs and trade. In these meetings, representatives of the United States of America must be provided with authority to speak officially and immediately on behalf of our country. The clearly defined trade policy which H.R. 10710 would establish would also afford greater credibility and leadership to the United States at the negotiating table.

Two, support of a liberal trade policy to create jobs for U.S. workers: We again affirm our conviction that liberal trade policies, multinational corporations and overseas investments, on balance, create additional jobs for American workers.

Now, there have been, and I am sure you are familiar with them, Senator Roth, numerous studies during the past several years by responsible organizations and agencies, including the Emergency Committee for American Trade, Business International, the Illinois State Chamber of Commerce, the National Association of Manufacturers, the U.S. Tariff Commission and the U.S. Department of Commerce, and others, and these have consistently shown that foreign direct investment increases domestic employment.

For instance, an Emergency Committee for American Trade study of 74 multinationals showed an expanded U.S. employment in these firms by 36.0 percent between 1960 and 1970, while during this period the domestic employment rate for all manufacturing increased only 15.3 percent.

A later study by Business International—I think you are familiar with that firm—covering 124 U.S. manufacturing companies found that net U.S. employment of U.S. multinationals rose 26.4 percent while manufacturing jobs as a whole in the country expanded by only 10.4 percent.

Speaking now specifically of exports, which are still the backbone of our balance-of-trade position, and upon which we must depend in order to purchase abroad the many commodities not available to us in our own country, I should like to cite my own State of Illinois.

Illinois has annual exports of agricultural and manufactured products of more than $5 billion. It is first in the sale abroad of farm products, representing 10 percent of total U.S. farm exports. (It is estimated that crops of one out of every 4 to 5 acres harvested in Illinois are exported. Export accounts for approximately 15 cents of the farmer's market dollar.)

Nearly 325,000 jobs in Illinois are directly related to exports. Add to this number the people whose work represents partial or indirect employment to support exporting, and the number of jobs soars to some 900,000 or 20 percent of Illinois workers.

In 1973 Illinois had a $1.2 billion "trade surplus" of exports over imports.

Briefly, may I cite the names and overseas activities of just a few Illinois firms whose names are known throughout the world, together with their level of U.S. employment and the percent of that employment dependent on farming trade.

These are such companies as Borg-Warner Corp. Employs 9,200 in 12 communities across the State of Illinois. Annual payroll in Illinois in excess of $9 million; one in every three of sales dollars comes from exports and sales to plants in 22 countries outside the United States.

Employs 30,000 people in the United States, of which 4,000 depend for jobs on direct export sales. One in every seven and a half employees' jobs depend on export sales. Export sales equal $103 million; $25 million of domestic sales are to domestic customers for use in products they ship overseas; 1,000 jobs are created by pull-through effect of U.S. foreign investment.

Brunswick Corp. Employs 24,657; 2,585 or 11 percent of employees depend for their employment on foreign trade.

International Harvester Co. Employs 28,000 people in the State of Illinois; more than 1 of every 10 employees owes employment to exports.

Travenol Laboratories International. Sells over $30 million of goods abroad every year, which is about 13 percent of total production in the United States; 13 percent or over 1,300 employees in the United States owes employment directly to exports. Additionally, almost all of the equipment used in factories abroad is purchased in the United States; in the period 1971–73, over $6 million was spent on such capital equipment in the United States.

Sargent-Welch Scientific Co. In business in Chicago and its suburbs since 1852. Over 10 percent of total business is made up of exports to Canada and other parts of the world; at least 10 percent of over 1,800 employees are involved in export business.

Culligan International Co. Exported first products in 1958; today more than 40 percent of consolidated sales volume is derived from international sources.

FMC, 46,000 people, over 10 percent dependent on foreign trade.

Bell and Howell, just under 14,000 people, 12 percent dependent on foreign trade.

There is, of course, a great list of other firms in Illinois, both large and small which can tell similar stories of their contributions to the business growth of our State and to the national economy through overseas trade.

Now, directly concerning the issues of the trade bill, if we might, the International Trade Club of Chicago supports the proposal of Senator Mondale of Minnesota to extend Presidential negotiating authority to cover international agreements aimed at unjustified use of export controls or any unfair trade practices in order to insure access to foreign sources of raw materials. The President of the United States should be empowered to act in countering unreasonable restrictions, quotas and embargoes on exports to the United States. In particular connection with titles II and III of the bill, we fully support the most flexible range of safeguards needed to protect American industry against unfair competition, as well as to assist U.S. workers and firms to adjust to new competitive conditions.

We must remember, however, that our economy depends on a healthy balance of imports and exports. Imports provide the purchasing power for foreign companies to procure U.S. products and consequently more jobs and higher earnings for American workers.

Now, we do oppose the provisions of title four of H.R. 10710 which deny most favored nation treatment and Export-Import Bank credits and other financing to countries which place immigrations restrictions on their citizens.

We feel, sir, that the policy of emigration is strictly an internal concern of any country. It is really not appropriately placed in a trade bill. We also feel you would agree that we as Americans would resent interference from another country in our internal political or social problems.

We believe that for the United States to embody penalties and punitive measures of this kind in an official trade policy position would imperil our relations with the U.S.S.R. and the détente which we have been striving so hard to maintain. We should point out that President Nixon only recently cited an increase in emigration of Jews from the U.S.S.R. from 400 per year a short time ago, to as many as 33,500 within the past year.

I might say, sir, I wonder if this is not a little like the analogy of the neighbor next door who has been a rather difficult man to get along with and we know he keeps a loaded shotgun in his basement. But we have been making some progress in communicating with him and we have been lending him our garden tools; he has been borrowing ours. Then we find he has had some trouble with his oldest daughter. She owes him some money and he will not let her out of the house until she pays him. So we suddenly decide he cannot borrow our lawnmower any more until he changes his internal family policies. I wonder if that does not more or less relate to this general situation we are facing?

We feel otherwise that a denial of most favored nation treatment to the U.S.S.R. could well be ineffective and counterproductive. The trade which we seek will be welcome to others, and the United States in

turn will be denied access to products and resources not available without our own country.

The same considerations may also be applied in relation to Export-Import Bank credits and other financing assistance. If denied by us to the U.S.S.R., it will be available elsewhere, and the United States of America will be the loser.

Broadly, we recommend that the Trade Reform Act of 1973 not be complicated and confused by the inclusion of matters which do not have a direct bearing on the principal objectives of the act. We mention specifically taxes, energy—except for the effect on oil imports of the Mondale proposal—monetary reform, all of which are separate issues, already covered in other legislation now under consideration.

In conclusion, the International Trade Club of Chicago reiterates its historical position that a liberal foreign trade policy directed toward a free flow of exports and imports and international private investment creates employment in the United States; increases U.S. exports; contributes to the U.S. balance of payments; promotes proportionately more investment in plant and equipment in the United States; and contributes to the economic development of the host countries.

Furthermore, the free flow of capital is equally as vital to worldwide economic development and well-being as is free trade.

Accordingly, the efficient use of economic resources through cross-border investments and multinational enterprise should be encouraged by all countries.

Thank you, sir, very much.

Senator ROTH. Thank you, Mr. Higgins.

Mr. McLellan?

Statement of Robert McLellan

Mr. MCLELLAN. Good morning, Senator Roth.

I appreciate the opportunity to appear before the committee concerning the Trade Reform Act of 1973, H.R. 10710. Consistent with your request, my testimony combines a variety of corporate, organizational and individual views, as follows:

I appear principally as chairman of the Mid-America Council for International Economic Policy. This organization consists of 25 midwestern firms concerned with international economic policy, list attached. Our membership includes medium sized as well as large firms with collective sales revenues of over $25 billion, excluding banking establishments, and all are significantly engaged in international business. I might add, that is a nonpaid job.

I also serve, however, as vice president for International Development of FMC Corp.; as chairman of a task force on international economic policy of the Manufacturing Chemists Association; and as a former U.S. Assistant Secretary of Commerce for Domestic and International Business, 1969–71.

I have been privileged to participate in international business affairs continuously since 1949. I have spent a large amount of time overseas during that period and at one time or another have done business in most of the 95 countries I have visited, including the U.S.S.R. and other Eastern European nations.

The Mid-America Council is essentially a group of business firms and, as such, has self interest in trade reform. While these interests

of member companies are occasionally in conflict, we nevertheless have a collective and, I believe, objective and overriding interest in trade, monetary and investment reform which we believe will benefit the United States, our major trading partners, less developed countries, even those with whom we have historically been at odds, and, hopefully, the entire world society.

In preparing for my appearance today, I concluded that my views on international economic matters could best be conveyed by submitting—with your permission—a copy of a speech I gave before the Economic Club of Chicago on March 12, 1973 entitled, "World Trade, Woolly Thinking and the Working Man", and another which I gave before the Rotary Club of Chicago on November 6, 1973 entitled, "Turning Point and the Multinational Corporation". With your permission, copies of both these speeches are attached to this brief statement, and have been presented to the committee previously, as requested.[1]

In this world of rapidly changing and interdependent international economic circumstances, I think it is imperative that the President be given greater responsibility and authority for the negotiation of our international trade relationships. Therefore, I generally endorse the provisions of H.R. 10710, with the following two specific exceptions.

First: On adjustment assistance, I would agree that provisions for assistance to workers are appropriate. Based upon the experience I had as Assistant Secretary of Commerce in trying to implement effective adjustment assistance for firms, however, I hold a different view. I have concluded that it is very difficult to fairly apply adjustment assistance to firms within the concepts of our private enterprise economy.

The responsibility for a given firm's adjustment to any business adversity, including excessive imports, inherently rests with the management of that company. It seems to me unfair for the Government to provide assistance to one firm when very often other companies in the same industry, through their own resourcefulness, have found a way of overcoming the import competition problem by entering into new lines, transferring to new technology, et cetera. I have concluded, therefore, that the only meaningful assistance Government can give such firms is through the provision of restricting imports of competitive products on a declining basis over a 4 or 5 year period to give the firm the time necessary to adjust.

I appreciate it may be difficult, politically, to not provide adjustment assistance to firms, especially when troubled companies are concentrated in one geographic region. At the most, however, I would recommend that this committee limit the assistance to firms to support for an entire industry, such as research and development grants. This would avoid giving the poorly managed company the benefit of Government assistance while denying it to the well managed one.

Second: My principal concern in the legislation you are considering rests with section 402 of title IV dealing with the freedom of immigration and its relationship to non-discriminatory tariff treatment and U.S. Government credits.

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[1] See p. 1384.

I believe we have arrived at a point in time where international, political, military, economic and social circumstances have aligned themselves in such a manner that we have an opportunity to move—however slowly—from a posture of military confrontation with the U.S.S.R. to one of economic cooperation. It seems to me that the leaders of the Soviet Union recognize that their claim to international fame must shift from a military competence to an economic competence. To expedite the development of an economic competence, the Soviets require Western technology and Western management methods. Because of their large population and centralized management structure, they logically want to procure these from the large scale economic experience of the United States.

The potential movement from a posture of military confrontation to one of economic cooperation could lay the foundation for progress toward a political balance—if not political agreement—and hopefully to a world at peace. To attempt to overly influence their domestic policies—at least until we have a closer relationship—could fracture a fragile, but fundamental, development and we of the United States must realize that we cannot suddenly extract from the Soviets all of our wishes for human freedom from a new economic relationship that has barely begun. I think Secretary Kissinger dealt with this subject very effectively in his testimony before this committee on March 7 and I would encourage the Congress to delete section 402 of title IV of the proposed legislation.

Mr. Chairman, this completes my statement. I would welcome any questions.

Statement of Robert L. Roper

Mr. ROPER. Mr. Chairman, thank you very much for this opportunity to appear. I am Robert Roper, executive director, International Executives Association, Inc. Our association is headquartered in New York City and has nearly 400 members, about two-thirds of whom are located in and around New York with the remainder being mostly located in various major cities throughout the United States. Over two-thirds of our members' companies are engaged in manufacturing, the remainder being in shipping and other export-related activities or services. Of the manufacturing component of our membership, less than 25 percent have annual total company sales, both export and domestic, of $1 billion or more. Most of the manufacturing companies whose members we represent are in the smaller size categories, with more than 50 percent having less than $100 million in sales, both export and domestic, per year and with an average export sales volume per company of between $1 million and $10 million per year. Our association was originally founded as the Export Managers Club of New York, Inc. in 1917.

TITLE I, NEGOTIATING AND OTHER AUTHORITY

The International Executives Association, Inc. heartily endorses the negotiating authority provided under title I.

These provisions comprise a realistic approach to today's international trade problems. Under this title, U.S. negotiators would be provided the necessary legislative sanction for participation with

representatives of other countries in forthcoming negotiations for the orderly reduction of nontariff as well as tariff barriers to world trade. Through such negotiations the necessary foundations can be laid for expanded industry and increased job opportunities in this country by the greater accessibility of our industry to overseas markets.

The enactment of H.R. 10710 at this time would also, we feel, provide a healthy counteractive to increased signs we see in the world today of a possible relapse into regressive and self-defeating economic unilateralism, isolationism and protectionism. The specific provisions of title I are realistically drawn with appropriate limits to negotiating authority and with the administration's accountability to Congress in any trade negotiations as well as advisory opportunity from industry both properly and, we feel, adequately provided.

Under title II the relief granted to injured domestic industry is considerably greater than that provided under present law. We question whether this is needed. For example, a finding of injury under this bill need only show that increased imports are a substantial cause of injury or threat of injury, rather than a major cause attributable to past trade concessions, as under present law. Also, upon a finding of injury, this bill permits an increase in duty on the offending import of up to 50 percent ad valorem above current rate, as against the present 50 percent ad valorem above the rate existing July 1, 1934.

This liberalizing of import relief provisions would open the door to the filing of excessive claims, many of which could well be by those whose real source of difficulty might not be imports of competing products at all, but simply inefficient management or some other problem not necessarily related to imports. The provisions covering adjustment assistance for workers and for firms under this title appear to be well conceived and well drawn.

TITLE III, RELIEF FROM UNFAIR TRADE PRACTICES

The provision under chapter 3 of this title on countervailing duties whereby the Secretary of the Treasury is given 4 years discretionary authority after enactment in which to determine whether or not any additional duty under this chapter "would be likely to seriously jeopardize the satisfactory completion" of trade negotiations under the act, is we feel, a wise provision. We urge that this, however, extended further to apply as well to "any article which is the product of facilities owned or controlled by a develop country if the investment in, or operation of, such facilities is subsidized." Limiting the Secretary's discretion to 1 year from date of enactment in the latter case, as in the present bill, is clearly insufficient for negotiations and could equally jeopardize trade negotiations on such international subsidies which might then be in progress. Also, we suggest it is possible that considerations other than possible jeopardization of trade negotiations should also merit the attention of the Secretary of the Treasury in a determination as to whether countervailing duties should or should not be imposed. An obvious example is the effect the imposition of a countervailing duty might have on certain U.S. exporters. Other domestic interests could also be adversely affected.

TITLE IV—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TREATMENT

We share the feelings of the majority of the Congress and millions of American citizens in deploring the restrictive emigration policies, limitations on intellectual freedom, and circumscribing of fundamental human rights which unfortunately characterizes certain nations which are not blessed with the freedoms which we in this country too often take for granted. We feel, however, that legislation seeking to influence the emigration or other domestic social policies of the U.S.S.R. and other nations does not properly belong in a trade bill. We feel that if title IV, in denying nondiscriminatory treatment and trade credit to such countries, is enacted as it now stands, its effect, far from strengthening the rights of Soviet Jewish citizens or others as intended, could well be the opposite and result in even tighter Soviet restrictions than exist now or have existed in the past. We hope a suitable compromise in title IV can be reached, but if not we would still support the overall bill.

TITLE V—GENERALIZED SYSTEM OF PREFERENCES

We are here concerned with the broad discretionary authority this title gives the President "to withdraw, suspend or limit", without public hearings, the application of duty free treatment with respect to any article or any country. Once duty free treatment has been established, there should be provided, it seems to us, adequate opportunity for public hearing from those who might be adversely affected before such suspension becomes effective.

TITLE VI—GENERAL PROVISIONS

No comment or recommendations.

Mondale-Ribicoff amendments—we appreciate the intent of these amendments as a start toward attacking the growing problem of worldwide shortages of critical raw materials and as a corrective to forestall or abate real or threatened monopolistic abuses on the part of some nations who are themselves richly endowed with scarce resources. However, we submit, that retaliatory economic sanctions and reprisals as envisaged in these amendments have historically never been an effective means toward gaining desired results and, in this instance, would, we feel, be inimical to the avowed purposes of the trade bill of promoting world trade and strengthening economic relations between nations. Because the President, through other previously adopted acts of Congress, already has ample authority for unilateral sanctions, should he desire to use them, and because adequate multilateral sanctions are already provided for in and through GATT, we do not favor the inclusion of these amendments in the trade bill.

Thank you, Mr. Chairman.

Senator ROTH. Thank you, Mr. Roper.

A number of witnesses before this committee, both business and labor, have testified that they have, I would say, a lack of confidence

in past negotiations, that this country has not adequately protected its interests in the Kennedy round and other trade negotiations. Do any of you gentlemen care to comment on that?

Mr. McLellan. I would, Mr. Chairman.

It seems to me that in the Kennedy round of 1962, there clearly was inadequate communication between the Government negotiators and the business community, the labor groups, and so forth. I do not want to blame Government for that. I think industry should carry a lot of that responsibility. But if the attitude that existed with regard to international trade matters in 1962—you may recall that we were running a very substantial trade surplus at that time, topping out at about $175 million in 1963—it was not a crisis kind of thing and just did not generate the interest that international trade has in recent years. So I suppose it is philosophically understandable that the Government simply went ahead with the negotiations and then in the process ended up with a number of arrangements, express or implied, that industry came later to be very much concerned with.

My experience in Government brought this home to me when, time and again, I would have industry people call me and make the point that they had been, one way or the other, denied any involvement in the 1962 negotiations. They certainly hoped that that would not be the case in any new international trade discussions.

I think it is imperative that we do have a close working relationship in this, and I would say, and I think through Ambassador Eberley's Office and the Office of the Special Trade Representative and the organization we have set up to reach into the industrial groups, we are getting a good communication. I would just hope that that would continue.

Senator Roth. Concern has also been expressed about the size of or dimension of authority granted the President to cut tariffs, that past experience has shown that U.S. negotiators have sort of taken this discretionary authority as their mandate to cut in that degree and that as a result, we have given much more than we have received. For that reason, it has been proposed that we ought to narrow the discretionary authority with respect to tariff cuts. Again, would any of you gentlemen care to comment on that?

Mr. McLellan. Senator Roth, that may be the cause, but I wonder if we really have not fielded the best we can in this effort of trade negotiation? As one speaking, and perhaps not all that directly acquainted, certainly personally, with the team that we have, I have certainly, over the past number of years, been able to track the activities, let us say, of Ambassador Eberle and the fine group of STR people on this job. I do not think there is any way that, short of having the best team you can out there and advising them as best is possible, as is provided in this bill through the policy and advisory committees, to do anything else than carry through with negotiations on the most effective basis. Clearly, it cannot be secondguessed by too many restrictions away from the negotiating table. And, of course, whatever is negotiated would have to have the support of the Congress anyway.

So I do not know that there is a better way that we could approach this complex problem than what we are doing at the present time.

Senator Roth. In other words, you see no serious problems from the standpoint of too broad a delegation of authority?

Mr. McLellan. No, I would not think so, Senator Roth. In the matter of alternatives, it is difficult, but, outside of tying up your negotiators to such a degree that they might not be effective at all, it would seem that this kind of grant of authority for negotiating purposes is the best approach that we can adopt.

Senator Roth. One or more of you have come out in favor of granting favorable treatment to the Communist countries. Let me ask you this question: How do you tell in the case of a government-controlled economy whether there is dumping or other unfair advantages given to the export of their goods?

Mr. McLellan. I would like to respond to that, Senator Roth.

The only way you can judge that, of course, is in terms of the price at which they put a product into a competitive market. You cannot really judge this if the Soviets are selling to the Communist countries of the Eastern Bloc because they can have a variety of trade relationships within the kind that we cannot compare with or judge. But if we are looking at the European markets, if we are looking at the competitive aspect of the products manufactured by Communist nations coming into the Western European market in contrast to trade within COMECON where you really cannot monitor or make sense out of it but if you are looking at the condition of products being sold in the Western European market, you really judge dumping only in terms of the competitive market pricing.

You appreciate that Communist countries, though, do not construct manufacturing costs as we do at all. We cannot compare manufacturing costs of our companies in the United States or the Western world with manufacturing costs in the Communist countries of Eastern Europe because they just do not recognize many elements of cost that we have to, for example. So there is no comparison of a cost basis.

But, you know, this problem of dumping really does not worry me in general terms. You can find some specific exception, but generally speaking, they would not worry me a great deal. First of all, the Eastern Communist countries know that it is not in their interest to go in and to be highly disruptive in trade situations because they are going to destroy the broader relationships that they seek in terms of building their economies based upon Western technology.

Second, in my judgment, they simply do not have the competence to do it. We hear a lot about this question of Soviet competition coming back to haunt us based upon our technology, and that assumes two things. It assumes that technology is static, and it is not; it is dynamic. So it is changing. Technology is not something you give a block of to somebody and that is the end of it: technology is a continum of development of a better way of doing things. So I think that we still have the Yankee ingenuity to stay a long way ahead of their technology development.

Second, the Soviets have such great demand internally for economic development and general active competence in terms of manufacturing efficiency on a broad basis in a complex society that it is going to be a very long time before we have to seriously worry about their competitive effect on the United States, in my opinion.

Senator Roth. One might be able to argue from the broad standpoint that the impact may not be that serious. At the same time, I sat yesterday and listened to a manufacturer of golf carts and heard the problems that they have faced with competition from Poland. It seems

to me, as we approach legislation, while we have to look at the broad aspects, it still does come right down and hit particular companies and the jobs of particular employees. So we have to look at it from that standpoint.

The thing that concerns me is that if we grant this favorable trade treatment—and I am not saying that I am opposed to it—but how do we insure fair treatment to those that are adversely affected?

Mr. McLellan. Well, I think you have the provisions for that. The condition, as I understand it, is one where the President grants the nonsignatory trade treatment and the credits. That is still subject to a continuing review. I am sure that if we find specific problems that we cannot negotiate away with them, we will simply have to take firmer action to deal with it. But as a matter of general policy, it seems to me, it would be a mistake to deny Communist countries the nondiscriminatory treatment we are talking about on a broad basis based upon relatively, in my judgment, few specific exceptions.

Senator Roth. One final question and then I shall defer to the chairman. That is, I was very much interested in the figures given, I think, by Mr. Higgins, on what it has meant to employment within a company. You may have heard Mr. Abel discuss the need for better figures in this area. Is there anywhere you know, even within the business community, that a careful study on the impact on jobs of American trade, both pro and con? We have had a number of individual companies, or areas tell about the impact, either pro or con, but I wonder what the net effect has been on this country.

Mr. Higgins. I think, Senator Roth, if I am not mistaken, and I have seen this—I am sorry I do not have a copy right here, and I am not quite sure what year it was—but not too long ago, a couple of years ago, I think, the Tariff Commission as a part of an overall study in international trade come up with some rather interesting and revealing figures that more or less supported the type of information that I have submitted. Now, obviously, a great number of individual companies have done this and they have made rather widely available these statistics-based data that they have used along this line.

I have reference in my comments to a number of organizations such as the Emergency Committee for American Trade—ECAT—firms such as the Business International, Department of Commerce's studies, and so on, that do have quite an extensive background of information that I am quite sure could tend to support the kind of information that I have indicated, Senator Roth.

Senator Roth. One study you make reference to, if I am correct, I believe, is primarily a study of multinational corporations—the Tariff Commission study.

Mr. Higgins. I believe that is true, yes, sir, but I do believe that it had within it some data and figures that would tend to support—I just happen to know from the standpoint of my own company, I have just seen it in other instances, reporting very lively. I have no reason to think otherwise. For instance, we have necessarily made some investment overseas. I really think this is true. You do not do this except defensively. It is not a case of investing in the United States, or some place, investing overseas or the United States. When the economic

conditions so dictate, it is a question of investing for the benefit of the total operation, including your own workers, overseas, or not doing it at all. When we have had to shift some production overseas, it was a question of simply doing it there or not doing it, because of that specific competitive problem at the time. And when we did that, over a 10-year period, let us say from 1962 to 1972, when we again necessarily were into this kind of a situation, we found that our employment went up by 50 percent in our own home factory, manufacturing that comparable product. And our exports doubled.

Now, that simply said that there is a reciprocal action, that it was necessary to support the action overseas in terms of tools, parts, and so on, that created employment here, that the investment overseas was not just an isolated instance of devoting capital elsewhere without a good benefit to the U.S. operation.

The principle there would apply more in what has happened I would say generally, with firms that have extended themselves in this way.

Senator ROTH. That is all the questions I have, Mr. Chairman.

The CHAIRMAN [presiding]. Thank you very much, gentlemen. I appreciate very much the fine statements you have presented this morning.

Mr. HIGGINS. Thank you.

Mr. MCLELLAN. Thank you.

Mr. ROPER. Thank you, Mr. Chairman.

[Material submitted by Messrs. Higgins and McLellan follow. Hearing continues on p. 1397.]

INTERNATIONAL TRADE CLUB OF CHICAGO, RICHARD D. HIGGINS, SECRETARY, ANALYSIS OF RESPONSES, TRADE INFORMATION QUESTIONNAIRE—OCTOBER, 1973

THE ROLE OF INTERNATIONAL TRADE IN THE ILLINOIS ECONOMY AND ON ILLINOIS JOBS

Responses: Trade, 44 Firms; Service, 22 Firms.

Trade responses to questions of Group A concern activities within the State of Illinois. Trade responses to questions of Group B concern activities of multistate or multinational firms, and were returned by a subsample of twenty-five Trade companies. Service firms received questions relating only to activities within the State of Illinois.

Columns under the heading Trade SS–A refer to subsamples of the Trade A responses, and are offered for comparative purposes, as explained below.

All data in the table are percentages of sample totals. Firms not reporting both components of a given ratio are ignored.

[In percent]

	Trade A		Trade SS–A		Trade B		Service	
	1971	1972	1971	1972	1971	1972	1971	1972
1. Value of exports as percentage of total shipments	21.0	20.7	8.9	6.8	16.8	17.2	75.7	77.4
Median		(9.6)						
2. Number of employees in foreign trade jobs as percentage of total employees	23.2	23.0	15.4	16.0	18.2	18.5	50.8	52.5
Median		(12.5)						
3. Number of minority-group employees as percentage of total employees	9.5	10.7	15.7	17.8	7.9	8.8	7.7	8.3
Median		(9.0)						(4.3)

Note: Additional general statistics—U.S. merchandise exports as fraction of GNP, 4.1 percent in 1971, 4.3 percent in 1972. U.S. exports of goods and services as fraction of GNP, 6.3 percent in 1971, 6.4 percent in 1972. Black employment in Illinois as fraction of total employment in Illinois, 11.3 percent.

ANALYSIS OF TABULATED RESULTS

1. Export marketing is important to the responding firms. Fully one-fifth or more of the dollar volume and of the jobs of these companies derives from export activity. In the case of the service firms, the relevant fraction is one-half or more. In fact, about two-thirds of the service firms answered that all of their dollar volume and all of their jobs depended on foreign trade. The high figures are nevertheless not surprising, insofar as the sample is biased—the responding firms are all members of a trade organization dedicated to the promotion of international business.

2. The figures of the Trade A columns are greater in all categories than the corresponding figures of the Trade B columns. This comparison indicates that international trade is more important to the Illinois operations of the responding firms than such trade is to their operations in other producing areas.

3. The median fractions of the first two lines of the table in the 1972 Trade A column are significantly lower than the reported means, indicating that foreign trade is correspondingly more important to the larger firms of the sample than to the smaller firms. This observation stimulated the calculation of the Trade SS–A columns, the upper four entries of which reflect the deletion of only one firm, albeit a dominant firm, from the sample. This firm, itself, accounted for 44.9% of the total reported Illinois volume in 1972, and claimed 38.5% of its volume in the export market. Accordingly, 17.3% of all reported Illinois volume was attributable to this firm's foreign trade. Although the remaining firms show lower statistics for volume of export trade and portion of jobs dependent on export trade, the figures are nevertheless significantly higher than for the typical firm across the American economy, again reflecting the sample bias.

4. Minority employment rates are commensurate with those of other industries. The slightly low figures of the third line of the Trade A columns reflect the fact that three of the large reporting firms have their principal manufacturing and process facilities in downstate Illinois, that is, outside the Chicago metropolitan area. Minority-group populations are proportionately smaller in these labor markets, and consequently the reports of the cited firms, which evidence no hiring bias, do not pressure on the overall sample minority hiring statistics. This pressure is relieved by removing the three firms from consideration. The minority employment factions for this subsample appear in the Trade SS–A columns, and they are indeed high, compared with national averages.

Minority employment in the reporting service firms, however, remains low, with an especially low median. Almost half of the reporting firms in fact reported no minority employees. Although these observations could *prima facie* indicate racial bias, the interpretation rather is that the low figures are a consequence of the management-intensive nature of the service firms. To date, minority groups are not as strongly represented in firms requiring special skills and education in most positions. Service firms tend to be small (in this survey only about 3% the size of a trade firm, by average volume), and deal with no unions, or else with highly specialized atypical unions, such as the Air Line Pilots Association. Again, no evidence exists to support a general racial or ethnic prejudice, so in time minority employment in the services should advance to the population norms.

TURNING POINT—AND THE MULTINATIONAL CORPORATION, AN ADDRESS BY ROBERT MCLELLAN, VICE PRESIDENT, FMC CORP.

I spent the week before last in the Soviet Union. This was my fifth visit to that country since 1960 and, when combined with my other travels during the past year to meet with business and government leaders in Japan, Hong Kong, Brazil, Mexico, Germany, France, Belgium, England, Oman, Kuwait, Iran and Turkey, I must say that I am most impressed with the changes I see taking place in the international affairs of the world. To be sure, we are constantly experiencing change, but it seems reasonable—if not obvious—to say that we are now at *a particularly significant* turning point and that it is appropriate, before a distinguished group such as this, to take a few minutes to examine why things are changing, what some of the characteristics of this change are—particularly as they relate to our international business interests—and to develop some conclusions as to how we may want to influence alternatives for the new directions that seem to be developing.

This turning point that we are experiencing has a variety of interesting and unique characteristics—not the least of which is the growing strength and the importance—and the challenges—to the multinational or global corporation. I

would like to examine some of these with you in a few moments, but to improve our perspective of the current turning point, I think a brief review of the post World War II era will be of help.

At the end of World War II, much of Western Europe, Eastern Europe, Japan and Southeast Asia stood in economic and physical shambles. Other parts of the world, largely classified as underdeveloped and possessed with a desire for political independence, were about to attempt self-management of their international economic affairs in spite of a lack of experience in such matters and frequently in spite of many missing ingredients necessary to the development of an internal economy.

At the other end of the spectrum, the United States was uniquely wealthy and in good operating order. We had an international reserve position of some $27 billion—representing ⅔ of the world's total monetary reserves. We had a well-developed technological base, and a society that had been brought together by a common national purpose inspired by World War II. In short, we were in the driver's seat, so far as world economic relationships were concerned, and we therefore took the leadership in the creation of the United Nations and its related multilateral agencies, such as the International Monetary Fund, the International Bank for Reconstruction and the General Agreement on Tariff and Trade. We were—however briefly—naive enough to think that the contest of military wills was over and that the entire world, under our leadership, would truly dedicate itself to economic achievement, political freedom and, hence, the creation of a peaceful world committed to individual happiness and liberty.

We were caught up short in this kind of thinking on several counts. Our poorest assessment was of the USSR leadership at that time, and their desire for an international position to support the expansion of their Marxist-Lenin philosophy. Because the Soviets had very limited, consumer-oriented, economic activity on which they could base their claim for international fame, they resorted to the alternative immediately available to them—a *military* competence. As a result of this, we in the U.S. soon determined that large-scale Communistic takeovers of territorities adjacent to the Soviet Union in the Middle East and in Western Europe could be avoided only by our sponsoring substantial programs of economic and military assistance.

This confrontation between the USSR and the U.S. was the cause of the international policies that the U.S. followed during the fifties and the sixties. These policies encouraged the transfer abroad of our country's technology, management skills and capital that were primary factors in building the dynamic and highly successful economies of Western Europe and Japan. These policies involved the outpouring of approximately $140 billion in military and economic assistance. Further, these policies ultimately encouraged our involvement in Viet Nam, with its terrible economic costs in terms of international payments and its crippling inflationary impact on our domestic economy from 1964 through 1971—not to mention the human suffering and the disruptions it brought to our domestic society.

During the post World War II years, our foreign policy was based essentially on military and political considerations and one that assumed our economic strength was unlimited. We believed we could afford to take a paternalistic and economically benevolent attitude toward the rest of the so-called Free World. Our diplomats often discouraged the aggressive pursuit of international business by American firms and tended to overlook the contribution that a strong international business position could make to an effective foreign policy. These policies, however well intended in our search for national—and world—security, steadily pushed our nation toward a condition of serious international weakness that finally became manifest in the trade deficits and dollar devaluations of 1971 and 1972.

But almost simultaneously with our recognition that the conditions of our international economic and military/political involvements were due for some very serious change, so, too—I believe—has the Soviet Union recognized that their policy of contributing to a Cold War confrontation no longer serves their national and international interests. I believe, and I fervently hope, that they and we can now conclude that the capacity for thermonuclear war is not just another step forward in man's development of military prowess, but that it is the ultimate end. Actually, it is beyond the end, and hence there can be no logical merit to further pursuit of destructive technology. And, if the Soviets recognize that more far-out military technology is irrelevant and that quantitative buildup also has its limits and can be matched, it seems fairly obvious that it follows

that they must now shift their efforts toward *internal* economic development. This shift is in response not only to their domestic need for substantial economic progress but also in recognition of the fact that the contest with the West for leadership in political philosophy will be won or lost in terms of economic capability—not in terms of military strength. This calls for some fundamental change in their strategy, and in time will surely cause significant change in our international policy.

The Soviets have great natural resources; they have great human resources; they do some fine scientific research; but they *need* the West's *applied technology*. And, incidentally, to make it work, they will undoubtedly have to encourage faster domestic economic progress and social change to motivate their people to greater performance. To get our technology, there must be political and economic quid pro quos, and here we are at a critical point. Whether we can find the appropriate balance remains to be seen, but it seems fundamental to me that both the Soviets and ourselves must make a determined effort to find a basis for economic detente as the cornerstone toward a sincere and workable political balance—if not political agreement. In this process, incidentally, I would hope that we would not attempt to overly influence their domestic social policies, at least until we have a closer relationship. This is still a fragile development and we of the United States must realize that we cannot suddenly extract from the Soviets all of our wishes for human freedom from a new economic relationship that has only begun.

As I mentioned, my relationship with the Soviets dates back to 1960 when I spent a month traveling fairly extensively throughout their country. I have been there on four occasions since that time, and additionally had the opportunity to work with their top officials while serving as Assistant Secretary of Commerce. Further, during Mr. Brezhnev's recent visit to the United States, he made it clear to some of us who met with him at Blair House that whatever the cause of the Cold War, it now must be terminated so that our two nations can create a new environment for world economic progress.

In my judgment, the Soviets are sincere in their desire to shift from a policy of Cold War/military confrontation vis-a-vis the United States and Western Europe to one of economic detente. To be sure, this shift in their policy is not because they have concluded that what they have been doing was wrong at the time, and it isn't because they want to be nice guys to us, but rather because they recognize that their aspirations for internal progress and for world leadership now require quite a different approach to the task.

I am sure that we will not see an abrupt change in their military posture, but I think we can have some confidence that the negotiations that have taken place during the past two years and that will continue to take place—particularly through the Mutual Balanced Force Reduction negotiations in Vienna—will gradually move the U.S. and the USSR from a Cold War confrontation to a cautious, but steadily growing, economic cooperation.

And so the crux of our turning point is that as the United States comes to an end of its era of economic superiority and paternalism vis-a-vis the Western world, the Soviet Union, coincidentally, is ready for a change from its policy of Cold War confrontation to one of economic cooperation. Virtually all of our other international economic policy issues will be affected by this fundamental change, and it is important, as we consider pending developments, that we keep this basic change in mind.

Let us turn then to consider a few of the principal characteristics that are already emerging and will continue to emerge as we experience this fundamental change in U.S.-USSR relationships.

First, there will surely be some basic changes in the relationship between the United States and Western Europe. The Europeans' need for our military and economic security is fast disappearing. The Western European economy is, as you all know, on a most dramatic growth trend and, in fact, its relative strength, as compared to the United States, became so distinct as to require successive devaluations of the dollar. As the Soviet military posture subsides, the practical, mutual defense tie that has bound the United States and Western Europe will diminish. This will tend to emphasize the growing sensitivity to industrial competition between Western Europe and the United States, as both of us search for raw materials in the USSR and third countries on the one hand, and seek to expand markets for our manufactured products on the other. I am confident that the basic cultural and mutual international business, banking

and investment ties of Western Europe and the United States will keep us close together, but surely the relationship of the next decade will be distinctly different from that of the past twenty years, and will undoubtedly contain periodic, but increasing, outbursts of criticism on one side of the Atlantic or the other.

Secondly, and similarly, our mutual, military security interests with Japan will diminish—rather rapidly, in my opinion. And much more than in the case of Europe, we will be faced with a competitive economic posture. The Japanese economy can exist only with access to raw materials from around the world, and with large international market penetration for its manufactured products. This will surely emphasize the competitive aspects of our relationship, in contrast to the relationship of the past. And, significantly, here we do not have the long tradition of a cultural relationship nor do we have the common fabric of mutual international investment between our two countries. The Japanese have seen fit to avoid any significant American investment in their economy. Further, while they have recently shown a greater interest in investment in the United States, it has been minimal in comparison to their desire to export to this market rather than to invest and produce in it. Surely the continuing strength of the U.S.-Japanese relationships will depend upon a much deeper economic relationship than can be provided by trade and licensing agreements alone, and I would hope that we will see much greater cross investment in one another's industry and commerce.

In considering our future relationship with Japan, however, we must recognize that they already have a highly developed commercial relationship with the Soviet Union—and one that is expanding very rapidly. This is based on Japan's need for Soviet raw materials and willingness to extend credits for the Japanese supply of equipment to extract the raw materials. This creates something of a competitive threat to a U.S.-Soviet alliance and will undoubtedly tend to move Japan from our sphere of influence towards the Soviet sphere. Obviously, Japan depends heavily on the U.S. for a market and also for needed imports—but the probability of a shift in the emphasis on our relations is very real, indeed.

Parenthetically, I want to emphasize here that it would not be in our national interest—and certainly not in the world's interest—to move from a Cold War confrontation with the USSR incorporating a close military/political relationship of Western Europe and Japan to one of close economic relationship with the USSR and incorporating intensive economic competitiveness with Europe and Japan. To the contrary, the world now requires a closer cooperation between *all nations* if we are to create the comprehensive opportunities for peace and security that man has been pursuing since the beginning of history.

Third, this turning point includes a new relationship with the Peoples' Republic of China, not only because of the Sino-Soviet split but also because of the PRC's desire to establish commercial relations necessary to her internal development plans. This will be a very slow process, by our standards, but it will offer sales opportunities to those U.S. firms who have the technology or products the leaders of the PRC decide they need.

And, fourth, one of the important characteristics of our time is the emergence of many nations from economic deprivation to a state of dramatic ecnomic achievements with fine prospects for continuing growth. I know many of you have seen, as I have, the dramatic changes that have taken place in countries like Brazil, Iran, Israel, Taiwan, South Korea, Singapore, Venezuela and Mexico—to name only a few. And coming right behind these are the nations somewhat lower on the economic development scale, but possessing the raw materials so badly needed by the developed nations. Rather suddenly there appears to be a large number of nations acquiring the financial resources to satisfy their badly needed, and enthusiastically sought after, goals of improved human comfort. These countries constitute new market opportunities, but these are opportunities that will not be realized according to the determinants of the past. King Faisal of Saudi Arabia, for example, has made it clear that he must proceed with industrial development so that his people will have something of permanent value when the oil is gone. Development of this type need not necessarily be efficient at the onset, but rather it must accommodate a long-term, political strategy. Further, we have just seen, during the past three weeks of the Middle East crisis, how sensitive these situations can be and how quickly the raw materials can be cut off in response to a political objective of the supply-

ing nation. In short, the point here is that one of the characteristics of our changing international relationships will be the new manner of relating to those developing nations who are exporters, or potential exporters of the petroleum and other raw materials the developed nations must have. These countries will offer significant market and investment opportunities, but will operate with a political independence heretofore unknown.

As we look at both the developed and developing nations of the world, we can see that almost imperceptively there has emerged a world economy in which common information generates the same economic appetites, aspirations and demands, cutting across national boundaries and languages and largely disregarding political ideologies. The world has become, in other words, one market—one global shopping center. Yet this world economy has a serious lack of the necessary world-wide economic institutions except for—and most importantly—the multinational or global corporation.

If we are, indeed, moving from a set of international relations based on military confrontation to a set based in a combination of economic cooperation, (and, at the same time, economic competition), we, in the U.S., should—in our own interest—take a look at our strengths as well as our weaknesses. While we have come to a serious state of international economic decline, in terms of something close to an $85 billion debt overhang in Europe, in terms of our third position (after Germany and Japan) in international monetary reserves, and in terms of the devaluation of the dollar needed to re-establish our international trade position, we do nonetheless have great strength in our natural resources, in our agriculture, in our people, in our social structure, and in the momentum of our economic system.

In international economic terms, however, it seems to me that our greatest strength lies in our multinational corporations. These are the firms that have established subsidiaries and branches around the world to develop raw material resources, to manufacture products for local and third country markets, and to provide the means for technological, management and capital transfers so necessary to international economic development. In the process, these firms have built up a foreign book investment of more than $150 billion dollars for the U.S., they have been the basis for a large segment of U.S. exports (and, hence, American jobs), and they have been the means of opening the eyes of many parochial Americans to the realities of the shrinking world in which we live. Our multinational corporations now account for something around 400 billions of dollars annually of international sales and, in the process, produce dividend and royalty income to the U.S. exceeding $10 billion—the largest contributor to our national balance of payments.

As we consider the function of multinational corporations, apart from their general technological, capital and management strength, we should recognize that they have a unique capacity to meet the economic development requirements of the less developed nations. There was a period when many LDC's sought foreign investment as a basis for import substitution. This encouraged the creation of small local subsidiaries of foreign companies that had limited markets and were, accordingly, low in efficiency of production and high-priced in their local products. This is shifting, however—and very successfully, in a number of countries—to a host country policy of seeking foreign investment to create an *export* capability. This provides the local subsidiary with a larger market, permitting more efficient production and, accordingly, lower domestic prices—while making a contribution to the host country's balance of payment. Brazil, for example, has nourished this technique, and in the process has seized the economic leadership of Latin America.

And yet, in spite of the global corporations' contribution to general international economic development, and in spite of the contribution of these companies to our domestic economic welfare, they have recently come under severe attack by members of Congress and our labor unions. The AFL–CIO has characterized the multinational corporations as a "Modern-day dinosaur which eats up the jobs of American workers."

In a brochure widely distributed earlier this year, the AFL–CIO solicited support of new federal legislation which, among other things:

Would impose further restrictions on the outflow of capital for U.S. direct investment abroad;

Would establish restrictions on the outflow of American technology; and

Would establish new policy with regard to taxation of foreign earnings by American companies and their foreign subsidiaries.

To clear up the misconception on which the AFL–CIO and the so-called Burke-Hartke proposals have been based, a number of studies have been undertaken to develop the *facts* surrounding the so-called multinational corporations. These studies have been conducted by the United States Department of Commerce, the United States Tariff Commission, the Emergency Committee for American Trade, and by Business International. Although these studies were conducted independently, they come to the same general conclusion: That the international business activities of American firms are vital to our domestic economic welfare.

The survey by Business International covered the activities of 125 U.S. manufacturing companies which, as a group, accounted for over 16% of 1970 U.S. factory shipments, over 26% of U.S. non-agricultural exports, and over 40% of U.S. foreign manufacturing investment. This study precipitated these facts:

Foreign Investment creates jobs at home.

The companies studied increased their net U.S. payrolls by more than 26% between 1960 and 1970. In the same period, U.S. manufacturers as a whole increased their payrolls by less than 11%.

The larger the foreign investment, the faster the rate of empolyment growth in the U.S.

In the ten-year period ending 1970, the sample companies with the most intensive foreign investment increased their payrolls three times as fast as firms with the least intensive foreign investment.

Foreign investment promotes overall sales.

During the 1960-70 period, the analyzed companies increased sales to U.S. customers by 104%. Sales to foreign customers rose by more than 300%.

Foreign investment produces chiefly for local overseas markets.

More than half the companies replying to the question, "Where do you sell goods produced in your overseas plants?" answered that between 90% and 100% of sales were to the foreign market in which the plants were located.

Foreign investment increases U.S. exports.

The participating companies had exports totaling $9.3 billion in 1970. Their exports rose almost twice as fast as those of all U.S. manufacturers between 1960 and 1970. Exports to their foreign affiliates rose almost three times as fast as the exports of all U.S. manufacturers.

The larger the foreign investment, the faster the export growth.

As with job growth in the 1960-70 period, companies with the highest rate of foreign investment increased their exports at a faster rate—more than 110%—than companies analyzed with the lowest foreign investment growth.

And, finally, foreign investment strengthens the U.S. balance of trade.

The surplus of exports over imports of the companies studied rose from less than $2 billion in 1962 to $5 billion in 1970.

These facts deny the wholesale condemnation of multinational corporations and particularly when the condemning is in the form of generalized, inflammatory invective without the foundation of any systematic study, so far as I know. Recognize with me—in three areas—the contradiction between their proposed solutions and the real facts of the problems to which they contend they are addressing themselves:

First, the Burke-Hartke proposals suggest further restrictions on the outflow of American industrial investment on the basis that such foreign investment permits American companies to produce abroad for shipment back to the domestic market.

To examine this, we should first recognize that American direct investment abroad is placed approximately ⅓ in Canada, ⅓ in Europe and ⅓ in the rest of the world.

Further, we need to understand that more than a third of our foreign investment has to do with American companies going abroad to obtain fuel and raw materials that are critical to our well being here at home. We can, therefore, eliminate any question of restricting capital outflow for those companies, based on the argument that they eliminate American jobs.

When we examine the manufacturing companies, and recognize that their investments are essentially in Canada and Europe, we must also recognize that these are both regions of the world with which we have maintained—if not always a surplus of trade—then generally a surplus on our total commercial activity, including return on our business investments, royalties and related fees.

Further, these are not the areas from which we have had chronic trade deficits caused by imports. To the contrary, our chronic trade deficits have been from Japan, where the United States in 1970 had only 2%—or $1.5 billion—of its foreign investment . . . practically no investment at all! By analysis, I hope it is absolutely clear that American foreign investment has not caused our nations trade deficits, and therefore any restriction on the outflow of capital would be counterproductive.

Second: The Burke-Hartke proposals to restrict the outflow of technology disclose a naivete that is frightening, when one considers the attention being given to these proposals thoughout the land and in the Congress. Technology cannot be restricted from flowing overseas, except by closing our communications and contact with the outside world. As new ideas develop and are applied here, they will be observed and eventually copied and modified by scientists, engineers and managers in other countries. Admittedly, under the Burke-Hartke initative, the transfer process may take a little more time, but transfer it will—and at no monetary benefit for the R&D investment made within the United States. It is important to note from the Tariff Commission Report on multinational firms released in February that in 1970 the inbound royalties and fees to U.S. firms were equivalent to 11% of the $17.9 billion spent on R&D by all U.S. industry and nearly one-fourth of total R&D spending financed by company—in contrast to federal—funds.

To impose restrictions on the transfer of technology and, accordingly, on the opportunity to earn royalties from doing so would have a negative impact on U.S. R&D employments and would have a serious negative effect on U.S. balance of payments. Additionally, it would retard the growth of the less developed nations, and, in my opinion, would contribute to a downward spiral in domestic technological development with an obvious slow-down in productivity so vitally needed for us to improve our export position.

Third: In the area of taxation, we again need to analyze the real situation and compare the proposed Burke-Hartke remedy. One form of tax change proposed by Burke-Hartke would be to impose a tax on the U.S. parent company on the current earnings of its foreign subsidiary operating in a country with a tax rate lower than that in the U.S.

In such a case, it would seem logical to me that the foreign government would move to institute a tax rate on current earnings of subsidiaries of U.S. companies equal to that which would be imposed by the United States Government. I can see no reason why a foreign government would stand aside while the U.S. Government imposes punitive taxation on legally constituted foreign subsidiaries of U.S. companies operating in that country. Simply stated, if a higher tax is to be imposed, I would think the foreign government would seek to obtain it for its own treasury.

Further, the Burke-Hartke view is that American corporations receive tax subsidies that cause them to move production offshore for shipments back to the U.S., thus causing a drop in U.S. employment.

An examination of last year's trade figures, as I mentioned previously, shows that of the $6.4 billion trade deficit, $4.2 billion was from Japan—a country where the United States has very little investment. Stated differently, about ⅔ of our trade deficit in 1972—and all of our deficit in 1971—can be attributed to Japan, where we have only 2% of our foreign direct investment.

I think it is clear that if imports are seriously affecting domestic employment, they are not coming from countries where U.S. firms have made significant investments and, therefore, the proposed taxation does not address the real problem. On the contrary, the studies I have cited show that our investment abroad has created, and continues to create, U.S. jobs.

I suspect the labor leader's problem is that he resents the mobility of the American corporation in contrast to the immobility of his own constituency. But we must not let his desire to keep our labor force immobile be the basis for national policy development. Look at where we would be if we had done this in our agricultural industry. From 1950 to 1970, we had reduced the jobs related to agriculture from 7.2 million to 3.5 million—and, at the same time, *tripled* output to make us the best fed people in the whole world.

U.S. agriculture provides $11 billion in exports, contributes about $3.5 billion to trade surplus, and is vital to our future trade position. But this industry did not improve its productivity and its contribution to our farmers and national welfare by refusing to accept the mobility of labor.

I come to the conclusion that at this turning point in our nation's international affairs, and as we stand at the threshold of opportunity for real progress between East and West and among the developed nations, but especially in many nations of the less developed world, that we should *support* and *not condemn* our multinational corporations. I would hope that our society will recognize that it is the American business establishment that is the principal means of providing for our country's domestic economic welfare, while extending our economic success to the areas of the world where it is still desperately needed—and I hope that our Congress will rise above the parochial interests of those who would condemn America to international economic retreat, isolation and failure when the need to participate is so great!

WORLD TRADE, WOOLLY THINKING AND THE WORKINGMAN, BY ROBERT MCLELLAN

Our nation—indeed, our world—has arrived at a point where the mechanisms for dealing with international monetary affairs and the rules governing trade among nations are clearly inadequate. We are faced with recurring crises in the international money markets; our nation's first trade deficits in this century are making headlines; U.S. labor unions charge that hundreds of thousands of American job opportunities have been lost to foreign competition; and, there are charges and counter-charges among nations of unfair trade practices. What has happened to create this state of affairs and what should be done?

This discussion will probably benefit from a brief historical review followed by examination of some of the discussions now taking place and some of the initiatives being advanced with regard to our nation's international economic policies. From this, we can make some assessment of how these initiatives relate to the real problems that we now face and whether they will serve us in the changing circumstances of the foreseeable future.

The liberal trade-protectionist struggle has been with the United States since the meeting of the First Congress in 1789. In the early days, protectionists successfully argued that high external tariffs would not only help put infant American industries on their feet but also could be an important source of revenue for the new young nation as well. Tariffs and quotas have continued to occupy Congressional time and attention every since.

In 1930, spurred by the beginnings of worldwide depression, Congress passed the Smoot-Hawley Bill, which set tariff rates at an all-time high. Because of foreign retaliation, U.S. exports collapsed—from $5.2 billion in 1929 to $1.6 billion in 1932, and imports fell from $4.4 billion to $1.3 billion.

Seeking a way to expand American exports, and to aid economic recovery at home and abroad, Congress passed the Trade Agreements Act of 1934. This law authorized the president to reduce U.S. tariffs in exchange for equivalent benefits from other countries. The liberal trade philosophy of the act governed U.S. trade policies for almost thirty years—and its tariff-reducing authority was extended eleven times between 1937 and 1958. Over the years, safeguards were added to protect American industries, but the basic intent of the act remained.

At the end of World War II, the trade situation, of course, had changed drastically. Much of Western Europe, Eastern Europe, Japan and Southeast Asia stood in economic and physical shambles. Other parts of the world, largely classified as underdeveloped and possessed with a desire for political independence, were about to attempt self-management of their international economic affairs—in spite of their lack of experience in such matters, and frequently in spite of many missing ingredients necessary to the development of an internal economy.

At the other end of the spectrum, the United States was uniquely wealthy and in good operating order. We had reserves of some $27 billion representing two-thirds of the world's reserve assets, a well-developed technological base, and a society that had been brought together by a common national purpose inspired by World War II.

Given these circumstances, it fell to the United States, both from a humanistic and a national security point of view, to take the leadership role in restructuring international affairs. This effort led to the creation of the United Nations, its related multilateral agencies, and especially the International Monetary Fund

and the International Bank for Reconstruction and Development—out of the Bretton Woods agreement—and the General Agreement of Tariff and Trade (GATT) in 1947.

At the end of World War II, we were—however briefly—naive enough to think that the contest of military wills was over and that the entire world under our leadership would truly dedicate itself to economic achievement, political freedom and, hence, the creation of a peaceful world committed to individual happiness and liberty.

We were caught up short in this kind of thinking on several counts. Our poorest assessment was of the U.S.S.R. leadership at that time, and their desire for an international position to support the export of their Marxist-Lenin theology. Because the U.S.S.R. had very limited economic competence on which it could base its claim for international fame, they resorted to the alternative immediately available to them—a military competence. As a result of this, we soon determined that we could avoid large scale Communist takeovers only by sponsoring substantial programs of economic and military assistance.

This was the basis of the international policies that the U.S. followed during the 50's and the 60's. These policies encouraged the transfer abroad of our country's technology, management skills and capital that were primary factors in building the dynamic and highly competitive economies of Western Europe and Japan.

Further, these policies involved the outpouring of approximately $140 billion in military and economic assistance—much of which, incidentally, had limited immediate economic benefit to many underdeveloped nations. These policies ultimately encouraged our involvement in Viet Nam with its terrible economic costs in terms of international payments and its crippling inflationary impact on our domestic economy from 1964 through 1971.

During the post World War II years, we have maintained a foreign policy based essentially on military and political considerations, and one that assumed our economic strength was unlimited. We believed we could afford to take a paternalistic and economically benevolent attitude toward the rest of the world. Our diplomats often discouraged the aggressive pursuit of international business by American firms and tended to overlook the contribution that a strong international business position could make to an effective foreign policy.

These policies, while well intended in our search for national—and world—security and economic well being, have nonetheless brought us to a condition of serious international weakness. We are now at a point where:

Our international reserves have diminished to approximately $13 billion, putting us in third position after Japan and Germany—causing the president to close the gold window at the time of the Smithsonian Agreement in December of 1971.

There has been a build-up of about $80 billion in foreign claims against the dollar—now non-convertible to gold on an official basis and creating inflationary problems and speculative activities abroad.

We have experienced our first trade deficits in this century—deficits of $2 billion in 1971 and $6.4 billion in 1972.

Our government spending abroad continues to exceed receipts. In 1971, the net governmental deficit affect on our balance of payments was somewhat in excess of $6 billion and included $4.7 billion in gross military expenditure outflow

While we can take some consolation from the fact that we have in excess of $80 billion book value of industrial investment abroad, this does little good strictly in terms of our current monetary problems, beyond the important fact that it produces a favorable balance of payments return of about $5 billion per year.

If we had an inexhaustible supply of gold in reserve, we would not have this problem. Or, if there was not a foreign call on our current assets of about $80 billion, we would not have this problem. Or, if we had sufficient trade surplus to maintain a favorable balance of payments to offset other expenditures, we would not have this problem. Unfortunately, these are not the circumstances and our international economic activities are such that we do have a problem, and, therefore, some changes must be made.

Because this is a complex problem, there is a tendency to develop proposals from a parochial point of view; to deal in generalities; and to engage in considerable woolly thinking both as to the problem's cause as well as to its solution.

At the outset, I think we should recognize that our international payments deficits have not been, and are not now, a result of our international business activities. U.S. commercial involvement abroad has consistently created a positive balance of payments effect from international trade and international corporate investments through 1971. The cause of our international payments problem is simply a result of U.S. Government spending abroad in excess of our commercial surpluses. It seems logical, therefore, that the first step in the correction of our problem is to eliminate that which is causing it.

We are still encountering a serious negative balance of payments impact for the cost of military activities in Japan and in Western Europe. This is in spite of the fact that Germany and Japan both have reserve positions greater than ours—in spite of the fact that both of these nations are running substantial trade surpluses with the United States, and in spite of the fact that both of these nations engage in restrictive practices with respect to those products that we could export to them at a comparative advantage. One can argue the security merits of our military presence in Japan and Germany, but it seems to me that it should be abundantly clear we can no longer afford the cost—in balance of payments terms.

Apart from terminating excessive governmental expenditures abroad, it should be understood that government of itself cannot do much to correct the problem that it has caused. It can really only create the environment in which American business can correct the problem.

For example, we should recognize that devaluations of the dollar are the result of our international economic problem and are not really effective solutions of the problem. To be sure, the devaluations we have experienced in December, 1971 and February, 1973 will, in due course, have some beneficial effect in the relative pricing of our goods overseas as compared with the foreign produced goods coming to this country. But, by observation, it is equally clear that the devaluation of 1971 failed to accomplish the improvement in trade balance that was projected at the time of that devaluation.

Much more important than devaluation, however, is the pressing need for a more effective mechanism to absorb the surplus of dollars now outside this country. The extent to which this should be done by unilateral U.S. government action and the extent to which it should be done through building a more responsive cooperative international mechanism is subject to considerable discussion, but I think it is clear that it is the responsibility of the United States Government and the governments of the free world countries to move promptly toward a more effective international monetary mechanism.

In conjunction with the elimination of excessive military expenditures abroad and the creation of an effective international monetary exchange mechanism, American business will be able to do its job in correcting our problem if American government will do its part in creating—with the other world governments—a set of trading rules that is fair to all. Further, these rules should provide the means to deal quickly with those countries that do not open their markets to the other countries of the world, while piling up payments surpluses to the detriment of the world's economic stability.

Fundamental to the solution of our problem, however, is the creation of a domestic policy environment that will permit, and indeed encourage, American companies to expand their international sales by becoming more competitive in international markets and, thereby, change the direction in the flow of dollars—by bringing them back to the United States. The primary characteristic of the proper domestic environment must be an effort to maintain wages and prices at constant levels so that we can re-establish our competitiveness on the international trade scene. This means that wage increases must be geared to productivity gains and that American industry must be accorded a tax policy that will encourage R&D investment in the most modern plant and in equipment to make these productivity gains possible.

It seems terribly unfortunate that at a time when American business needs the support of our entire nation to overcome our international economic problems, we are challenged by the AFL–CIO Industrial Union Department which characterizes multinational corporations as "a modern-day dinosaur which eats up the jobs of American workers."

In a brochure now being distributed, the AFL–CIO solicits support of the Burke-Hartke proposals which, among other things:

> would establish quotas on thousands of categories of imports based upon the 1965–1967 level;

would impose further restrictions on the outflow of capital for U.S. direct investment abroad;

would establish restrictions on the outflow of American technology; and,

would establish new policy with regard to taxation of foreign earnings by American companies and their foreign subsidiaries.

To clear up the misconceptions on which the AFL-CIO and the Burke-Hartke proposals have been based, a number of studies have been undertaken to develop the facts surrounding the so-called multinational corporations. These studies have been conducted by the United States Department of Commerce, the United States Tariff Commission, the Emergency Committee for American Trade, and by Business International. Although these studies were conducted independently, they come to the same general conclusion: That the international business activities of American firms are vital to our domestic economic welfare.

The survey by Business International covered the activities of 125 U.S. manufacturing companies which, as a group, accounted for over 16% of 1970 U.S. factory shipments, over 26% of U.S. non-agricultural exports, and over 40% of U.S. foreign manufacturing investment. This study precipitated these facts:

Foreign investment creates jobs at home. The companies studied increased their net U.S. payrolls by more than 26% between 1960 and 1970. In the same period, U.S. manufacturers as a whole increased their payrolls by less than 11%.

The larger the foreign investment, the faster the rate of employment growth in the U.S. In the ten-year period ending 1970, the sample companies with the most intensive foreign investment increased their payrolls three times as fast as firms with the least intensive foreign investment.

Foreign investment promotes overall sales. During the 1960–70 period, the analyzed companies increased sales to U.S. customers by 104%. Sales to foreign customers rose by more than 300%.

Foreign investment produces chiefly for local overseas markets. More than half the companies replying to the question, "Where do you sell goods produced in your overseas plants?" answered that between 90% and 100% of sales were to the foreign market in which the plants were located.

Foreign investment increases U.S. exports. The participating companies had exports totaling $9.3 billion in 1970. Their exports rose almost twice as fast as those of all U.S. manufacturers between 1960 and 1970. Exports to their foreign affiliates rose almost three times as fast as the exports of all U.S. manufacturers.

The larger the foreign investment, the faster the export growth. As with job growth in the 1960–70 period, companies with the highest rate of foreign investment increased their exports at a faster rate—more than 110%—than companies analyzed with the lowest foreign investment growth.

Imports from affiliates as a percent of U.S. sales (excluding the auto industry) were 0.6% in 1960, 0.7% in 1966, and 0.8% in 1970.

Foreign investment strengthens the U.S. balance of trade. The surplus of exports over imports of the companies studied rose from less than $2 billion in 1962 to $5 billion in 1970. During the same period, the U.S. trade surplus declined from $5.4 billion to $2.6 billion.

Foreign investment stimulates investment at home. While all U.S. manufacturers increased their spending in domestic plant equipment in 1970 by 121% over 1960, participating companies increased theirs by 178%.

These facts deny the wholesale condemnation of multinational corporations and particularly when the condemning is in the form of generalized, inflammatory invective without the foundation of any systematic study, so far as I know. It seems to me that the originators and the co-sponsors of the Burke-Hartke proposals are engaged in the worst kind of wooly thinking. Recognize with me—in four areas—the contradiction between their proposed solutions and the real facts of the problems to which they contend they are addressing themselves.

First: On the matter of quotas, they want to apply general constraints, both with respect to country of source, as well as to product category.

But how can we expect to maintain an expansion of our exports to nations—that are the source of troublesome shipments to the United States—when such nations are already in deficit in their trade account with respect to the United States?

This shows up in labor intensive, low technology industries—such as our shoe industry. In this case, a large part of the domestic unemployment has resulted

from imports of leather shoes produced in Italy and Spain. While I am concerned about the specific unemployment that these imports create, I am, at the same time, aware that we enjoy a substantial overall trade surplus with both of these countries. You can appreciate that the government of Spain, for example, is reluctant to be forced into a position of reducing its shipments of shoes to the United States when they are running a substantial trade deficit with our country. The same situation generally prevails with most regions of the world—with the primary, and glaring, exception of Japan.

This is our major problem area, so far as imports are concerned, and to undertake a program of general import quotas covering thousands of categories of products coming from nations where we have commercial *payments* surpluses, if not *trade* surpluses, is not to deal with the real cause of the problem, which is Japan. And the real solution lies in specific restraints with regard to Japanese imports, pending the development of fair international trade rules for all.

I shall return to the Japanese import problem in a few minutes, but I want to emphasize here that our government should not put the burden of correcting this problem on the back of Japanese political leaders. It is *our* problem and we should take the necessary action to moderate selected and unreasonable Japanese imports until the chronic and excessive imbalance is adjusted.

Continuing with the Burke-Hartke proposal to impose general quantitative quotas, we should recognize that this kind of a system would involve high bureaucratic expenses to administer which, at best, could never be fair in allocating import licenses to the importers, and certainly not be fair for the American consumer who, after all, is the American worker.

Second: The Burke-Hartke proposals suggest further restrictions on the outflow of American industrial investment on the basis that such foreign investment permits American companies to produce abroad for shipment back to the domestic market. To examine this, we should first recognize that American direct investment abroad is placed approximately ⅛ in Canada, ⅛ in Europe, and ⅓ in the rest of the world.

Further, we need to understand that more than a third of our foreign investment has to do with American companies going abroad to obtain fuel and raw materials that are critical to our well being here at home. We can, therefore, eliminate any question of restricting capital outflow for those companies.

When we examine the manufacturing companies, and recognize that their investments are essentially in Canada and Europe, we must also recognize that these are both regions of the world with which we have maintained—if not always a surplus of trade—then generally a surplus on our total commercial activity, including return on our business investments, royalties and related fees.

Further, these are not the areas from which we have had chronic trade deficits caused by imports. To the contrary, our chronic trade deficits are from Japan, where the United States in 1970 had only 2%—or $1.5 billion—of its foreign investment—practically no investment at all! By analysis, I hope it is absolutely clear that American foreign investment has not caused our nation's trade deficits, and therefore any restriction on the outflow of capital would be counterproductive.

Third: The Burke-Hartke proposals to restrict the outflow of technology disclose a naivete that is frightening, when one considers the attention being given to these proposals throughout the land and in the Congress. Technology cannot be restricted from flowing overseas, except by closing our communications and contact with the outside world. As new ideas develop and are applied here, they will be observed and eventually copied and modified by scientists, engineers, and managers in other countries. Admittedly, under the Burke-Hartke Bill, the transfer process may take a little more time, but transfer it will—and at no monetary benefit for the R&D investment made within the United States. It is important to note from the Tariff Commission Report on multinational firms released last month that in 1970 the inbound royalties and fees to U.S. firms were equivalent to 11% of the $17.9 billion spent on R&D by all U.S. industry and nearly one fourth of total R&D spending financed by company—in contrast to federal—funds.

To impose restrictions on the transfer of technology and, accordingly, on the opportunity to earn royalties from doing so would have a negative impact on U.S. R&D employment and would have a serious negative effect on U.S. balance of payments. Additionally, it would retard the growth of the less developed nations, and, in my opinion, would contribute to a downward spiral in domestic

technological development with an obvious slow-down in productivity so vitally needed for us to improve our export position.

Fourth: In the area of taxation, we again need to analyze the real situation and compare the proposed Burke-Hartke remedy. One form of tax change proposed by Burke-Hartke would be to impose a tax on a U.S. company on current earnings of a foreign subsidiary operating in a country with a tax rate lower than that in the U.S. In such a case, it would seem logical to me that the foreign government would move to institute a tax rate on current earnings of subsidiaries of U.S. companies equal to that which would be imposed by the United States Government. I can see no reason why a foreign government would stand aside while the U.S. Government imposes punitive taxation on legally constituted foreign subsidiaries of U.S. companies operating in that country. Simply stated, if a higher tax is to be imposed, I would think the foreign government would seek to obtain it for its own treasury.

Further, the Burke-Hartke view is that American corporations receive tax subsidies that cause them to move production offshore for shipments back to the U.S., thus causing a drop in U.S. employment.

An examination of last year's trade figures, as I mentioned previously, shows that of the $6.4 billion trade deficit, $4.2 billion was from Japan—a country where the United States has very little investment. Stated differently, about ⅔ of our trade deficit in 1972, and all of our deficit in 1971, can be attributed to Japan, where we have only 2% of our direct foreign investment.

I think it is clear that if imports are seriously affecting domestic employment, they are not coming from countries where U.S. firms have made significant investments and, therefore, the proposed taxation does not address the real problem. On the contrary, the studies I have cited show that our investment abroad has created, and continues to create, U.S. jobs.

Because so much of the "AFL–CIO-Burke-Hartke-antimultinational corporation" rhetoric is based on unemployment and tied to the cry for jobs for American workers, it is important to comb out of the woolly mass of labor statistics several basic facts regarding American jobs.

The current (February 1973) seasonally adjusted unemployment level is 5.1% of the civilian labor force. The total labor force contains $85.7 million people, and the number of unemployed is approximately 4.5 million. But of this 4.5 million, only 1.7 million (less than 2%) of the labor force are males over 20 years of age. Approximately 1.5 million are women over 20 years, and the remaining 1.3 million are youngsters 16 to 19 years of age.

During 1971 only 2.3 million workers became unemployed because they lost their previous jobs. The others had either left work voluntarily or were looking for work for the first time. More than 75% were unemployed for less than three months. Only 1.8 million were family breadwinners. And, for the teenage segment, more than half were in school and seeking part-time jobs.

I do not mean to disregard unemployment, but I do mean we should understand it, and for the benefit of the subject we are discussing, we should understand it in terms of our international economic problems.

In 1964, we had a trade *surplus* of $7 billion. That year employment *increased* by 1.5 million. In 1972, we had a trade *deficit* of $6.4 billion, but our employment *increased* by 2.6 million. In fact, U.S. employment—on a national basis—is really not import sensitive. It is U.S. domestic economy sensitive. The difficulty is that loss of jobs by imports are highly visible and give the labor leader and his political exponent in Congress a specific, from which he makes a sweeping, but false, generalization.

I suspect the labor leader's problem is that he resents the mobility of the American corporation in contrast to the immobility of his own constituency. But we must not let his desire to keep our labor force immobile be the basis for national policy development. Look at where we would be if we had done this in our agricultural industry. From 1950 to 1970, we have reduced the jobs related to agriculture from 7.2 million to 3.5 million—and, at the same time, have *tripled* output to make us the best fed people in the whole world.

U.S. agriculture provides $11 billion in exports, contributes about $3.5 billion to trade surplus, and is vital to our future trade position. But this industry did not improve its productivity and its contribution to our farmers and national welfare by refusing to accept the mobility of labor.

Conclusion: In the interest of the American working man and our entire society, it is important that we clear away the woolly thinking from our international economic policy deliberations. I would hope that we will develop an understanding throughout our society of the real causes of our problem. I would hope our government can take prompt steps to terminate excessive spending abroad, and to create the necessary monetary and trade mechanisms based on international equality, rather than U.S. paternalism. I would hope, particularly, that our society will recognize it is the American business establishment that is the means of correcting our international payments deficit, and that it behooves our entire nation to encourage the maintenance of the environment in which this can be accomplished.

Given the facts, I believe the American working man will see through the fog of union leadership to the clarity of the national interest—and his interest.

The CHAIRMAN. Next we shall call on Mr. Arthur A. DeSantis, executive secretary of the Italy-America Chamber of Commerce, Inc.

You may proceed, Mr. DeSantis.

STATEMENT OF ARTHUR A. DeSANTIS, EXECUTIVE SECRETARY, ON BEHALF OF ITALY-AMERICA CHAMBER OF COMMERCE, INC., ACCOMPANIED BY GUNTER VON CONRAD

Mr. DESANTIS. Mr. Chairman, members of the committee, for the record, my name is Arthur A. DeSantis and I am privileged to appear before you on behalf of the Italy-America Chamber of Commerce, Inc., under the laws of the State of New York. The Chamber's views on the pending Trade Reform Act of 1973 have been submitted in a statement and a summary, and with your permission, I shall highlight our main points of concern. If you have questions, I will, of course, be happy to answer them and for that purpose, we would like to have the liberty of conferring with Mr. Gunter von Conrad, of our customs and trade counsellors, Barnes, Richardson and Colburn, and we are prepared to submit some additional data for the record.

The CHAIRMAN. That may be done.

Mr. DESANTIS. The Italy-America Chamber of Commerce, Inc. is a membership corporation established in 1887 and presently chartered under the laws of the State of New York. It is composed of approximately 500 American corporations and businessmen vitally interested in trade relations between the United States and Italy.

Our appearance today is intended to support the basic purposes of H.R. 10710 and, in effect, we support authority for negotiations of duty reductions. We realize that much has been accomplished in prior negotiating rounds.

We also realize that certain commodities require special balances, be it in the form of special duties or in the form of export control guidance, for instance in the health area. But many tariff and nontariff barriers, even if once appropriate, are no longer warranted. These we believe the United States should be in a position to negotiate.

We understand, of course, the concern of the Congress in the difficult area of nontariff barriers to have the administration report back negotiation results. We hope this will provide a useful and workable mechanism in international negotiations.

We also endorse the safeguard provisions of the bill generally, although some specific problems deserve attention. Many of these problems have been ably discussed before this committee so that a

supplementary submission for the record of our position would suffice if desired.

We do wish to express our concern that the proposed changes in the escape clause will result in a great number of new petitions and possibly uncertainty. And uncertainty is the fear of every planning businessman, whether he is an American producer, a distributor, an importer, a foreign supplier or any other businessman. It appears to us that the Tariff Commission, already in effect, has liberalized the the interpretation of the escape clause and has made it an effective instrument of international trade relief. We are concerned that the substantial changes may bring out abuses, and we hope that the legislative expression in connection with the escape clause changes would note and forestall such abuse.

The Chamber fully endorses the proposed changes in the adjustment assistance provision of existing law. We believe that workers should not suffer due to changing trade practices. They should have prompt, effective, and substantial relief where needed. The Trade Reform Act seems to confer the proper relief.

The Chamber also endorses the provisions concerning extension of the most-favored-nation treatment and generalized preferences for less developed countries, with the note that the extension of these benefits should require some adequate quantification of economic results and commercial effects of these privileges. It appears to us that the trading community should know in some detail the prospective results of such benefits as they are being negotiated or prior to implementation.

Our main point is our wholehearted support of the proposal that industry, labor, and the trade communities should have the fullest possible advisory access to negotiations. Our experience has shown us that the negotiators of our trading partners have had the advantage of very close advise of their constituencies during the negotiations. We believe that our American negotiators must have the same assistance and we believe that the trade bill goes a long way in developing an advisory system. We would urge that this very important aspect of successful negotiations should be emphasized and we hope that full opportunity will exist for all American groups interested in international trade to work with an assist our negotiators.

This concludes my highlighted remarks. May I add our appreciation for the opportunity of appearing before you?

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much for your statement, Mr. DeSantis. We will include it in the record. Thank you.

Mr. DESANTIS. Thank you, Mr. Chairman.

[The prepared statement of Mr. DeSantis follows:]

PREPARED STATEMENT OF ARTHUR A. DESANTIS, EXECUTIVE SECRETARY, ON BEHALF OF THE ITALY-AMERICA CHAMBER OF COMMERCE, INC.

Mr. Chairman and Members of the Committee: My name is Arthur A. DeSantis and I appear before you on behalf of the Italy-America Chamber of Commerce to present our views with respect to the pending Trade Reform Act and to offer such assistance as our Chamber can give you to aid in your deliberations.

The Italy-America Chamber of Commerce, Inc. is a membership corporation established in 1887 and presently chartered under the laws of the State of New York. It is composed of approximately 500 American corporations and businessmen vitually interested in trade relations between the United States and Italy.

Attached to the statement, I am submitting an up-to-date list of the standing committees of the Italy-America Chamber of Commerce and of its chairmen and co-chairmen.

Our Chamber takes pride in its record of assistance to the Congress and to the Administration with respect to a number of trade-policy related issues over the years. The Chamber has appeared before committees of the Senate, the House, and before a number of Administration agencies in matters affecting general trade policy, or such specific issues as crime on the waterfront, importation of cheese, shoes, and other commodities, and in an effort to assist the Congress and our trade negotiators with respect to both tariff and non-tariff barriers. In particular, we take satisfaction from our record of predictions-come-true. Thus, in 1970 when imports of footwear were a matter of great concern, we identified the changing trends in international footwear trade and the impact on US indus- Our prediction that Italian performance—which had been remarkable indeed—would be maintained at reasonable import levels, and would not increase to a point where it would be destructive of the very efficient US industry, stands as a mark of the Chamber's objectivity.

The purpose of our appearance before you today is to endorse the basic purposes of H.R. 10710. In particular, we believe that our Government must have the changing trends in international footwear trade and the impact on US industry. Our prediction that Italian performance—which had been remarkable indeed—would be maintained at reasonable import levels, and would not increase to a point where it would be destructive of the very efficient US industry, stands as a and our trading partners around the world.

Since economic policy is becoming a major instrument of international relations and foreign policy we appreciate, of course, that the Congress in giving authority to the President will wish to carefully describe the scope of this authority and the way in which it should be used. This purpose seems to be accomplished by the Trade Reform Act and although individual provisions may yet be changed, we believe, on balance, that the bill provides the necessary tools to move forward from the present position where the United States cannot make any trade agreement commitments. We believe that the opportunity to initiate action on the trade negotiating front is very important to all Americans interested in or affected by international trade, and we believe that the present legislation will be useful in opening up the opportunities for forward movement rather than restricting the United States to residual, retaliatory authority existing under prior trade laws. Further, US authority to take the initiative is most important because it appears that at the present time the initiative lies with other countries and that the United States is not in a position to respond adequately to ideas, threats, or promises. The United States must be in a position to develop advantageous trade relations or to respond properly to undesirable trade policy developments abroad.

Our Chamber agrees, in particular, with the provision of the bill which would provide basic authority for trade agreements including the duty reducing authority which would be given to the President. The harmonization of duty structures and the selective reduction of duties on a negotiated basis would go far to eliminate distortions which now exist in international trade solely on the basis of tariffs. In saying so, we make no judgment as to whether a particular tariff or how much a particular tariff should be reduced. We believe this is a matter which has to be considered on a line-by-line basis with respect to our tariff schedules. The same holds true with respect to the Brussels Tariff Schedules, if our structure is transformed into the Brussels format: A specific level of tariff protection must be a matter of individual consideration of the industry involved so that our trade policy experts in various Government departments and agencies and our negotiators may have the specific and practical advice of the industry.

Similarly, we endorse the authority which the bill would provide the President for negotiating non-tariff barriers. It is much more difficult, however, to make a general statement in this regard, particularly because the scope and burden of individual barriers are largely unknown and very difficult to quantify. It is, we appreciate, very difficult to establish reliable guidelines for negotiation of the deletion of a specific trade barrier as juxtaposed to a deletion of a similar barrier in a foreign country. We can foresee that non-tariff barrier negotiations, if closely restricted to specific commodity fields cannot be too productive because often a quid-pro-quo cannot be found for the removal of a non-tariff barrier in the same field by two, much less more, countries. We would urge, therefore, that the scope of negotiations with regard to non-tariff barriers be drawn broadly, and

we see little harm in so doing since negotiation results on non-tariff barriers must be returned to the Congress for a review procedure. We do have a number of particular concerns regarding non-tariff barriers. For instance, although there are listings of existing barriers with respect to a number of countries in official records, such as the Committee Print of the Ways and Means Committee, and although we in our Chamber have our own views with respect to what is a barrier here or abroad, international traders and the public at large have not been in a position to adequately review all barriers and hence are not in a position to offer suggestions as to proper subjects for negotiation all with respect to a potential quid-pro-quo. It is our understanding that the Secretariat of the General Agreement on Tariffs and Trade is still restricting the availability of its total non-tariff barrier lists to members of participating administrations in the GATT, but not making them available to the public at large. We believe it would be very useful to have it made clear in our legislative process that our Government should be in a position to make all information available to the public and not to be restrained by institutional restrictions which may now exist. Even if our Chamber is in a position to develop profiles and details on an individual trade barrier—and I hasten to add that our Government has been most helpful in informing us on specifics—our individual members or committees are not now in a position to form a comprehensive view as to how their problems may be negotiated, without meeting an excessive research and analysis task. The free availability of all GATT information will go a long way to assist our members, the Chamber, and the trade community at large.

With respect to the so-called safeguard procedures, the Chamber also endorses, generally, the approach taken by H.R. 10710. We do so, notwithstanding specific concerns arising from the proposed changes in several safeguard laws, such as the international anti-dumping act, the countervailing duty statute, fair trade provisions of section 337 and others. With respect to the Antidumping Act, we believe that the statutory enactment, now proposed, of recent regulatory changes which clearly contradict existing court decisions will be most detrimental to investment, to US labor, and to trade relations in general. I refer here to the proposed statutory change which would allow disregard of established valuation practices under the Antidumping law where so-called "exporter's sales price" comparisons are made. The question of what valuation was proper has long been considered settled by a decision of the US Customs court in the *Sherwin-Williams* case, and in reliance on that decision, major investments have been made. Not only would such investments in the US be avoided if the unfortunate regulation attains the status and force of law, previous investments would likely become the subject of review with potential adverse effects upon US workers in the affected establishment. Moreover, our trading partners might be justified in deploring the loss of international trade stability which must result if judicial precedent in the trade area is abolished without necessity. Our pride in our system of law, and—most importantly for the businessmen—its stability and reliability, will be seriously undermined by this unwarranted change.

However, with the exception of specific problems on antidumping, countervailing, and patent enforcement, the Chamber approves the basic safeguard approach with regard to these statutes taken by the Trade Reform Act. We are, moreover, in full concurrence with the proposals for improving existing adjustment assistance for firms and workers affected by distortions arising from international trade.

Our support for the proposed changes in the Escape Clause is more qualified; although our members—having had experience with Escape Clause investigations and their burdensome demands—would agree generally that a workable escape valve is necessary, and that the present Escape Clause might be clarified, we have doubts that the sweeping changes now proposed, which will create a massive burden of new cases, are really required. In particular, the removal of concession relation criteria from the law appears to serve only the purpose of introducing additional uncertainty into the appraisal of international trade performance, without guaranteeing the stability of US industries in the US market. We would point out, that the Tariff Commission has already within its powers the opportunity to interpret the application of existing criteria—and has indeed so interpreted them—that it may be unnecessary to make the sweeping changes which are now proposed. However, whatever changes the Congress in its wisdom enacts, we urge here that proper steps be taken to prevent abuse and to develop Escape Clause criteria which will allow American and international businessmen to predict with some certainty whether they may safely promote trade or—

if an Escape Clause petition is lodged by an affected US industry, whether it has merit.

This, we would add, would also be our view with respect to other safeguards. The administration of safeguards, unless clearly circumscribed and supervised, can do more harm than good. The most important criterion in our view, to take into consideration in *all* safeguard areas, is the necessity for the businessman, be it a domestic producer, an importer, a foreign manufacturer, or a multinational corporation, to know within reasonable degrees of certainty and predictibility what the law is and what to expect from the administration of such safeguards.

We have few comments to offer with respect to those provisions of the proposed law dealing with most-favored-nation status or non-market economies. With regard to the trade effects if this title of H.R. 10710 is enacted, we would like to comment that it would appear most important to seek to determine the trade effects in terms of merchandise and in terms of balance of payments if goods from Communist countries are permitted the same access as merchandise from other countries in terms of importation. The most important immediate effect would be, of course, to permit entry of such goods under the duty rates set forth in column 1 of the Tariff Schedules of the United States, rather than the much higher column 2 rates most of which represent the old statutory rates dating back to 1934. We have not seen a great deal of analysis what this would mean in terms of trade and we believe as this is negotiated with non-market economy countries that a fair determination would be made on the effect in international trade of this liberalizaton. Another result of most-favored-nation treatment would be to relieve the trade both in export and import from the restrictions which are now being imposed, be it in terms of limited access for Communist goods much of which has already been liberalized, or be it in terms of liberalization of export controls, because the goods for many non-market economy countries are still under relatively tight control under categories S and Z of the Export Commodity Control lists. Again, we believe that a quantification of the trade effects would be most important in order to be able to judge the effect of what we would receive and what we would offer such countries if such status is accorded them.

Concerning Title V dealing with preferences for developing countries, it is our view that since other countries have long made available generalized preferences to developing countries, it is appropriate for the United States to also develop and make available a scheme of preferences which will adequately reflect this country's position taking into consideration particularly the provisions which already exist in this area as they are being afforded by European countries and Japan most notably. In this regard, it is proper to point out that less developed countries or developing countries have been the suppliers of raw materials and we are beginning to experience the need for a great number of raw materials not only energy but for instance certain metals are in relatively short supply in the United States and we would believe it an important consideration to seek to secure a source of supply. On the other hand, we fully understand that developing countries are seeking investment so that they may advance their industries, and these desires can be balanced against our raw material needs. There are appropriate quid proquos which we believe can be very advantageously worked out.

The point we consider most crucial to the entire Trade Reform Act and the negotiations which it would authorize is contained in Chapter 3 of Title I, and in particular in the provisions dealing with industry and public advisory participation in the trade negotiations. We have observed that over many years the negotiators of our trading partners have had the benefit of the closest advice of their industry right during the negotiations and, of course, extensive preparations before then. In some cases, it developed that the negotiators were themselves representatives of the industries involved who were in some way or other commissioned by their governments to undertake these negotiations. On the other hand, we have followed concepts which have permitted hearings and which have permitted views to be expressed, but which by and large have left the matter of negotiations to a group of experts who often confronted our trading partners without the benefit of industry sitting at their elbows and right behind them in the conference room. We are pleased to see in the Trade Reform Act that the concern of negotiatory advice and participation has been noted, and that the Administration both recognizes the importance and need for such advices, and

that the Ways and Means Committee has placed in the bill provisions which assure that such advice will be available and forthcoming. We hope that it will be made clear by the Senate that if our trading partners enjoy the benefits of industry advice at or near the conference table, our negotiators should have the same privilege. We therefore hope that the provisions of the Trade bill might be strengthened in this regard. Similarly, we would believe it to be most advantageous, if Congress could be present through a delegation and sufficiently large permanent staff to very closely observe the progress of negotiations. Especially in the non-tariff barrier area, where results are to be presented to the Congress, the full understanding of such agreements to be reviewed would clearly make such indepths observation not only appropriate but highly advisable.

To summarize, the Italy-America Chamber of Commerce supports and urges the enactment of H.R. 10710 and we will gladly assist this committee with further information which you may desire.

Thank you Mr. Chairman and members of the Committee for this opportunity to present our views to you.

1973 Standing Committees—Chairman and Co-Chairmen

AIR TRANSPORTATION

Chairman: C. W. Pugh—Alitalia Airlines.
Co-Chair: J. Di Sano—H. W. Robinson, Inc.
Co-Chair: S. Paganucci—Seaboard World Airlines.
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ALCOHOLIC BEVERAGES

Chairman: J. Mariani, Jr.—Banfi Products, Inc.
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ALIMENTARY PRODUCTS DIVISION

Confectionery

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Co-Chair: F. Landrey—Andre' Prost, Inc.
Co-Chair: J. Ravegno—Buitoni Foods (Perugina).

Dairy Products

Chairman: E. Laraja—Progresso Foods.
Co-Chair: A. Antolini—Antolini Co., Ltd.
Co-Chair: P. Cannizzaro—L. Della Cella Co., Inc.

Meat Products

Chairman: M. Nevy—Galvanoni & Nevy Bros., Inc.
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FREIGHT FORWARDERS

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Chairman: C. Morelli—Boise-Griffin Steamship Co., Inc.
Co-Chair: A. Puglisi—Pustorino, Puglisi, Beban & Co.

METAL PRODUCTS

Chairman: A. B. Howard—A. B. Howard, Inc.
Co-Chair: G. Bonomo—Schiavone-Bonomo Corp.

PUBLICATIONS

Chairman: P. Treves—Italian Publications, Inc.
Co-Chair: N. Danesi Murray—Rizzoli International Bookstore.

SPECIAL EVENTS

Chairman: H. Potchtar—Toscany Imports, Ltd.
Co-Chair: N. De Luca—Pino L. De Luca, Inc.
Co-Chair: A. D'Alessandro—American Export Lines.
Co-Chair: C. Morelli—Boise-Griffin Steamship Co., Inc.

TEXTILE AND APPAREL

Chairman: C. Brambilla.
Co-Chair: R. Ruchs.
Co-Chair: D. Orsi—Orsi, Inc.

The CHAIRMAN. That concludes the morning session. This committee will resume its sessions on Monday morning at 10 a.m.

[At 11:45 a.m. the hearing recessed until Monday, April 1, 1974, at 10 a.m.]

TRADE REFORM ACT OF 1973

MONDAY, APRIL 1, 1974

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

The committee met, pursuant to recess, at 10 A.M., in room 2221, Dirksen Senate Office Building, Hon. Herman Talmadge, presiding.

Present: Senators Talmadge, Hartke, Byrd, Jr., of Virginia, Bennett, Dole, and Packwood.

Senator TALMADGE. The committee will please come to order.

This morning we resume our hearings on H.R. 10710, the Trade Reform Act. We have a long list of witnesses today, and each witness has been asked to confine his remarks to no longer than a 10-minute summary of the written statement. The 5-minute rule will be in effect for the questioning period.

Inasmuch as Senator Hartke has not yet arrived and the distinguished Congressman from Florida is here, will you proceed, Congressman Gibbons?

We are delighted to have you appear before our committee.

STATEMENT OF THE HON. SAM M. GIBBONS, A REPRESENTATIVE IN CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF THE STATE OF FLORIDA

Mr. GIBBONS. Thank you. It is a pleasure to be here.

I am reminded of the fact that today is the first day of April, but I do not wish to be classed as an April fool or a May, June, or July fool, or any kind of fool for that matter.

Senator TALMADGE. Let the record show that the Finance Committee takes judicial notice of the fact that you do not come in that category, Congressman.

[Laughter.]

Mr. GIBBONS. And I am going to try to be very conservative in the statements that I make and merely urge this committee to move very rapidly in developing a trade bill, Senator Talmadge. I think that now is the time to move forward on the trade bill.

It has been 12 years since we passed any kind of trade bill. Since 1967, our Government has been semiparalyzed without any effective trade bill.

The House-passed bill is a good bill. Like all other pieces of legislation, it is a compromise. It could stand some improving, and I am sure it will have some improving over here in your committee. And then it

will go to conference, and whatever happens then is, of course, up to the gods. Not being one of those conferees, I am very respectful of the acts that come from the conference, and I realize that there the art of compromise has to be exercised very judiciously.

The trade legislation that was finally developed by the House is the product of 5 months of intensive debate within the Ways and Means Committee, debate not only between witnesses before the committee but by the members of the committee. It took about 3½ months of debate within the committee as we developed this legislation. It was one of the most arduously developed pieces of legislation that I have had the privilege to participate in forming in the 5 years that I have been on the committee, and I was surprised that it passed the committee by a vote of 20 to 5.

It was a surprise, I think, to most of the members of the committee and to the House itself that there was as much unanimity about the bill as we finally developed. The bill passed the House, of course, with only one amendment and by a very substantial margin.

The House-passed bill is a great improvement over the existing law because it provides great flexibility as well as strength to our negotiators. And it sets forth a number of procedural safeguards for the process of developing future attempts to bargain in the international field. Not only is prior consultation required to a greater extent than ever before with industry and with consumers in this country, but also required is a kind of post-bargaining consultation or referral back to the Congress, to the House and to the Senate, of many of the decisions that will be made in this bargaining process.

Also, I think the trade bill takes fuller advantage of the uniqueness of the U.S. system of Government where, as contrasted with the parliamentary system of Government, the Congress is an equal partner in the process of making trade decisions. This can be used to our own advantage.

Now, I think most people, on whatever side they are on this issue, think that this is the time to move forward. There are so many problems facing our country and the world that we cannot afford to sit back and neglect the opportunity or the challenge to move forward on trade negotiations. I am referring to the energy shortage that we have had, the food shortages and other shortfalls that we are having, the worldwide inflation that we are having, and now is absolutely the time that the free nations in this world must work together cooperatively for the solution of our mutual problems.

Far too much attention has been given, in my opinion, in this whole debate to the problem of the most favored nation treatment of the Russian bloc nations and of the Export-Import Bank lending authority for these nations. This bill that you are considering is primarily an attempt to build a pact among the free nations of the world so that these free nations can strengthen themselves and can strengthen the fabric of freedom around the world. That is what this bill is all about. We are trying to strengthen the U.S. economy, the U.S. political system, and the free world economy and political system.

It is unfortunate that title IV was ever combined with this bill. It should not be the stumbling block of this bill. Any trade that we ever

hope to develop with the Russian bloc countries, the nonmarket countries, is going to be minimal. Primarily, we are likely to find ourselves importing from these countries raw products and semifinished products for which we have no other source of supply. I cannot foresee the time when we will ever be importing from them large amounts of consumer items, nor can I foresee a time at which they will be importing from us large amounts of consumer goods.

As I say, it was an unhappy marriage that put these two subject matters together—trade negotiations and our economic relations with the Soviet bloc. This is certainly one piece of legislation where we ought not to stumble over the problem of our relations with the Soviet bloc, because the whole thrust of this legislation is to help us in the United States and to help the rest of the free world to develop a stronger climate economically and politically—and not to try to solve all of the problems of East-West tension and detente and all of that.

I hope that America has recognized—I believe it has—that we cannot go it alone, that we live in an interdependent world. I try to point all of this out in the many pages of my statement here. I also try to point out why I think that now is the time to start to bargain on solving our trade problems.

As I said at the beginning of my testimony, I realize that today is April fool's day, and I do not come here proposing that everything is well in America and that we are omnipotent in the area of trade. Certainly we have our problems. But the American economy is strong. We have been infected by inflation, but this is a virus that has infected the whole world. And I think it is a virus that we can overcome and are overcoming.

Our economy is strong. We are in a mini-recession now, but I think it is like the bad weather we've been having. It is not going to last all week, all month, or all year. It is eventually going to go away, and the American economy is going to rebound. There are already plenty of signposts that our economy is rebounding strongly.

The energy shortage that has affected us—and no one knows how long it will last, but certainly it has not been nearly as bad as the dire predictions we faced last October and November—has affected us less and will affect us less than all of the other industrial nations of the world, and certainly a great deal less than it is affecting the lesser developed countries of the world.

We have partially solved the international monetary problem amongst the free nations of the world. We have not had a monetary crisis in two years. The dollar is strong. It is relatively stable. It is gaining strength all the time. Those of you who have had the opportunity to travel in other parts of the world know that the dollar is back in demand all over the world. It is as strong as any other currency in the world and is gaining strength daily. We have done what I think, will in the long-run turnout to be a very effective thing, reducing the value of the dollar with regard to its purchasing power overseas. I think this is one of the strong reasons why we are being as successful as we are now in our export trade. Also, we are beginning to tame our appetites for imports because of devaluation.

I think that the overvalued dollar, the long overvalued dollar, was the primary reason that the American businessman went overseas and established plants over there, and that we lost jobs to overseas plants.

Senator, I have heard the bell ring, and I know that my time has expired.

Senator TALMADGE. You in the House are accustomed to being called down on short notice. We in the Senate are not, as a general rule, but in view of the multiplicity of witnesses that wanted to be heard on this, we had to invoke by unanimous consent the limitation of time.

Mr. GIBBONS. I certainly understand your time problems, and I want to close by saying that now is the time to move forward on trade. It has been 12 years since we had a trade bill, but this is a good trade bill, and I know that the Senate will have a great many contributions to make to it.

Thank you, sir.

Senator TALMADGE. I appreciate so much your excellent statement.

Are there any questions?

[No response.]

Senator TALMADGE. Thank you very much, Congressman. We are honored to have you with us.

[The prepared statement of Congressman Gibbons follows:]

PREPARED STATEMENT BY HON. SAM M. GIBBONS, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

SUMMARY

I. Now is the time to move forward on trade

A. It is important to maintain the momentum toward a new round of trade negotiations by enacting a good trade bill as soon as possible. These negotiations, by further reducing barriers to world trade, will be of great benefit to the United States both economically and politically. They will also help to improve the climate for cooperative multilateral solutions to other world-wide economic problems. The need for such cooperative action has been made even more urgent by developments such as the actions of the OPEC supply cartel, food and energy shortfalls, rampant world inflation, and the danger of resurgent nationalism. Indeed, the world watches to see whether the United States is going to reassume our leadership in this area.

B. The United States has everything to gain from a new round of trade negotiations. Demand for U.S. exports is high and rising. The elimination of barriers to these exports would benefit us greatly. Also, we are dependent on trade for some of the raw materials we need. We can negotiate now from a position of strength. We have a strong economy and a strong dollar. We have been less affected by the four-fold increase in world crude oil prices in the past year than other nations.

II. The Trade Reform Act is a good bill

A. It grants to our able negotiators the strength and flexibility they need to negotiate mutually beneficial trade agreements. Yet it reasserts the power of Congress "to regulate foreign commerce." It provides for a great many procedural safeguards and consultation requirements to insure that U.S. workers, industries, farmers and consumers are helped rather than hurt by trade decisions. It makes relief from unreasonable import competition easier and quicker to get and more generous. It is an improvement both over present law and over the Administration's original proposal.

B. The trade bill is aimed basically at helping the countries of the free world solve their trade problems and strengthen their economies. We should not

lose sight of this fact. Too many people have tied the fate of the bill to the fate of Title IV, relating to our relations with the Soviet Union. While the bill does not change our laws relating to the taxation of income earned abroad by U.S. firms, this is being done elsewhere.

III. It is important for us to move forward in the area of trade

A. Not to do so would be to drift away from the cooperative, multilateral, institutionalized approach to our trade and other economic problems which has worked as well since World War II.

B. Economic relations are at the base of our political relations with other countries. If we do not negotiate to find solutions to these "pocketbook" issues which divide us, we cannot hope to settle our political differences.

STATEMENT

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to talk briefly about some of the considerations which I believe are very important as you begin to make decisions on the proposed Trade Reform Act.

I notice that the arguments you've been hearing on trade are pretty much the same ones that we on the Ways and Means Committee heard during our five months of deliberations on the trade bill. It was good to see that at least some of your witnesses praised the House-passed version of the bill as an improvement over the Administration's original proposal. I think this is so, and I sincerely hope that the decisions we made and the language we drafted will be helpful to you and may even shorten the time you have to spend marking up the bill.

As you know, the Ways and Means Committee is not known to be a bunch of free traders, and I can certainly vouch for the accuracy of that reputation. It came as a bit of a suprirse to many people, I think, that the trade bill finally approved by the Committee—by an overwhelming vote of 20 to 5—was as well balanced and as carefully drawn as it was. I have talked to both supporters and opponents of a continued expansion of world trade who feel that the bill we approved was, all things considered, quite a satisfactory one.

It grants to our negotiators the flexibility and strength they need to strike sound and mutually beneficial bargains with our trading partners, but it introduces a *great* number of procedural safeguards and consultation requirements —far more than were requested by the Administration. By providing for Congressional review and even possible veto of important trade decisions, it also gives real recognition to the Constitutional grant of power to the Congress to "regulate foreign commerce."

The House-passed bill is a real improvement over present law with regard to providing relief from the effects of unreasonable import competition. All forms of import relief are made easier and quicker to get and adjustment assistance is made more generous.

I didn't come here to pat myself on the back for the House-passed trade bill. Indeed, there are a few provisions in the bill that I would like to see deleted, and there are amendments which I fought for in the Committee that are not included in the bill. However, the decisions on all of these matters are now in your hands.

Now is the time to move forward on trade

The reason I asked to be heard by you is this: I believe strongly that a continued expansion of mutually beneficial trade among the nations of the world is very important to this country, both economically and politically. Therefore, the timely enactment of a good trade bill is deserving of our best efforts. In fact, such fairly recent developments as world-wide energy and food shortfalls and galloping inflation have made it even more urgent that we continue to assume world leadership in finding cooperative solutions to world-wide economic problems. The proposed trade bill is an integral part of our efforts in this area.

You are, of course, familiar with the traditional arguments on why trade is so important to us, so I won't dwell long on these. Many of you have seen in your own states just how important export business has become to many of our factories and farms. In an era of resource shortages, imports have also become

important to both consumers and producers. Today, more than 14% of our goods are exported, and about 14% of the goods we consume are imported. Some of our industries, such as the aerospace and agricultural chemical industries export 40-50% or more of their production. Moreover, we are dependent on imports for more than 50% of 6 of the 13 major raw materials needed by our industries.

It's no longer possible for us, or perhaps any nation, to cut off trade and investment flows and say that we will "go it alone." Trade and investment and the operations of the MNC have simply become an integral part of growing economies here and abroad. Our choice is not whether we will "allow these to exist" or not, but whether or not we will harness and regulate these phenomena for our benefit and that of the rest of the world—and whether this country will reassume the leadership role in this area that we assumed at the end of World War II.

Some of those who testified before the Ways and Means Committee painted trade issues in terms of black and white. All of us know that this is no longer possible, if it ever was. To be sure, the issues involved in trade are complex and politically sensitive ones. They cut right across employment problems, foreign policy attitudes, and the vested interests of numberless economic groups—and they cannot be solved easily. If they could, it would not have taken the Ways and Means Committee five months to report out a trade bill. Literally cutting off trade and investment, as some have suggested, would not have taken the Committee long at all. However, it soon became clear that such a step would have been no solution at all. Also, we realized that we could dismiss these issues, or not act on them, only at our peril.

The Ways and Means Committee soon found that some of those who testified on the trade bill simply did not want a trade bill enacted and had no interest whatsoever in working with the Committee to come up with a balanced bill. This was hard to understand, since some of these people would benefit greatly by the approval of a good, balanced trade bill. Nonetheless, these people continued to cling to their simplistic and illusionary proposals to virtually cut off trade and investment even after these had been rejected by large margins in the Committee.

It couldn't be more clear, it seems to me, that this country has everything to gain from approving a sensible trade bill and maintaining the momentum toward a new round of international trade negotiations designed to reduce the barriers to trade.

It's a puzzle to me that some people feel that this country should not enter into trade negotiations. It's not going to be easy to work out mutually beneficial trade agreements. Obviously, each country has to give up something for what it gets in terms of reducing the trade barriers that have been erected, and each trade agreement will affect economic interests in the various countries. However, the demand for U. S. products is great world-wide and it is growing fast. There are a great number of barriers to the entry of U. S. exports into other countries and we have everything to gain by at least undertaking trade negotiations and making a real start toward reducing trade barriers.

The U. S. economy is becoming ever more dependent on trade for continued growth and the reduction of trade barriers is becoming ever more important to us. Something which we sometimes tend to forget—that our businessmen discovered long ago—is that there's a great wide world beyond our borders which offers tremendous outlets for our products, as well as new sources of raw materials for our industries.

Right now, we can negotiate from a position of strength with our trading partners. Our economy is strong. We have been affected by the Arab oil boycott and the four-fold increase in the price of crude oil this last year far less than countries who are more dependent on imported oil for their energy supplies. The floating of national currencies has provided needed flexibility in the international monetary system, and the strength of our dollar in this new scheme of things reflects the strength of our economy.

It's been the fear of some that our trade negotiators would "sell out" certain American interests. This fear is, I think, baseless, and has been made completely irrelevant by those sections of the House-passed trade bill which require prenegotiation procedural safeguards and continuing close Congressional scrutiny of the negotiations and their results.

If we do not move forward in entering a new round of trade negotiations, we have much to lose besides the opportunity to eliminate or reduce existing barriers to U. S. exports. In the world economy, not to move forward is to drift backward toward the kind of economic stagnation, resurgent nationalism and isolationism which we knew in the 1930s, and even toward war itself. The sudden emergence of food and fuel shortfalls, rampant inflation, and high-cost oil has made this "drift backward" a potential headlong rush toward trade restrictionism and isolationism.

We saw what happened in the '30s, when we imposed the Smoot-Hawley tariffs in an attempt to reduce our depression-level unemployment. We found too late that the only result was trade retaliation by the other countries of the world, a worsening world-wide depression and economic conditions which helped lead up to World War II.

It's perhaps not too far-fetched to say that the economic conditions we face today present the same kind of challenge to a peaceful and continually functioning world economy as those of the 1930s.

The four-fold increase in world crude oil prices in the past year is likely to lead to balance of payments deficits for *all* of the developed countries. Already we are seeing our $1.7 billion trade surplus of last year pared down by the greatly increased prices we must pay for imported oil—and we are one of the countries of the world *least* affected by this phenomenon!

Already there are signs that some countries will try to pass their billions of dollars in balance of trade and payments deficits resulting from higher oil prices to other developed countries by import restrictions, unreasonable export subsidies, or competitive devaluations. This simply is not possible. There literally is no place to which these deficits can be passed. They share a common cause and they are shared by *all* developed countries.

This is to say nothing of the less developed countries. The food, energy and fertilizer shortages and the high prices they face today subject them to the real danger of not only even lower rates of economic growth, but, for some, even famine.

The severity of this problem cannot be overemphasized, for, as we've learned all too vividly in the past, world economic problems which are neglected spread like wildfire. This is more true every day, as countries become ever more interdependent.

We must and of course are making all kinds of different efforts on the international scene to resolve the economic conflicts relating to fuel and food shortages and rampant inflation. Nonetheless, if we do not pass a trade bill and embark on bold international trade negotiations, we will be losing quite an opportunity to resolve what have become urgent and sticky economic issues among nations. Since World War II, we have had a great deal of success in managing trade issues in the institutional framework and under the agreed upon rules of the GATT. The nature of these issues has changed dramatically in recent years. For instance, while import restrictions remain a problem, the management of resource shortages has emerged as a problem of similar importance.

This has not changed the fact that we must look to cooperative undertakings to find real and lasting solutions to these problems. The need for revision of the GATT rules to handle these problems—and for our countries to show the national will to look for multilateral solutions in an institutional framework such as the GATT—is urgent, for the danger of economic warfare and a real confrontation between rich and poor nations is great.

Also, it's clear that near-universal cooperation among nations is the only way for us to break the stranglehold of a supply cartel like OPEC.

In many ways, our economic relations with other nations are at the base of our political relations with them. If we do not negotiate to find solutions to these "pocketbook" issues which divide us, we cannot hope to settle our political differences.

Because of our differences over such things as how to react to the Arab oil embargo, how to treat the Soviet Union, and how to view the Atlantic alliance, we seem to be on a collision course with the Europeans in our political relations. Some wonder if the Europeans care whether they have any relations at all with us any more. However, I've just returned from talking with members of the European Parliament in Europe, and I know that the Europeans still look to us for leadership in settling difficult international economic issues.

They are watching us to see whether we have the political will to do any real negotiating on tough trade issues—whether we are willing to raise our sights from the economic irritations which rub against us day after day to a bold new attempt to not only try to resolve these day-to-day issues but also foster a new climate of cooperation in settling troublesome international economic problems—indeed, they watch to see whether we are even going to pass a trade bill.

It's also my observation from meeting with the European Parliamentarians from time to time over the past three years that the European Community is stronger, more unified, less concerned about internal matters and better prepared to make the decisions necessary for trade negotiations than they have ever been. I also know that the Europeans have finally abandoned their search for additional reverse preferences.

It's my firm personal belief that the continued expansion of mutually beneficial world trade and the increased contacts among nations which it brings not only redound to our economic welfare, but also help to build peace and understanding in the world. Certainly we've seen that the opposite of this is true—trade retaliation and economic warfare can lead to world-wide depression and actual warfare.

It's unfortunate that so much of the attention given to the trade bill has focused on Title IV. All of us are concerned over the conditions under which nondiscriminatory tariff treatment and Export-Import Bank credits should be granted to the Soviet Union. However, the thrust of the Trade Reform Act is to provide an opportunity for the *free nations* of the world to get together to work out their trade differences. What is most important is that we continue to expand this trade among the free world countries in order to strengthen the U.S. economy and other free world economies.

We should not lose sight of this fact, and the fate of the Trade Reform Act should definitely not rest with the fate of Title IV. Our trade with the communist countries is minimal and unlikely to amount to very much in the foreseeable future. While I believe that trade with these countries in nonmilitary items is desirable as an instrument of ending the isolation of these nonmarket economies and bringing these countries into the community of nations, our economic and political relations with our traditional allies must not be eclipsed by our concerns about East-West trade.

One of the most serious problems we are going to face for years to come is that of severe, world-wide inflation. Trade helps to allocate world resources better and can have a significant effect in keeping consumer prices down and also keeping producer costs down.

Already, nations have begun suspending some of their import restrictions for the stated purpose of combatting domestic inflation. We ourselves have done this, as in the case of our meat import quotas, and Title I of the House-passed trade bill provides a great deal more flexibility for this kind of action.

World-wide inflation makes it even more important that consumers be allowed the chance to purchase less expensive goods from abroad, especially when this does no harm to U.S. workers or industries. We have found that the resources of this world can be quite limited in some ways, and trade helps us to make the best possible use of these resources.

We are a rich country. Our standard of living is half again as great as that of the next richest country. We do indeed have our problems, but even in difficult times we should not forget our responsibilities toward the rest of the world, especially toward the poorest of countries.

Our trade with the less developed countries (LDCs) is of benefit to both them and us. This trade accounts for one-third of total U.S. trade. Last year alone, our trade surplus with these countries rose by a billion dollars, and much of the LDC foreign exchange earnings from this trade is used to buy goods in the United States. The development of the LDCs is of special interest to us, since it not only promotes peace and world stability but also provides expanded markets for U.S. exports.

The LDCs have been especially hard-hit by the greatly increased cost of petroleum products. It thus has become even more important that their products have access to the markets of developed countries, so that they can earn the foreign exchange they need to pay for their energy needs and also the goods they need to develop their economies.

With the great needs of the LDCs, it only makes sense that the developed countries should try to give the LDCs some kind of break in this trade. In fact, a commitment was made several years ago to do just this, and Europe and Japan have already taken steps to grant tariff preferences to the exports of the LDCs.

Title V of the House-passed trade bill would grant tariff preferences to the LDCs with quite strong safeguards designed to insure that this action does not adversely affect American workers and industries.

The Trade Reform Act is a good bill

Some have criticized the House-passed trade bill as "worse than no bill at all." I think you will find this charge to be baseless. Although I'm somewhat at a loss to understand why the charge is made, I suspect it may be because the bill does not deal with all aspects of our international economic policy. Frankly, the bill was never intended to do this. While a few other subjects might be included in the bill, it would not seem wise to try to do in one bill everything that should be done in this area. The field of trade itself is complex enough.

The House-passed bill does not address the issue of U.S. taxation of foreign [illegible] as they related to income earned and losses sustained abroad by our oil ment abroad and I have sponsored legislation designed to eliminate this. The Ways and Means Committee's windfall profits bill would tighten up our tax source income. I believe that our tax laws do provide some incentive for investcompanies. Further, the Committee will undoubtedly take further action in this area as we take up general tax reform, which is our next order of business, along with national health insurance.

It is my own view that the over-valuation of the dollar for so many years before the President's action of August 15, 1971, provided a far greater stimulus to investment abroad by U.S. businesses than any provisions of our tax laws have. The current floating of national currencies and the more realistic exchange rate of the U.S. dollar will do much to reduce, if not eliminate, excessive investment abroad by U.S. firms.

The House-passed trade bill does not touch on the very important subject of regulating the activities of the multinational corporation (MNC). A great deal of work needs to be done before we can establish a sound institutional framework and set of rules to guard countries from the excesses of MNC operations across national borders. However, work on this is already under way in the OECD, the United Nations and other agencies.

I've been involved in consultations on this subject with members of the European Parliament and the North Atlantic Assembly. It's clear to all of us that the need for timely multilateral action in this area is great.

Foreign investment and the operations of the MNC have perhaps displaced trade as the most important elements in the world economy. These cannot be neglected by governments, just as the problem of undue resort to export controls cannot be neglected.

The House-passed trade bill does not address the reform of the international monetary system, which is perhpas as important to the health of the world economy as anything else we do. Progress is being made on this front, although the frictions resulting from the actions of the Arab oil countries have impeded this.

Perhaps the most relevant new element which might be included in the Trade Reform Act is some kind of amendment relating to international agreements on the problem of short supplies and export controls. This is a most important area for your consideration. I know several of you have already proposed amendments of this sort.

Let us begin to move forward

These are some of the points I wanted to make to you because of my strong feelings about the importance of trade to us, economically and politically, and to the prospects for peace and prosperity on this fragile planet.

Besides enacting a good trade bill as soon as possible, I believe that it is also important that we take a more active role in exercising our Constitutional mandate to "regulate commerce with foreign nations."

Our trade and economic relations, as they grow ever more important, are also growing more complex. During the Ways and Means Committee delibera-

tions on trade, it became clear that many of our past trade decisions and policies were not well monitored by either the Executive Branch or by the Congress and some in fact were ill-considered to being with. More attention to this area, more oversight and more analysis of the facts surrounding specific types of trade are needed.

The Ways and Means Committee worked hard to try to make the House-passed trade bill one which would meet the legitimate grievances of those who might be adversely affected by trade. This was done by specific procedures whereby the facts and all appropriate views on a particular case could be presented in the open and a decision could be made by a set, orderly process. In my view, it is only by this kind of decision-making process that we can (1) restore eroding confidence in government, and (2) convince all affected parties, and the public, that our trade policies are made on the basis of the facts, not rhetoric or political pull, and that they are prudent ones which benefit rather than harm our workers, consumers, industries and farms.

It is my sincere hope that the trade bill which is finally approved will require us to pay more attention to our trade and other economic policies and to make better decisions in these areas. If we are to do a good job on this, we're also going to have to make sure that we have top-flight people staffing the important agencies which deal with trade, including the Tariff Commission.

The timely passage of a good trade bill will, I feel sure, go a long way toward minimizing our economic conflicts with other nations. The economic and political benefits which will flow from this will be enormous.

Thank you for your time.

Senator TALMADGE. Has Senator Hartke arrived yet?

The Chair is delighted to recognize one of our own distinguished members of this panel, the Senator from Indiana, the Honorable Vance Hartke.

Senator HARTKE. Good morning, Mr. Chairman.

Senator TALMADGE. We are delighted to have you with us on the other side of the table for a change.

Senator HARTKE. I just wanted to say the other side of the table, but maybe this is a better side of the table.

STATEMENT OF HON. VANCE HARTKE, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator HARTKE. It is 3 years ago that I stood before Congress and I warned at that time of the international trade and investment crisis which was then beginning to engulf us. At that time, I said that disorders in our foreign trade "would threaten the livelihood of most Americans and the status of this country as a world industrial leader."

Today, after two devaluations, the loss of thousands of domestic jobs, and blackmail in the international marketplace, we are in the very throes of that crisis. Its destructive effects continue unabated because we have failed to adopt a comprehensive course of assertive self-interest in world trade.

Unlike the Trade Reform Act, H.R. 10710, the Foreign Trade and Investment Act, S. 151, directly addresses the major irregularities

and problems of international finance and their effect upon the American economy. Specific mechanisms are provided for plugging tax loopholes which provides an incentive at the present time to invest abroad, correcting our balance-of-payments deficits, and assuring American jobs and preserving our industrial base.

The administration's bill contains no provisions to remove tax breaks on overseas investment, to regulate the wholesale exodus of America's newest technology and production units, nor does it combat the rising prices in the United States caused by our present trade and investment problems. In short, the President's bill is obsolete and dysfunctional.

Unless we address ourselves to the real trade problems with a comprehensive trade bill, crises like the one we are experiencing in energy will continue and worsen. The Foreign Trade and Investment Act, which I first introduced in 1971 and then again in January of 1973, can avert future crises.

Let us look at one that is before us right now, and that is tax loopholes, the international oil monopoly, and the U.S. dependence on Arab oil.

The United States is now dependent upon the Arab world for its supplies of oil and gas because our present tax structure provided the economic incentive for gigantic U.S.-based multinational petroleum companies to go abroad rather than to produce more oil at home.

The single most direct tax loophole available to corporations which move abroad is the foreign tax credit. Our tax laws provide that foreign subsidiaries of the U.S. corporations may credit their foreign taxes paid against the foreign source income tax liability of the parent corporation.

The multinational oil companies earned $1,085 million on mining and oil operations abroad in 1970, $1,085 million, but because of their use of the foreign tax credit loophole, these firms paid not one penny in U.S. taxes on that income.

The Arabian American Oil Co., Aramco, a huge oil producing consortium consisting of Exxon, Texaco, Mobil, Standard of California, and the Saudi Arabian Government, is the world's largest petroleum producer and the world's largest money raiser. But they are very skimpy U.S. taxpayers.

In 1973, the company had gross revenues of $8.7 billion and a net income of profits after taxes of $3.25 billion. How much did they pay to Uncle Sam, the U.S. Government? No income tax whatsoever and a meager $2.7 million in payroll taxes.

Mr. Chairman, I would like to submit an Aramco tax statement for the record.

Senator TALMADGE. Without objection, the entire statement will be inserted in the record, Senator Hartke.

[The material referred to follows. Testimony continues on p. 1430.]

Dividends declared by Aramco to shareholders[1]

1969	$706,255,896
1970	666,417,841
1971	810,528,926
1972	1,566,347,913
1973	2,592,871,189

[1] Exxon, Texaco, Mobil, and Standard Oil of California.

STATEMENT OF INCOME AND EARNINGS RETAINED IN THE BUSINESS (CONSOLIDATED)

[In thousands of dollars]

	Preliminary, 1973	Actual, 1972
Gross income:		
Sales to offtake buyers	8,580,091	4,504,598
Royalty oil deliveries	66,608	49,922
Local sales	58,077	32,514
Other income	4,620	1,629
Total	8,709,396	4,588,663
Costs and other deductions:		
Operating costs	294,773	185,534
Exploration expense	19,505	13,382
Dry hole and abandoned well expense	10,989	4,404
Trans-Arabian pipe line charges	58,256	56,450
Cost of oil (to) from inventories	(5,296)	67
Depreciation and amortization	94,262	65,131
Royalties and exactions	1,068,073	636,670
Cost of dividend oil	(10,889)	(106,405)
Provisions for taxes on income:		
Saudi Arabia	3,929,623	1,991,966
United States	2,757	4,773
Total	5,462,053	2,851,972
Net income	3,247,343	1,736,691
Earnings retained:		
Beginning of period	866,357	696,014
Total	4,113,700	2,432,705
Dividends declared:		
In cash	(2,581,981)	(1,459,943)
In oil	(10,889)	(106,405)
In stock	(58)	
End of period	1,520,772	866,357

EXHIBIT 2
STATEMENT OF FINANCIAL POSITION (CONSOLIDATED)

[In Thousands of dollars]

	Preliminary Dec. 31, 1973	Actual Dec. 31, 1972
Current assets:		
Cash in banks and on hand	$16,959	$12,281
Marketable securities	139,016	22,032
Accounts receivable—associated companies	1,929,191	918,115
Other receivables less reserves	42,392	12,237
Inventories:		
Crude oil, refined products, and other merchandise stocks	19,069	13,773
Materials and supplies	89,318	57,585
Total current assets	2,235,945	1,036,028
Current liabilities:		
Accounts payable	148,950	94,149
Dividends payable		291,161
Royalties payable—Saudi Arab Government	130,811	57,228
Salaries, wages, and employee plan deposits	4,886	5,793
Saudi Arab income taxes	1,311,416	598,455
U.S. income taxes	2,397	4,163
Employees' vacation accrual	3,099	2,533
Other accrued liabilities	43,648	37,199
Reserve for payments to be made to the Saudi Arab Government in accordance with the provisions of the general agreement dated Dec. 20, 1972, and related documents	122,600	
Total current liabilities	1,767,807	1,090,681
Net working capital	468,138	(54,658)
Properties, plant, and equipment:		
Tapline property, plant, and equipment	202,093	199,414
Producing and pipelines	935,959	614,138
Refinery and marine terminal	393,081	308,862
Drilling and exploration	26,155	25,384
Local sales	2,086	2,067
Motor, marine, aircraft and construction	38,903	36,937
General: Housing, utilities, etc	413,939	333,477
Development costs	261,516	184,394
Construction in progress	292,673	242,309
Total	2,566,405	1,946,982
Less accumulated depreciation and amortization	1,035,239	950,884
Net properties, plant, and equipment	1,531,166	996,098
Other assets and deferred charges:		
Long term loans and advances:		
Loans to local municipalities	5,845	6,430
Employee housing and other	18,706	16,142
Prepaid and deferred charges	29,233	32,917
Total other assets and deferred charges	53,784	55,489
Long term liabilities: Nondollar pension plans	37,867	24,281
Net assets	2,015,221	972,648
Represented by:		
Deposit received from the Saudi Arab Government in anticipation of issuance of capital shares by Aramco to implement, in the corporate form, the provisions of the general agreement between Aramco and the Saudi Arab Government dated Dec. 20, 1972, and related documents upon the negotiation and execution of a subscription agreement between Aramco and the Saudi Arab Government	535,000	
Capital stock, $100 par value	1,225	1,167
Capital received in excess of par value	105,124	105,124
Earnings retained in the business	1,520,772	866,357
Less amount reserved for payment to be made to Saudi Arab Government in accordance with the provisions of the general agreement dated Dec. 20, 1972, and related documents	146,900	
Net assets	2,015,221	972,648

EXHIBIT A

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION, DEC. 31, 1972 AND 1971

[Figures in parenthesis denote deduction]

	Dec. 31	
	1972	1971
Current assets:		
Cash (schedule 1)	$12,280,582	$10,633,15
U.S. Government securities, at cost which approximates quoted market value	22,032,290	13,920,343
Accounts receivable, associated companies (schedule 2)	918,114,674	581,109,717
Accounts receivable, other (schedule 2)	12,237,633	21,538,399
Inventories (schedule 3):		
Crude oil and products, at average cost which is less than market	13,773,014	13,841,345
Materials and supplies, at average cost	57,594,936	39,278,510
Total current assets	1,036,023,129	680,321,472
Less current liabilities (schedule 4):		
Accounts payable	94,148,409	38,857,639
Dividends payable, cash	291,161,473	125,000,000
Royalties payable, Saudi Arab Government	57,227,743	41,048,745
Accrued payrolls and vacation, and employee thrift plan deposits (less cash segregated for employee thrift plan deposits)	8,325,985	7,056,586
Accrued Saudi Arab income taxes	598,455,061	305,200,252
Accrued U.S. income taxes (note 3)	4,163,000	24,400
Other accrued liabilities and payables	37,199,340	50,912,400
Total current liabilities	1,090,681,011	565,100,022
Working capital (deficiency)	(54,657,882	112,221,450
Property, plant, and equipment (note 1 and schedule 5):		
Property, plant, and equipment, at cost	1,945,981,844	1,546,290,047
Less accumulated depreciation and amortization	953,894,200	887,436,694
Property, plant, and equipment, net	996,097,644	658,853,353
Other assets (schedule 6):		
Long-term loans, advances, and receivables	22,571,914	23,595,905
Deferred Saudi Arab income taxes (note 1)	19,321,334	13,962,974
Prepaid assets and other deferred charge	13,596,407	18,027,495
Total other assets	55,489,655	55,586,374
Total	936,929,417	826,661,177
Less noncurrent liabilities:		
Employee pension plans (note 2)	24,280,821	19,356,184
Lump sum consideration payments (noncurrent portion)		5,000,000
Total noncurrent liabilities	24,280,821	24,356,184
Net assets	972,648,595	802,304,993
Stockholders' equity:		
Capital stock, $100 par value, authorized, 11,667 shares; outstanding, 11,666⅔	1,166,667	1,166,660
Capital received in excess of par value of capital stock	105,124,500	105,124,000
Earnings retained in the business	866,357,429	696,013,000
Total stockholders' equity	972,648,596	802,304,000

Note: See notes to consolidated financial statements (exhibit D).

EXHIBIT B

ARABIAN AMERICAN OIL CO., AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME AND EARNINGS RETAINED IN THE BUSINESS FOR THE YEARS ENDED DEC. 31, 1972 AND 1971

[Figures in parenthesis denote deduction]

	1972	1971
Revenues:		
Net sales to buyers (stockholders or subsidiaries of stockholders) under off-take agreements (note 1 and schedule 7)	$4,504,597,613	$3,018,144,810
Royalty oil deliveries (schedule 8)	49,921,814	
Local sales (schedule 8)	32,513,723	31,263,169
Other income (schedule 8)	1,629,534	965,291
Total revenues	4,588,662,684	3,042,373,270
Cost of sales, expenses, and other deductions:		
Cost of sales (Schedule 9):		
Costs, operating, and general expenses, other than those listed below (schedule 10)	181,844,555	147,913,933
Royalties (schedule 16)	636,223,048	439,108,587
Trans-Arabian pipe line expenses (including depreciation and amortization: 1972, $5,198,389; 1971, $5,089,210) (schedule 17)	56,449,370	59,265,149
Depreciation and amortization other than depreciation and amortization included with Trans-Arabian pipeline expenses (schedule 5)	65,130,427	55,872,045
Exploration expenses (schedule 18)	13,382,176	7,868,326
Dry hole and abandoned well expense (schedule 5)	4,404,198	6,629,351
Decrease (increase) in inventories of crude oil and company products	67,206	(668,477)
Less cost of delivered dividend in kind (oil) included above (note 4)	(106,404,514)	(101,032,014)
Total cost of sales	851,096,466	614,956,900
Losses on materials and supplies (schedule 19)	624,640	493,386
Payments in lieu of barter oil supplemental payments		2,400,000
Provision for taxes on income:		
Saudi Arab income taxes:		
Current (schedule 20)	1,997,324,656	1,277,930,387
Deferred (note 1)	(5,358,360)	(2,871,704)
U.S. income taxes (note 3)	4,772,920	391,029
Exactions	446,400	291,587
Other deductions (schedule 19)	3,064,446	5,818,512
Total cost of sales, expenses, and other deductions	2,851,971,168	1,899,410,097
Net income	1,736,691,516	1,142,963,173
Earnings retained in the business at beginning of the year	696,013,826	363,574,579
Total	2,432,705,342	1,506,537,752
Less dividends declared (note 4):		
Special dividends, cash	157,943,399	193,491,912
General dividends:		
Cash	1,302,000,000	516,000,000
Crude oil (at annual average cost of crude oil)	106,404,514	101,032,014
Total dividends declared	1,566,347,913	810,523,926
Earnings retained in the business at end of the year	866,357,429	696,013,826

Note: See notes to consolidated financial statements (exhibit D).

EXHIBIT C

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION FOR THE YEARS ENDED DEC. 31, 1972, AND 1971

[Figures in parentheses denote deduction]

	1972	1971
Funds were provided by—		
Net income	$1,736,691,516	$1,142,963,173
Add expenses not requiring the current outlay of working capital:		
Depreciation and amortization (note 1)	70,328,816	60,961,255
Writeoff of dry-hole well costs and losses on retirement of capital assets	5,788,128	7,383,865
Other: Net (pension provision and deferred taxes)	(433,723)	2,707,454
Working capital provided from operations	1,812,374,737	1,214,015,747
Decrease (increase) in prepaid assets and other deferred charges	4,431,088	(15,268,835)
Decrease in long-term loans, advances, and receivables	1,023,991	4,208,447
Total funds provided	1,817,829,816	1,202,935,359
Funds were applied to—		
Dividends declared (note 4):		
Cash	1,459,943,399	709,491,912
Crude oil	106,404,514	101,032,014
Expenditures for property, plant, and equipment	413,361,235	163,802,626
Decrease (increase) in other noncurrent liabilities—offset in other deferred charges	5,000,000	(5,000,000)
Total funds applied	1,984,709,148	969,326,552
(Decrease) increase in net funds	(166,879,332)	233,608,807
Summary of significant changes in net funds by component:		
Increase in current assets:		
Accounts receivable—associated companies	337,004,957	298,723,575
Other	18,696,700	29,358,515
Total	355,701,657	328,082,090
Decrease (increase) in current liabilities:		
Accounts payable	(55,290,770)	(26,644,758)
Dividends payable—cash	(166,161,473)	198,000,000
Royalties payable—Saudi Arabia Government	(16,178,998)	(12,276,846)
Accrued Saudi Arabia income taxes	(293,254,809)	(226,316,034)
Other	8,305,061	(27,235,653)
Total	(252,580,989)	(94,473,283)
(Decrease) increase in net funds	(166,879,332)	233,608,807

Note: See notes to consolidated financial statements (exhibit D).

ARABIAN AMERICAN OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation policy

The accompanying consolidated financial statements include the accounts of Arabian American Oil Company (Aramco) and its subsidiaries; Trans-Arabian Pipe Line Company (Tapline), Aramco Realty Company, and Aramco Overseas Company, all of which are wholly-owned.

(b) Revenues—Net sales to buyers

The amounts reported in the accompanying Statement of Consolidated Income and Earnings Retained in the Business as Net Sales to Buyers represent amounts billed by Aramco to its stockholders or subsidiaries of stockholders based, with minor exceptions, on publicly offered prices for deliveries at Ras Tanura or Sidon, less applicable marketing allowances.

Under agreement with the Saudi Arab Government, Aramco bills substantially all sales of crude oil and refined products at the publicly offered prices of Aramco's offtakers, less the aforementioned allowances, where applicable.

(c) *Property, Plant, and Equipment*

The principal classes of property, including construction in progress, are summarized as follows:

	Dec. 31	
	1972	1971
Producing and pipelines	$614,138,316	$507,293,636
Refinery and marine terminal	308,862,468	236,840,211
General service	333,476,680	313,815,266
Tapline facilities	199,414,262	198,174,633
Construction in progress	242,309,246	102,590,635
Other	248,780,872	187,575,666
Total	1,946,981,844	1,546,290,047
Less accumulated depreciation and amortization	950,884,200	887,436,694
Property, plant and equipment—net	996,097,644	658,853,353

Property, plant, and equipment is depreciated or amortized generally on the straight-line method over the estimated useful lives (3 to 27 years) of the various classes of property. The cost of property, plant, and equipment retired or replaced, less salvage, is charged to accumulated depreciation and amortization with no effect on net income. Gains or losses arising from abnormal retirements or sales are credited or charged to income currently. Expenditures for maintenance and repairs are charged to income as incurred. Betterments or major renewals are capitalized and the assets replaced, if any, are retired.

(d) *Exploration and development costs*

Exploration costs are charged to income as incurred. See Note (e) below for information with respect to deferred Saudi Arab income taxes relating to certain exploration expenses.

Development costs are capitalized and are subsequently amortized over a ten-year period on the straight-line method. Costs relating to dry holes and abandoned wells, less the related accumulated amortization, are charged to income at the time such holes are determined to be dry or otherwise unproductive.

(e) *Deferred Saudi Arab income taxes*

Aramco's policy is to defer the effect of Saudi Arab income taxes paid or payable with respect to the difference between exploration expenses incurred subsequent to December 31, 1967 and the portion of such costs allowed for Saudi Arab income tax purposes. This policy has no effect on income taxes payable to the Saudi Arab Government.

(f) *Translation of foreign currencies*

All transactions consummated in currencies other than U.S. dollars are reported in U.S. dollars in the financial statements. Transactions in such currencies were translated to equivalent U.S. dollars at the average daily exchange rates for the preceding month and cash balances and asset and liability accounts requiring settlement in such currencies were translated at the market rates of exchange prevailing at the year-end.

2. EMPLOYEE PENSION PLANS

The companies have no-contributory retirement, severance and death benefit plans for employees on the Saudi royal and Lebanese payrolls and, in general, contributory plans covering substantially all of its employees on other payrolls. The actuarially computed liabilities with respect to these plans are covered either through funds deposited with trustees or by reserves provided therefore. The total expense, as actuarially determined, for 1972 under these plans amounted to approximately $7,090,000 which includes, as to certain of the plans, amortization of prior service costs over periods ranging from 10 to 31 years.

During 1972, the Company's contributory pension plan was amended to provide for reduced employee contributions and increased retirement benefits. In addition, certain of the actuarial assumptions used in the computation of pension cost for this plan were changed to give effect to recent experience of the plan. The net effect of these changes on 1972 net income was not significant.

The Saudi Arab Government promulgated, effective November 28, 1969, a labor law that provided, among other things, that employers make service award payments to qualified employees upon termination of their employment. The noncontributory plans for employees on the Saudi riyal payrolls have been modified to include the increased benefit provisions of the labor law.

3. UNITED STATES INCOME TAXES

During 1972 Aramco and Tapline reached agreement, in principle, with the Internal Revenue Service relative to the tax issues pending for the years 1957 through 1964. The estimate of the liability, with respect to those years, which is to be assumed by Aramco on behalf of Tapline, aggregates $4,163,000 including interest of $1,814,000 and has been provided for by Aramco in 1972.

Pending tax issues with respect to the years 1965 and 1966 have not been resolved, but in the opinion of Aramco's management and tax counsel, should any tax deficiency be assessed, the tax liability would not have a material adverse effect upon the company's consolidated financial position or results of operations.

4. STOCKHOLDERS, DIVIDENDS DECLARATIONS, AND EARNINGS PER SHARE

(a) Stockholders

The stockholders of Aramco at December 31, 1972 and their relative interests in the outstanding capital stock were as follows:

	Percent
Chevron Oceanic, Inc	30
Exxon Corporation—formerly Standard Oil Co. (New Jersey)	30
Mobil Oil Corp	10
Texaco Export Inc	30

(b) General dividends

Cash dividends declared by Aramco, other than the special dividends which are explained below, are declared payable at an equal rate per share. Dividends are also declared payable in oil on a pro rata basis (representing approximately 12% of 1972 crude oil production).

(c) Special dividends

Aramco's Certificate of Incorporation, as amended, provides that, unless the Board of Directors by unanimous vote of all its members shall determine otherwise, no dividends payable at an equal rate per share shall be paid until special dividends have been paid (which computed amount per share is not the same for every stockholder) in accordance with the procedure described in the amended Certificate of Incorporation. A resolution of the Board of Directors sets forth the considerations, principles, and definitions which apply in the computation of such special dividends.

(d) Earnings per share

Since Aramco's earnings are not distributed to stockholders at an equal rate per share, the amounts of earnings and dividends per share of capital stock are not presented in the accompanying Statement of Consolidated Income and Earnings Retained in the Business.

COMMITMENTS AND CONTINGENT LIABILITIES

During 1972, the Saudi Arab Government reasserted a retroactive claim with respect to the 2% road stamp tax which it claimed should have been withheld from employees' salaries for periods prior to September 18, 1963. Since September 1963, Aramco has been deducting the road stamp tax from the salaries of all employees for payment to the Government. It had been Aramco's understanding prior to that time that the road stamp tax was not intended to apply to any of its employees, and therefore, no deductions from salaries or other provisions therefor were made prior to 1963. It is the opinion of Aramco's general counsel that the Company has an adequate defense against such claim.

In addition to the above claim and other contingent liabilities and commitments which Aramco and its subsidiaries have with respect to loan agreements, guaranteed bank loans and construction and other commitments, there are various lawsuits, claims and other litigation matters pending against the com-

panies. In the opinion of management, the final disposition of these matters will not have a material adverse effect upon the companies' financial position.

6. SUBSEQUENT EVENTS

(a) Participation

Aramco, its stockholders and the Saudi Arab Government were parties to an agreement ("General Agreement") dated December 20, 1972 which provided, among other things, that effective January 1, 1973, the Saudi Arab Government, in return for a consideration yet to be finally determined, would have the right to purchase an initial twenty-five percent participation in Aramco's crude oil concession and have the right to purchase additional five percent increments of participation in each of the years 1978 through 1981 and six percent in 1982. As provided in the General Agreement, Aramco and the Saudi Arab Government are currently negotiating a separate agreement ("Implementing Agreement") to implement the provisions of the General Agreement and other matters relating to participation. The nature and form of such participation and the future financial effects thereof are to be determined in these negotiations.

(b) Devaluation

On February 13, 1973, the United States announced its intention to devalue the U.S. dollar by approximately ten percent. This is not expected to have a materially adverse effect on 1973 costs, as it relates to non-U.S. dollar assets and liabilities.

SCHEDULE 12

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

GOVERNMENT RELATIONS EXPENSES FOR THE YEARS ENDED DEC. 31, 1972 AND 1971

	1972	1971
Company representatives—Eastern Province, Jiddah, and Riyadh	$774,097	$786,136
Research and services	509,761	547,144
Administration expenses	241,771	166,557
Administration services, translation and interpretation	613,677	713,713
Land and lease	74,543	106,335
Total	2,213,849	2,319,885

SCHEDULE 13

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

U.S. OFFICE EXPENSES FOR THE YEARS ENDED DEC. 31, 1972 AND 1971

	1972	1971
Management	$284,347	$261,337
Administrative services	1,106,145	987,506
State and city franchise taxes	1,289,082	1,039,230
Manufacturing and oil supply	579,641	539,691
Purchasing and traffic	636,435	566,181
Comptroller's	318,371	315,093
Industrial relations	427,673	357,582
Employee benefits and payroll taxes	222,958	197,975
Law	268,839	261,403
Treasurer's	186,157	170,882
Public relations	73,236	69,513
Economics	56,883	51,517
Government relations	46,015	42,460
Total	5,489,782	4,870,370
Redistributions to other expense accounts	[1](573,641)	[1](570,740)
Total	4,916,141	4,299,630

[1] Deduction.

Note: The company has limited its deduction for 1972 for Saudi Arab income tax purposes to 90 percent of the total expenses above (before redistributions), as allowed in prior years under the terms of the Mar. 24, 1963, agreement between the Saudi Arab Government and Aramco.

SCHEDULE 15

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

PUBLIC RELATIONS EXPENSES FOR THE YEARS ENDED DEC. 31, 1972 AND 1971

	1972	1971
Photography and audio visual services	$189,452	$512,097
Local operating expenses	323,619	380,056
Publications, advertising and media operations	1,722,982	1,571,439
Public activities	315,413	285,746
Total	2,551,466	2,749,338

Note.—Most expenses in Saudi Arabia—less ½ million in United States—(World debt in United States).

SCHEDULE 16

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

ROYALTIES FOR THE YEARS ENDED DEC. 31, 1972 AND 1971

	1972	1971
Basic royalties on crude oil production:[1]		
Onshore	$358,362,437	$274,859,157
Offshore	162,654,835	103,340,440
Total	521,017,272	378,199,597
Additional royalties on export sales[2]	114,847,489	60,583,601
Royalties on natural gas production:		
Natural gas sales	27,203	22,564
Processed to raw liquefied petroleum gas	266,681	300,060
Processed to natural gasoline	64,403	2,765
Total	636,223,048	439,108,587

[1] Basic royalties on crude oil production were computed at 4 shillings, gold, per ton of crude oil plus an additional 5 cents per barrel for offshore crude oil, as provided in agreements with the Saudi Arab Government. Such basic royalties accrued on crude oil production through Mar. 31, 1972 and paid prior to May 8, 1972, were translated to U.S. dollars at the rate of $8.2397 per gold pound (approximately $1.65 per ton of oil). All basic royalties accrued on crude oil production subsequent to Mar. 31, 1972 and paid subsequent to May 8, 1972 were translated to U.S. dollars at the rate of $8.94596 per gold pound (approximately $1.79 per ton of oil). In computing royalty expense, the quantities of crude oil produced were reduced by the quantities of oil used in company operations, by the quantities of injected products, and by the quantities of free products to which the Saudi Arab Government is entitled under its agreements with Aramco. Accordingly, during 1972, royalty expense was computed after deduction of 3,786,462 barrels from onshore crude oil production of 1,534,365,984 barrels and 2,757,434 barrels from offshore production of 564,056,619 barrels.

[2] Under the terms of the letter agreement dated June 23, 1971 between Aramco and the Saudi Arab Government (Tehran implementing agreement), Aramco agreed to pay additional royalties on export sales of hydrocarbons (as defined) subsequent to Feb. 14, 1971 equal to the amount, if any, by which 12½ percent of the aggregate value of such sales, as described in note 3, exceeds the basic royalties on the production of such crude oil, as computed in note 1.

[3] Under the terms of the Jan. 25, 1965 agreement between the Saudi Arab Government and Aramco, royalties paid or payable with respect to (a) crude oil produced and delivered by Aramco, in lieu of royalties, to the Saudi Arab Government for export, (b) crude oil produced and sold by Aramco for export, and (c) the crude equivalent of refined products sold by Aramco for export and manufactured from crude oil produced by Aramco are to be treated as expenses for income tax purposes to the extent that they do not exceed 12½ percent of the aggregate value determined on the basis of the following prices:

(a) In the case of crude oil taken by the Saudi Arab Government for export in lieu of royalties, the simple arithmetical average of the published prices of Aramco's buyers applicable at the marine terminal of delivery to the grade, quality and gravity of crude oil so taken;

(b) in the case of all other crude oil exported, the published price of such crude oil (or in the case of unstabilized crude oil the published price of the stabilized component thereof) at the appropriate marine terminal of Aramco in Saudi Arabia; and

(c) in the case of all refined products, the published price applicable to the crude equivalent thereof at Ras Tanura, after deduction of the terminaling charges (deemed to be $0.02 per barrel as set forth in the Tehran implementing agreement referred to above).

The total of basic and additional royalties paid or payable in excess of 12½ percent of the aggregate value of export sales of hydrocarbons computed above and those relating to natural gas derivatives and to crude oil used in the manufacture of liquefied petroleum gas are treated as credits against income taxes.

Application of the terms described above resulted in $630,940,712 of the royalties being treated as expenses in the computation of Saudi Arab income taxes for 1972.

[4] Further information with respect to the application of royalties in the computation of Saudi Arab income taxes is set forth in schedule 20.

SCHEDULE 20

ARABIAN AMERICAN OIL CO. AND SUBSIDIARIES

BASIS OF COMPUTING SAUDI ARAB INCOME TAXES FOR THE YEAR ENDED DEC. 31, 1972

Consolidated net income (exhibit B)	$1,736,691,516
Add provision for taxes on income:	
Saudi Arab income taxes:	
Current	1,997,324,656
Deferred (see note 1 to consoildated financial statements)	(5,358,360)
United States income taxes	4,772,920
Total	1,996,739,216
Income before taxes thereon	3,733,430,732
Add:	
Exploration expense in excess of amount allowable	9,298,935
Trans-Arabian pipeline expense representing lump sum consideration payment to Saudi Arab Government	2,170,614
Donations not allowable	21,800
U.S. office expense not allowable	549,578
Net loss of a subsidiary company	630
Other items excluded	2,500
Subtotal	12,044,057
Total	3,745,474,789
Deduct:	
Cost of dividends in kind (oil) declared and paid	106,404,514
Amounts not applicable to operations in Saudi Arabia-interest income	1,290,369
Additional allowable depreciation-Saudi Arabia-Bahrain pipeline	248,463
Increase in Trans-Arabian Pipeline expenses in inventory at year-end	26,841
Subtotal	107,970,187
Net income subject to tax under royal decree no. 17/2/28/3321	3,637,504,602
Add amounts not deductible for determination of income subject to tax under royal decree No. 17/2/28/7634:	
Adjustment of deduction for royalities (note)	5,093,040
Exactions	446,400
Subtotal	5,539,440
Net income subject to tax under royal decree no. 17/2/28/7634 (forward)	3,643,044,042
Less amounts not subject to tax under royal decree No. M/28: Income not resulting from the sales of hydrocarbons for export	23,316,027
Net income subject to tax under royal decree No. M/28	3,619,728,015
Computation of taxes:	
Tax under royal decree No. 17/2/28/3321: Tax at 20 percent of net income subject to tax ($3,637,504,602)	727,500,920
Tax under royal decree No. 17/2/28/7634:	
Provisional tax at 50 percent of net income subject to tax ($3,643,044,042)	1,821,522,021
Subtractions:	
Tax under royal decree No. 17/2/28/3321, as shown above	727,500,920
Royalties allowable as a tax credit (Note)	4,737,366
Exactions	446,000
Total subtractions	732,684,686
Additional tax under royal decree No. 17/2/28/7634	1,088,837,335
Tax under royal decree No. M/28:	
Tax at 5 percent of net income subject to tax resulting from the sales of hydrocarbons for export ($3,619,728,015)	180,986,401
Total Saudi Arab income taxes	1,997,324,656

NOTES

Aramco is subject to the income tax on companies, royal decree No. 17/2/28/3321 of Nov. 2, 1950, and to the additional tax on companies engaged in the production of petroleum or other hydrocarbons, royal decree No. 17/2/28/7634 of Dec. 26, 1950, as amended. Under royal decree No. M/28 of Dec. 28, 1970, effective Nov. 14, 1970, Aramco became subject to an additional income tax of 5 percent on its net income subject to tax resulting from its sales of hydrocarbons for export.

In computing tax under royal decree No. 17/2/28/7634, the total royalties to be treated either as deductions from income or as subtractions from the provisional tax are those which become payable during the year. Although royalties on net crude oil do not become payable until the oil is run from field storage, Aramco, for accounting purposes, accrues royalties as the oil is produced. This practice of accruing royalties as oil is produced rather than when it is run from field storage, however, has no effect on net income because the amount of such accrual applicable to oil in field storage at any date is included in equal amounts in other accrued liabilities and in the inventory of oil in field storage. A summary of royalties included in inventories at Dec. 31, 1972 and 1971 follows:

	Royalties in inventories in field storage	Royalties paid or payable included in inventories other than field storage	Total royalties included in inventories
Dec. 31, 1972	$5,446,733	$2,861,981	$8,308,714
Dec. 31, 1971	4,901,763	3,217,655	8,119,418
Increase (decrease)	544,970	(355,674)	189,296

In the computation of tax for 1972 under royal decree No. 17/2/28/7634, the following adjustments to net income and to the subtractions from the provisional tax were made for royalties:

For adjustment of deductions:	
Accrued during the year on basis of production (per exhibit B)	$636,223,048
Subtract increase during year in royalties included in inventories as shown in above summary	189,296
Amount included in cost of sales in exhibit B	636,033,752
Less deduction allowable for tax purposes (as explained in note 3 to schedule 16)	630,940,712
Remainder, representing the portion of royalties included in cost of sales not deductible for tax purposes	5,093,040
For determining subtraction from provisional tax:	
Accrued during the year on basis of production (per exhibit B)	636,223,048
Subtract increase during year in royalties included in inventory of oil in field storage as shown in above summary	544,970
Amount paid or payable for year	635,678,078
Less portion of amount paid or payable allowable as a deduction for tax purposes (as above and as explained in Note 3 to Schedule 16)	630,940,712
Balance allowable as a subtraction from provisional tax	4,737,366

[From The Wall Street Journal, Thursday, March 28, 1974]

ARAMCO NET PUT AT $3.2 BILLION, HINTING NO. 1 OIL PRODUCER WORLD PROFIT LEADER

Indicated profits of Arabian American Oil Co., or Aramco, suggest that the world's biggest petroleum producer also is the world's biggest money maker.

Figures surfacing publicly yesterday at Washington hearings of the Senate Foreign Relations subcommittee on multinational corporations *show that Aramco's preliminary profits for 1973 surged to more than $3.2 billion.*

The figures indicated that revenue of the U.S.-Saudi Arabia consortium *rose to $8.7 billion.*

But Aramco, which furnished the figures to the Senate panel, called the financial statements as released by the subcommittee "grossly misleading in that they overstate the true earnings of Aramco's stockholders from Aramco's operations."

"POSTED" PRICES' EFFECT

Texaco Inc. and Exxon Corp. also took issue with the subcommittee's interpretation of the Aramco statistics. These two companies and Standard Oil Co. of California each hold a 22.5% interest in Aramco. Mobil Oil Corp. has 7.5%, and the remaining 25% is held by the Saudi government.

Both Texaco and Exxon noted that Aramco's billings to its owners for crude oil shared by them are based on "posted" prices—artificial figures used by producing governments to calculate taxes to be paid by the oil companies.

"Such posted prices are much higher than the actual market prices at which such oil is sold in international trade," a spokesman for Texaco said, adding: "The posted prices, therefore, give an inflated impression of the ultimate dollar values of the Saudi Arab oil after it has gone through the entire process required to reach the ultimate consumer."

George T. Piercy, a senior vice president of Exxon, said: "It isn't correct to consider that Aramco's reported profits in any way represent the real profits of Aramco shareholders or are indicative of other operations in the Middle East."

"UNDERLIFTER" BENEFITS

In Washington, the Church subcommittee also posted a series of charts intended to show the big companies used various "control mechanisms" to hold

down production in the Middle East during the 1960s, when supply gluts threatened price stability.

One chart suggested that Aramco was organized in a way to discourage any partner from taking a greater percentage of oil than its equity ownership in the joint venture. Conversely, an "underlifter" received disproportionate benefits. [In 1969, for example California Standard took less oil than it would have been entitled to take by reason of its 80% ownership of Aramco; the company's dividend from Aramco that year, expressed in cents per barrel, came to 79.2. Mobil, on the other hand, took substantially more than 10% of Aramco's output; that company's dividend from Aramco came to 59.4 cents a barrel.]

Similarly in Iran, a consortium dominated by the four Aramco partners plus Gulf Oil Corp., British Petroleum Co., Royal Dutch Shell and Cie. Francaise des Petroles devised a complex formula consistently pegging annual output at levels lower than desired by other partners, mostly smaller companies classed as independents. Exxon, Gulf, Texaco and California Standard almost invariably wanted to pump less oil than the other partners, prompting Sen. Church's staff to label these companies as "the four bears."

According to Mr. Piercy, Exxon's net profit on crude oil received from Aramco, based on sales by Exxon at world market prices, were approximately 34 cents a barrel in 1973—in contrast to the indicated $1.21-a-barrel profit reported by Aramco. Comparable profits, Mr. Piercy said, were realized by Exxon in 1971 and 1972. But in the prior decade, he added, Exxon's profits on Aramco crude ranged up to a level above 60 cents a barrel.

Nonetheless, members of the subcommittee, which is investigating operations of the international oil companies, noted that Aramaco's profits have been surging in line with the rapid rise in posted prices of Saudi Arabia's oil. At present posted prices, they indicated, Aramco's profits are as high as $4.50 a barrel. Senator Frank Church (D. Idaho), who heads the subcommittee, suggested that as a result Aramco doesn't have much incentive to hold posted prices down.

According to the subcommittee's figures, Aramco had net income in 1972 of $1.74 billion on revenue of $4.59 billion. This compared with 1971 net of $1.14 billion on revenue of $3 billion.

In 1972, the subcommittee reported, Aramco paid taxes and royalties to the Saudi government totaling $2.6 billion. In 1971, it paid taxes and royalties totaling about $1.7 billion.

Oil output by Aramco rose sharply last year, by nearly 600 million barrels to 2.68 billion barrels for all of 1973. Its taxes and royalties also rose, the panel said, to nearly $5 billion.

The panel also disclosed dividends paid by Aramco to its owners, which totaled $2.59 billion in 1973, $1.57 billion in 1972 and $810.5 million in 1971.

But Aramco said that the charts and analyses of its 'e'arnings" and "dividends" prepared by the subcommittee and based upon the financial statements furnished the panel are misleading without proper explanation.

Aramco noted that it is a producing company and isn't a marketing company. Its sales for export are made only to the owner companies or their affiliates. Its revenue and earnings are based on its billing prices to the companies. They aren't based on prices at which the companies sell the oil in international markets.

Posted prices, established unilaterally by the producing countries since last October, have quadrupled in recent months. In Saudi Arabia's case, where Aramco currently produces 8.3 million barrels a day, the posted price of a typical crude oil, Arab Light, has been $11.65 a barrel since Jan. 1.

Based on such a posting, Aramco pays the Saudi government $7 a barrel in taxes and royalties. Its "lifting" cost, or expenses of producing the oil, is only about 12 cents or 15 cents a barrel. Thus, its total "tax-paid cost" per barrel of oil produced is less than $7.15 a barrel.

Because the Saudi government requires it to sell the oil to its owner companies at the posted price, Aramco makes a "profit" of $4.50 a barrel currently.

TANGLED TRANSACTIONS

Posted prices are artificial, however, and true market prices for Saudi oil are $10 a barrel or less. That means transactions between Aramco and its owner companies take weird paths.

All the owner concerns have 'trading companies" whose sole purpose is to buy from Aramco at the posted price and sell, at a discount, at the market price. One such trading company, it was learned, has accumulated losses totaling $2 billion in this manner.

The owner companies of Aramco more than offset such "losses," however, with the "dividends" received from Aramco.

Typically, a transaction between Aramco and an owner company works like this:

The owner company takes one million barrels of Aramco crude, paying Aramco $11.65 a barrel cash, or a total of $11,650,000. The owner company sells the oil for perhaps as much as $10 a barrel, giving it a "loss" of $1,650,000.

Aramco, meanwhile, has paid the Saudi government $7 million (at $7 a barrel) and has operating costs totaling $150,000 for the million barrels. It therefore has netted a "profit" of $4.5 million, or $4.50 a barrel.

But Aramco then declares a "dividend"—perhaps equal to $3.50 a barrel after retaining something for capital expansion—giving the owner company $3.5 million on the million barrels. Subtracting its earlier "loss" of $1,650,000 on the transaction, the owner company has come out with a profit of $1,850,000.

[From the Indianapolis Star, Sunday, March 24, 1974]

DEPENDENCE ON FOREIGN OIL TRACED TO IRS "TAX" RULING

(By Richard E. Meyer)

Americans will live in jeopardy of oil shortages long after the first tanker of unembargoed Arab oil arrives because U.S. oil companies ignored more than a decade of warnings that Middle East oil was a trap.

Cheap oil, huge profits and tax privileges offered by the United States government to companies operating abroad led the American oil industry into a tangle that will place serious constraints on the availability of petroleum for years.

During this period, the government joined the industry in efforts to keep the tangle from tightening—ultimately to little avail.

Government and private studies, interviews with oilmen and a review of congressional testimony by industry and government officials show that U.S. oil companies abroad have become virtual hostages of the nations where they drill their wells.

Government and industry officials alike say the end of the embargo last week is no guarantee that millions of barrels of Middle East oil will not be held for ransom again.

The Arab embargo helped to demonstrate painfully to Americans that they consume far more oil (17 to 19 million barrels a day) than they produce (nine million barrels a day).

What the embargo didn't demonstrate was how U.S. consumers ended up in this predicament.

An examination shows:

Major U.S. oil companies pursued overseas oil for profit in the face of repeated signs that they were losing control of their foreign holdings. Some companies have increased domestic exploration, but the reliance on foreign oil goes on because the oil industry says it will take 10 to 15 years to develop self-sufficiency in the United States.

The oil companies obtained from the U.S. government tax privileges that permitted them to write off huge portions of the cost of their overseas ventures. By the beginning of the embargo, they had used up most of the write-offs. Now the industry says foreign oil costs must be passed along to U.S. consumers.

Middle East oil—totaling 58 percent of all the world's proven petroleum reserves—always has been what oilmen call "easy oil."

Most of it was shallow, says Prof. Charles Issawi, an oil economist at New York's Columbia University—generally 5,000 to 6,000 feet below the sand. It was close to the coast. Rock formations were porous. And natural gas was readily available to force it to the top.

Yield per well was high—6,500 barrels a day in 1971 and still that good. And production costs, says T. M. Powell, vice-president of Standard of California, were the lowest anywhere in the world—less than 15 cents a barrel since the early '50s.

In the United States, by contrast, where the U.S. Geological Survey says there are still 440 billion barrels of producible and undiscovered oil (enough to meet America's needs well into the next century), most crude oil has cost $1 a barrel or more to take from the ground for the past 25 years. And much of it is under unleased Federal land.

U.S. oil companies gained a foothold in the Middle East in 1928. By the end of World War II, several American companies held large concessions—among them Standard of California (SOCAL). SOCAL found more oil in Saudi Arabia than it could market, and it brought in other companies. The California-Arab Standard Oil Company was formed—and it became the Arabian American Oil Company (ARAMCO), one of two huge oil consortia that dominate Middle East oil today.

ARAMCO holds concessionary rights to oil worth an estimated $1 trillion—giving it a face value of more than the combined assets of the top 500 corporations rated by Fortune magazine.

It is owned by Exxon, Texaco, Mobil, Standard of California and the Saudi government. Together with Gulf, British Petroleum and Royal Dutch Shell, these giant American multinational corporations are known as the "seven sisters." All are fully integrated, which means they control their petroleum from the gleam in the geologist's eye to the gasoline pump at the service station.

As the American oil industry shifted overseas, it took along its practice of setting its crude oil prices on the basis of U.S. rates in the Gulf of Mexico. But these prices were much higher than costs in the Middle East.

In the late '40s, the Federal Trade Commission says, the oil companies paid only 40 cents a barrel for oil in Saudi Arabia and 25 cents in Bahrain, including both production costs and royalties to Middle East governments.

Prof. Issawi, in his book, "Oil, the Middle East and the World," says the royalties come to only 20–25 cents a barrel. Christopher Rand, a Middle East specialist, once employed by SOCAL, says they were even lower: 12–18 cents a barrel.

The American oil companies turned around, the FTC says, and charged $1.05 a barrel and up.

"Profits were enormous," says oil writer Christopher Tugendhat.

Americans had begun developing oil in Venezuela, too. And remarkably, it was in South America, not in the Middle East, where American oil companies got their first warning that their shift to overseas production could bring grief.

Venezuelans saw the tremendous wealth of the U.S. oil companies—based, it seemed, on oil which belonged to them. When World War II gave the allies a desperate need for oil, the Venezuelan government increased its oil prices 80 percent. And in 1948, it enacted an income tax law that guaranteed Venezuela 50 percent of all profits U.S. oil companies made on Venezuelan oil.

Now the Middle East wanted more profits, too.

The U.S. Government, under President Harry S. Truman, quietly proposed to Middle East nations that they call the increase a "tax" instead of a royalty. And the companies obtained a ruling from the Internal Revenue Service—by private letter, says Thomas Field, a former adviser to the Treasury Department's legislative counsel—that the IRS would accept the "tax" designation.

That meant the companies could use the increase as a foreign tax credit.

"The whole dollar," says Field, "would come out of the U.S. Treasury."

It therefore was agreed, Tugendhat says, "that although the companies should continue to make royalty payments on each ton of oil they produced, the main increase should come in the form of taxes."

Because the Middle East oil nations had no tax structure, the companies agreed to set an export price—now known as the posted price."

"It then became a comparatively simple matter to subtract the cost of production and the royalty payment," Tugendhat says, "and to divide the remaining profit equally between the two sides."

In 1950, Saudi Arabia became the first Middle East nation to use the new system, and by 1952 all other important producing countries in the area except Iran had matched Venezuela's profit split.

"The American taxpayers," says Sen. Abraham Ribicoff (D-Conn.) "ended up subsidizing American oil companies to develop abroad."

"The tax situation," counters Annon M. Card, senior vice-president of Texaco, "has nothing to do with where we make our investments."

But Prof. Issawi says output "shot up" in Saudi Arabia and Kuwait after the war.

The Nixon administration has denounced the staff report.

"The FTC report is biased against the largest integrated companies," says William E. Simon, the President's energy policy administrator.

But the effects of the foreign tax credit on the U.S. Treasury were immediate and dramatic. In 1950, ARAMCO paid $50 million in U.S. taxes. In 1951, it paid only $6 million.

ARAMCO payments to Saudi Arabia, on the other hand, jumped by that precise difference: From $66 million in 1950 to $110 million in 1951. And by 1963, the five largest U.S. oil companies had amassed such huge foreign tax credits because of their payments to the Arabs that they no longer had to pay any U.S. taxes at all on the profits they earned overseas.

The second warning to the U.S. oil industry that overseas investment might be harmful came from Iran.

It had granted its oil concessions to Britain's Anglo-Iranian Company and now, in 1950, opposition deputies in the National Assembly led by Dr. Mohammed Mossadegh invoked Iranian nationalism and forced the government to renounce its Anglo-Iranian agreement. Mossadegh said the company was plundering Iran, and he suggested nationalizing it.

Prime Minister Ali Razmara was assassinated. And when the assembly agreed to Mossadegh's proposal for nationalization, Reza Shah Pahlavi was forced to assent. He appointed Mossadegh prime minister, and a state-owned National Iranian Oil Company was formed. Mossadegh insisted that the Anglo-Iranian staff either work for it or leave. Britain chose to withdraw its people. And oil operations in Iran halted abruptly.

"To their horror," Tugendhat says "the Iranians discovered that they had been cut off from their markets." Mossadegh refused to compromise and Iran's economy fell into chaos.

Preparatory to stepping in, the four "sisters" in ARAMCO obtained from the U.S. government under President Dwight D. Eisenhower what Senator Frank Church (D-Idaho) says were secret exemptions from antitrust laws permitting them to form the second consortium in the Middle East—this time along with the other three "sisters," Gulf, BP and Royal Dutch Shell.

A coup swept Mossadegh from office. "It is frequently alleged that the American and British secret services financed the uprising," says Tugendhat, "and it is perhaps significant that in his memoirs the shah leaves the question open." The Wall Street Journal says flatly that the Central Intelligence Agency helped in the overthrow.

Senator HARTKE. This article reveals that over the last decade the international oil companies formulated a premeditated policy of limiting oil supplies to keep the price up.

This policy contributed to today's critical shortages.

This conclusion comes from secret U.S. Government documents on activities of the oil companies and from the files of Standard Oil Co. of California.

I would like to place this in the record.

Senator TALMADGE. Without objection.

[The article follows:]

[From the Wall Street Journal, Mar. 27, 1974]

A DIFFERENT STORY—NOT LONG AGO, IT WAS TOO MUCH PETROLEUM THAT UPSET OIL FIRMS

(By Jerry Landauer)

WASHINGTON.—Among oilmen nowadays, the task is all of shortages. And the industry's publicity broadsides tell again and again how shortages might have been prevented.

"The fuel industry has been warning . . . for the past decade," a Gulf Oil Corp. newspaper ad says, "that if government regulations continued to keep oil and natural gas prices at levels too low and generate capital needed to find more oil and gas, our nation would eventually run short."

During most of the past decade, however, some oilmen were actually worrying in private not about impending shortages but about oil surpluses that could depress prices and profits. And some international operators were considering or taking action to head off such surpluses—action that may have con-

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tributed to today's shortages. Evidence for this conclusion comes from secret U.S. government reports on activities of various oil companies and from the files of Standard Oil Co. of California, know as Socal.

"The overhang of surplus crude avails" (shorthand for "availabilities") "is very large," according to a forecast prepared by Socal's economics department in December 1968. The document projected a "large potential surplus" through 1973, and it predicted even more troublesome excesses through 1978, when the expected flow of Arctic oil, on top of imminent new production in Australia and strong growth in Indonesia, would be "extending and magnifying surplus supply problems."

SLASHES IN OUTPUT

With such a dire future in mind, the company's economists proposed strong measures to prevent an oversupply—though Socal contends this was only a paper exercise. At a time when oil-producing countries were demanding ever-bigger output to lift their national incomes, the Socal men urged cutbacks in most of the foreign lands where U.S. companies operate.

The company economists proposed slashing total 1969 output from the level of "indicated availability" in Egypt, Nigeria, Libya, Latin America and Indonesia; such reduction, they figured, would permit "politically palatable" growth of production in Saudi Arabia and Iran, where Socal and some sister companies are most heavily invested. "Pressures will exist to continue to produce in many areas in excess of market requirements," they warned.

[The oil economists also assumed that all the major international monopoly companies would act concurrently to hold production down rather than see prices drop. And their prediction of industry production behavior in 1969 was remarkably prescient.] Though they missed wildly in a couple of countries, their error for the Eastern Hemisphere and for the entire non-Communist world was roughly 1%.

"NO COLLECTIVE DETERMINATIONS"

James E. O'Brien, Socal's vice president for legal affairs, warns against drawing conclusions. He says the forecast of supply and demand was merely a "think piece" lacking much significance and unrelated to management decisions.

"This was only one assessment by one company," Mr. O'Brien says. "There were no collective determinations. . . . There is no international oil cartel. . . . So it would be a big mistake to salivate too much over this piece of paper. . . . Dammit, we think we've done a darn good job of bringing oil to the American people."

Still, the company's persistent worry about oversupply ("The worry was no different than it had been for five or 10 years," says C. J. Carlton, manager of Socal's economics department, who signed the 1968 forecast) could explain a basic development: The major international companies have permitted spare production capacity to shrink in recent years.

In the early 1960s, this idle capacity available to meet unexpected demand in the non-Communist world stood at roughly six million barrels a day. Oilmen then saw this standby reserve as permitting them to negotiate in a hard-nosed way with demanding governments of the producing states; as an Exxon vice president, George T. Piercy, says, "We had alternatives, and when you have alternatives you have strength."

NEVER UNLIMITED

But in 1968–69 the idle capacity fell below four million barrels a day, and it dropped to zero in 1973 as demand rose. So when Arab states began imposing production limits, the companies lacked capacity elsewhere to compensate in part for the cutbacks or to back their bargaining about prices. "Today, even if there were no political limitations on production, there would still be essentially zero spare capacity world-wide," Mr. Piercy recently told a Senate subcommittee headed by Democrat Frank Church of Idaho.

Indeed, as the Socal document suggests, the Arab states may now be doing to the industrialized West just about what Western oil companies did for decades: limiting production in order to prop prices up. "We can't expect to get unlimited production from the Middle East again," laments Allen E. Murray, vice president of Mobil Oil Corp.

In fact, the big companies' long-time influence over foreign productions is generally being reversed now that there's a seller's market for oil. Not only Arab

regimes but governments from Indonesia to Venezuela are demanding and getting more control over production, more involvement in processing and marketing and a bigger share of the proceeds from each barrel sold.

In the recent past, especially in the Middle East, the situation was far different. For the most part, the story of oil in that region is the story of host governments constantly clamoring for more output in order to increase their revenues and of concession-holding oil companies just as often striving to keep production down, on occasion by trickery.

[In Iraq, according to a secret U.S. government report, a venture of five Western firms known as Iraq Petroleum Co. actually drilled wells to the wrong depths and employed bulldozers to cover up others, all in hopes of hoodwinking the Baghdad government.] "Iraq Petroleum Co. plugged these wells and didn't classify them because the availability of such information would have made the company's bargaining position with Iraq more troublesome," the report says. (The partners in the Iraq Petroleum Co. were Exxon, Mobil, Royal Dutch Shell, British Petroleum and Compagnie Francaise des Petroles.)

[In Iran, a consortium that includes the so-called seven sisters of international oil (Socal, Texaco, Gulf, Mobil, Exxon, Shell and British Petroleum) *frequently resisted the shah's entreaties for more production, entreatise delivered to oilmen even on Swiss ski slopes during royal vacations.*] To give the appearance of rising output, the consortium at one point shifted its reporting year from the Christian to the Iranian calendar (March to March). And instead of producing more for Western markets already deemed to be glutted, the consortium agreed to sell oil to the Iranian government—with the understanding that it couldn't be resold to compete with the consortium's oil; thus restricted, the shah bartered with Communist countries.

(The 1954 consortium agreement, disclosed for the first time by Sen. Church's subcommittee last month, *permitted any combination of companies owning at least 30% of the consortium to set its total output at any chosen level—as long as that level was less than the production desired by the remaining consortium members.*)

Anxiety about oversupply also accounts for the consortium's coolness toward a proposed pipeline running from non-Arab Iran through Turkey—*a pipeline that could have protected industrialized countries against Arab interruption of oil supplies.* Companies belonging to the consortium didn't want the pipeline, apparently because they feared the shah might "force" them to deliver too much oil thereby.

"Major prospective user is contrary," according to a coded 1967 cable sent to pipeline-building Bechtel Corp. in San Francisco from a company scout in Iran. "Believe real reason is . . . that MPU do (sic) not relish being forced to more putthru at expense of member's global interests." ("Putthru" is jargon for oil to be delivered by way of the proposed pipeline.)

Similar forebodings following the big strike on Alaska's North Slope prompted California Standard's economic department to draw up an illustrative model of "what might occur" to "accommodate" Arctic oil by 1978. The possibilities, as outlined in a paper dated August 1968, included reducing total oil production in California by 70,000 barrels a day and cutting U.S. imports from Canada by 50,000 barrels a day.

A THREAT IN AFRICA

The economists warned that "absorbing this production will require many difficult decisions," not only by companies having big stakes on the North Slope but by "all of the industry. However, there is the opportunity and time for the many adjustments to be made. . . ."

Production from Africa, especially Libya, posed a more immediate threat to stable oil prices. According to the Socal forecast of December 1968, production in Libya could rise from 2,591,000 barrels a day in 1968 to an "indicated" 3,555,000 barrels a day in 1969, mostly because smaller U.S. firms had gained a foothold and were pumping without restraint.

"The problem of accommodating a large potential surplus of crude in 1969 and over the five years to 1973 became very apparent when we tabled our estimates, allowing for production in many countries at indicated availability," the economists advised Socal's management. "If production grew at indicated avail-

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ability in most countries outside of the Middle East, production in the latter area would likely decline in 1969 versus 1968."

Such a decline was considered intolerable because the shah and the king of Saudi Arabia, both hooked on the expectation of rising revenues, weren't about to accept lower production. Irritating the monarchs might endanger the Arabian-American Oil Co. (Socal, Exxon, Texaco and Mobil) and the Iran consortium, which includes all four Aramco partners. But extracting enough oil from Saudi Arabia or Iran to please the sovereigns meant aggravating oversupply problems.

SLICING ELSEWHERE

The company economists dealt with this dilemma after discussions with W. K. Morris, then chief of Socal's foreign advisory staff. Next to their table showing the availability of oil from various countries the planners prepared a second table projecting 1969 production cutbacks of 200,000 barrels a day for Libya, 200,000 barrels a day for Nigeria, 25,000 barrels for Egypt, 100,000 for Indonesia and 100,000 for Latin American countries other than Venezuela.

But then "further adjustments" outside the Persian Gulf region were found to be necessary. Accordingly, the economics department considered it "appropriate" to slice production elsewhere more deeply (Libya was the chief loser this time) and to allow the shah and king 140,000 and 70,000 barrels a day more, respectively.

"The downward revisions or adjustments of crude production in Libya and Nigeria for 1969 were made on the assumption that major companies with large interests in the Middle East would be required to moderate their liftings from Libya and Nigeria in order to maintain politically palatable growth in their liftings from the Middle East," the economic analysis explains.

"Some companies, however, such as Occidental, Continental, Marathon and others, without large interests in the Middle East, will be under heavy pressure to expand production rapidly and therefore aren't likely to limit their Libyan liftings. Their Libyan oil will be competing vigorously with the majors' oil from the Middle East and Africa."

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., January 4, 1974.

Hon. WILBUR D. MILLS,
Chairman, Joint Committee on Internal Revenue Taxation,
U.S. Congress, Washington, D.C.

DEAR WILBUR: As a direct result of recent increases in the price of imported crude oil, I would like to ask that the staff of the Joint Committee on Internal Revenue Taxation conduct a thorough review of the tax returns of oil companies.

Specifically, I am interested in foreign taxes in the nature of income taxes. These taxes, as you know, are taken as tax credits. It is my belief that at least a portion of those taxes are, in fact, royalties which are a cost of doing business and should be taken as a deduction, not as a credit.

This treatment of royalties means that oil companies are avoiding as much as $3 billion in taxes which would otherwise be due to the Federal government. It further affects the depletion allowance and thus results in an even greater loss of Federal funds.

Because of the lack of information about the definition of royalties and taxes as they apply to oil companies producing oil in foreign countries, I would hope that the staff of the Joint Committee could shed significant light on this subject.

With my best wishes and thanks for your consideration of this request, I am

Sincerely,

VANCE HARTKE.

Senator HARTKE. How has the foreign tax credit aided profit-making? Here is an example of how three major international oil firms in 1970 significantly reduced its tax burden via the increasingly important mechanism of the foreign tax credit.

I would like to insert this in the record.

Senator TALMADGE. Without objection, it will be so inserted.
[The material referred to follows:]

NET TAX BEFORE AND AFTER FOREIGN TAX CREDIT IN 3 MAJOR OIL COMPANIES IN 1970

(In millions)

Oil corporations	Total income	Net tax before FTC	Foreign tax credit	Net tax after FTC
A	$2,798	$168	$133	$35
B	2,651	231	213	18
C	2,135	114	101	13

Source: Philip Stern, "The Rape of the Taxpayer."

Senator HARTKE. This first oil corporation had a total income of $2.798 million. Their net taxes before the foreign tax credit was $168 million. They had a foreign tax credit of $138 million, leaving them on that $2 billion income paying a net Federal tax of $35 million.

I think we can just repeat this over and over again. The only thing about it is that the oil companies are the most flagrant examples of this type of tax loophole. In other words, the operation of the foreign tax credit aids a privileged few multinational firms. But for the solely domestic segment of the petroleum industry, this provision is a dead letter.

What would I recommend?

The termination of the foreign tax credit would put domestic production in a more competitive position with foreign development. And this is exactly what the Hartke trade package, if enacted in 1971, would have done—and if enacted now, will still correct.

The U.S. Geological Survey states that there are still 440 billion barrels of producible and undiscovered oil in the United States. This is enough to meet America's need well into the next century. The shift of the foreign tax credit to a deduction as proposed in my measure might well have provided the impetus to domestic production which, by this time, would have made us dependent on no foreign source for oil.

At this time, I would like to insert in the record my statement on eliminating the foreign tax loophole for international oil companies.

Senator TALMADGE. Without objection, it will be inserted.

[The material referred to follows:]

STATEMENT OF SENATOR HARTKE ON ELIMINATION OF THE FOREIGN TAX LOOPHOLE FOR INTERNATIONAL OIL COMPANIES

I have introduced legislation in the Congress which effectively eliminates the foreign tax credit granted by our present tax laws to the oil extracting and refining corporations. This legislation will also stop the practice of the oil industry paying royalties to foreign governments and disguising these payments as levied taxes.

I have long been an advocate of correcting our tax laws which have done so much to stimulate investment abroad often at the expense of American jobs. The provisions of my present proposal have been an essential part of the comprehensive trade legislation (the Foreign Trade and Investment Act) which I introduced for the first time in September, 1971 and reintroduced during this Congress, S. 151. I warned at that time of the impending chaos which would result if we continued to provide a subsidy in the form of foreign tax credits

to corporations going abroad. Just recently, I heard my sentiments echoed by the distinguished Senator from Idaho (MR. CHURCH) when he told his subcommittee investigating multinational companies that with all of the tax incentives we provide industry which moves overseas, it is a real wonder why any industry would still want to invest in the United States.

Mr. President, it is high time that we eliminated this kind of incentive. To demonstrate just how large a loophole the foreign tax credit has, in fact, been for United States oil companies producing abroad, I provide the following figures:

The U.S. oil companies account for more than 45 percent of all the foreign tax credits claimed by all U.S. industry. [While U.S. businesses on the whole use the foreign tax credit provision to reduce taxes paid to the United States by 15 percent, the Treasury Department has estimated that oil companies used the foreign tax credit in 1971 to reduce their U.S. taxes by more than 75 percent.] And the size of the loophole has increased tremendously since 1971. In Saudi Arabia alone, the so-called taxes paid the government on a barrel of oil have increased over 8 times since February, 1971.

Because of the oil company's use of foreign tax credits, U.S. corporations earned $1,085,000,000 on mining and oil operations abroad in 1970, but paid not one penny in U.S. taxes on that income. It has been estimated that for fiscal year 1975, the taxes that the oil companies would pay to the United States, were it not for the tax credit, could be as high as $1.75 billion. Yet, because of the foreign tax credit, the companies will in all likelihood pay not one cent of taxes. Foreign credits from profitable overseas operations have, in fact, exceeded U.S. tax liabilities every year since 1962, and, therefore, these companies will have a large carryover in foreign tax credits for the next 5 years.

Although the foreign tax credit is a provision which applies to foreign earned income from many types of foreign investments, its impact in reducing U.S. tax liabilities is greatest in the cases of the petroleum and mining sectors. The petroleum industry has particularly benefited by the United States Treasury's acceptance as creditable foreign taxes the artifically constructed income taxes which have been levied by major petroleum exporting countries.

Instead of levying a large royalty or bonus payment to extract the economic rent from low-cost reserves, as would a domestic land owner in the United States, these countries have levied a tax as a percentage of the difference between a non-market posted price and a fixed per unit cost of production. These taxes are essentially a tax per barrel of oil produced and have little relationship to the profits generated by investments made in the production process. Yet, they are allowed to be credited against United States tax liabilities. If, instead, a royalty or bonus payment had been levied, these payments could only be *deducted* from gross revenue as expenses. The elimintion of the foreign tax credit loophole will effectively do away with this deceitful practice.

As mentioned above, in every year since 1962, the aggregate value of the foreign tax credits granted to the petroleum industry has been greater than the U.S. tax liability on its foreign income. In 1968, the *excess* foreign tax credits were equal to 32 percent of the total creditable foreign taxes and by 1971, the *excess* foreign tax credits equaled 55 percent of the total foreign taxes paid.[1] In 1968, over 88 percent of the total foreign tax credits available to American multinational oil companies came from these quasi-income taxes levied by the petroleum producing countries, yet, only 28 percent of the net book value of the U.S. petroleum investments abroad were located in these areas.

The serious and damaging effect of the foreign tax loophole has been to provide an incentive for the American multinational oil corporations to shift income and investment for tax purposes out of the United States. By doing this, they avoid paying substantial income taxes. This has been a major factor in making the construction of refineries and petrochemical plants in the United States vastly less attractive than in foreign countries.

Even under the threat of nationalization, U.S. oil firms are more willing to invest in the Middle East than in the United States. Just last week, Occidental Petroleum Corporation announced a study plan for building a $500 million

[1] United States Department of the Treasury, Statistics of Income Supplemental Report, Foreign Tax Credit, 1968, Table 5. Price, Waterhouse & Co., Statistical Data Compiled for Use in Analysis of Federal Income Taxes and Effective Income Tax Rates, Year 1971, January 15, 1973.

natural gas processing plant in Libya in spite of the recent history of expropriation of U.S. firms in that country. The foreign tax credit evidentally is a stronger incentive than the disincentive of expropriation.

One clear way out of the energy shortage is to remove this incentive to invest and produce abroad. The treatment of the foreign tax credit as a deduction rather than as a credit would largely eliminate the tax shelter presently granted to the production, refining and other down stream investments that have been growing so rapidly outside the United States.

While our present tax laws grant special preferences to an industry that no longer needs it, they also have contributed to our energy crisis by encouraging the oil companies to locate more and more of their business in foreign countries where they can avoid paying any U.S. taxes. The result has been to make the Nation overly dependent on foreign oil. Despite the fact that the demand for energy has been growing at a rate of 4 to 5 percent a year for the last 20 years, refinery capacity hardly grew at all during the 1960's and early 1970's. Production of crude oil in the United States is today at the same rate as it was 3 years ago even though large oil reserves still exist in this country. As a result, our dependence on foreign oil has increased from close to none in 1968 to over one-third of our total demand. The present embargo has forced the country to pay a very high price for this dependence on foreign oil in terms of lost jobs, inflation, disrupted lives, and general inconvenience. We must amend our foreign tax credit laws so it is no longer more profitable to build a refinery, or drill a well, in Saudi Arabia than in the United States.

The immediate elimination of the foreign tax credit as proposed by this legislation will correct this problem and redound to the benefit of all Americans caught in the squeeze of the energy crisis.

Senator HARTKE. The use of the foreign tax credit deferral loopholes is not at all limited to oil producers overseas. They are readily available to large international manufacturing companies as well. My bill will plug both of these gaping loopholes. For example: Taxes on overseas profits of foreign subsidiaries would be taxed as soon as these profits are earned. There would be no tax deferral. As for tax credits, the Hartke approach would shift them to a deduction.

In regard to the balance of payments, imports, and American jobs. Between 1960 and 1971, the total volume of U.S. imports increased by 200 percent, while over the same period the total volume of U.S. exports increased by only 120 percent. That is where you get this conversation among a lot of people. They say, look how our exports are going up. There is no question about that; our exports are going up, but our imports are going up at a more rapid rate.

In 1971, for the first time in our history, as you well know, Mr. Chairman and members of the committee, we suffered a trade deficit of $2.2 billion, the first time that we had a deficit since 1893. Of course, that is the first time we were keeping records, so before that we do not know. In 1972, that trade deficit skyrocketed to over $6 billion. The first 8 months of 1973 showed a trade deficit of $1.5 billion. However, we did have a small trade surplus for the total year of $1.7 billion.

But much of this surplus in the trade account was due to the heavy exports of agricultural products and critical raw materials, which caused severe shortages at home and brought on the rapid acceleration of inflation. Huge agricultural exports have meant hardships for the American consumer because of soaring prices and very little job creation, because farming, as we well know, is a very low-labor content industry. Our trading policy and problems seem very similar, that is not to that of an industrialized-based nation, but to that of a developing nation. So our trade surplus is a mere aberration, which will soon be wiped out by the increased price of oil imports.

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Walter Levy, a leading petroleum economist, has forecast a whopping $13 billion trade deficit in 1974 because of the increased prices of imported oil.

At this time, I would like to insert a Washington Post article dated February 13, 1974, in which Mr. Levy's report is discussed.

Senator TALMADGE. Without objection, it will be inserted.

[The article referred to follows:]

[From the Washington Post, February 13, 1974]

A GRIM ECONOMIC FORECAST

(By Joseph Alsop)

A fundamental truth has emerged from the disputes at the Washington conference on energy. Something unpleasantly resembling the world economic breakdown that began in 1929 can all too easily result from the worldwide energy crisis. It may be a cushioned breakdown, less agonizing than the great depression. But it is going to be mighty hard to avoid.

To see why this is the case, you only need to study a grim little paper entitled "Implications of Exploding World Oil Costs," which was widely circulated at the Washington meeting. The paper was prepared by Walter J. Levy. He is a petroleum economist, an official consultant to the State Department, and a man genuinely and frequently consulted by Secretary of State Henry A. Kissinger.

The thrust of Walter Levy's paper is bleakly simple. The paper passes over in silence the shortages of gas, threats of rationing and other unaccustomed miseries that most of us regard as "the energy crisis." Instead, the Levy paper concentrates exclusively on the effects of vastly increased oil prices on the economies of the great industrial nations outside the Communist bloc.

You get an idea of the explosive power of the "exploding world oil costs" by glancing through just a few of Walter Levy's figures. To begin with, the "indicated" level of U.S. 1974 oil imports appears to be $14 billion above the level for 1973. This could give the U.S. a 1974 trade deficit of $13 billion—or just a bit more than our existing reserves of gold and foreign exchange.

For Japan, again, the "indicated" level of 1974 oil imports appears to be about $11 billion above the 1973 level—or almost the exact equivalent of Japan's entire gold and foreign exchange reserves. For the Western European countries, yet again, the rise in oil costs is likely to be about $35 billion or almost one half of Western Europe's existing gold and foreign exchange reserves.

Within this larger picture, there are also some ultra-soft spots, of just the type that cause chain reactions of trouble. Great Britain, for instance, can well have a 1974 trade deficit of $7 billion, mainly on account of increased energy costs. This is equivalent to a U.S. trade deficit of about $50 billion, because of the difference in size of the two economies.

Naturally, these staggering and terrifying statistics are not exact projections. They are rough measurements. They are conservative measurements, at least in one way, for they assume that 1974 energy consumption will be held to the rates of two years ago. But they do not—in fact cannot—take account of possible changes in crude oil costs during the rest of 1974. And the crude oil price is currently drifting lower.

Even if you allow for this downward drift in the price of crude oil, however, "staggering" and "terrifying" are still rather mild adjectives to apply to the statistics in Walter Levy's paper. Unless a miracle intervenes, the statistics inevitably make one main prediction. Every major industrial nation outside the Communist bloc will be running a whopping trade deficit by the end of 1974.

Americans used to regard this kind of difficulty with the balance of payments as no worse than a bad cold—until we, too, began to run persistent trade deficits. Whereupon the U.S. dollar was subjected to no less than three successive devaluations, losing a startling share of its old buying power in the process.

Generalized and massive trade deficits, afflicting all the major industrial nations, are also quite without precedent. At least in former times, some of the rich nations automatically ran surpluses, whenever others ran deficits. We have no past experience, to permit predictions about an all-embracing epidemic of trade deficits.

In contrast, there is plenty of past experience to show what dire trains are produced by individual trade deficits that begin to seem unmanageable. Even one ultra-soft spot can cause a major crisis, in truth; and besides Great Britain, Italy will probably turn up in this unhappy category.

Add, further, that what people see ahead is already leading to a desperately costly international game of beggar-your-neighbor. This has showed up, so far, in the frantic efforts by the French and others to make extremely expensive bilateral deals with the oil-producing countries. Later, however, beggar-your-neighbor will probably take a good many other most unpleasant forms.

Add, finally, that the existing financial structures of the Western powers and Japan appear to be quite unprepared to withstand the wholly novel strains that seem to lie ahead. When you have completed these gloomy additions, you then find that we have apparently entered a wholly new and quite uncharted phase of world affairs.

Senator HARTKE. In the postwar years, the United States has been the only major country in the world—this is something very significant—the only major country in the world whose share of world exports has decreased while its share of world imports has increased. In the space of a mere half dozen years, from 1964 to 1970, the U.S. share of world exports fell by more than 11 percent, while its share of imports rose by more than 17 percent. Few American-made items can withstand this pressure.

In the fifties only about 30 to 40 percent of the imports were comparable with U.S. products. Now about three-quarters of the imports compete with U.S. items.

In a number of industries, there has been an absolute loss of jobs, fewer workers today than a few years ago. In women's apparel alone, the number of workers declined absolutely by more than 40,000 between 1956 and 1971. In electronics, there was a loss of 109,000 jobs between 1966 and 1972, according to the Department of Labor.

And I might say, Mr. Chairman, that the American consumer electronic industry today is in a state of panic. Motorola is now scheduled to be acquired by a Japanese firm on April 29 of this year. What little of the domestic electronics industry is up for sale. There is not a major manufacturer today which, in one way or another, is not struggling to survive in this country.

I see that my time is up.

Senator TALMADGE. Thank you very much, Senator, for an excellent statement.

As you know, we have a 10-minute rule in effect. We follow that reluctantly, but there is a multiplicity of witnesses desiring to be heard, and it was necessary to invoke it.

Are there any questions?

[No response].

Senator TALMADGE. Thank you very much, Senator. We are happy to have had you give us the benefit of your advice.

[Senator Hartke's prepared statement, a summary of the statement, and appendices follow. Hearings continue on page 1486.]

SUMMARY OF TESTIMONY OF SENATOR VANCE HARTKE

Mr. Chairman, three years ago, I stood before Congress and warned of the international trade and investment crisis which was then beginning to engulf us. At that time, I stated that disorders in our foreign trade—and I quote from my 1971 remarks, "would threaten the livelihood of most Americans and the status of this country as a world industrial leader."

Today, after two devaluations, the loss of thousands of domestic jobs, and blackmail in the international marketplace, we are in the very throes of that crisis. Its destructive effects continue unabated because we have failed to adopt a comprehensive course of assertive self-interest in world trade.

Unlike the Trade Reform Act (H.R. 10710), the Foreign Trade and Investment Act (S. 151) directly addresses the major irregularities and problems of international finance and their effect upon the American economy. Specific mechanisms are provided for plugging tax loopholes which provide an incentive to invest abroad, correcting our balance of payments deficits, assuring American jobs and preserving our industrial base.

The Administration's bill contains no provisions to remove tax breaks on overseas investment, to regulate the wholesale exodus of America's newest technology and production units, and to combat the rising prices in the United States caused by trade and investment problems. In short, the President's bill is obsolete and dysfunctional.

Unless we address ourselves to the real trade problems with a comprehensive trade bill, crises like the one we are experiencing in energy will continue and worsen. The Foreign Trade and Investment Act, which I first introduced in 1971 and then again in January of 1973, can avert future crises.

TAX LOOPHOLES, THE INTERNATIONAL OIL MONOPOLY AND THE U.S. DEPENDENCE ON ARAB OIL

The United States is now dependent upon the Arab world for its supplies of oil and gas because our present tax structure provided the economic incentive for gigantic U.S. based multi-national petroleum companies to go abroad rather than to produce more oil at home.

The single most direct tax loophole available to corporations which move abroad is the foreign tax credit. Our tax laws provide that foreign subsidiaries of the United States' corporations may credit their foreign taxes paid against the foreign source income tax liability of the parent corporation.

The multinational oil companies earned one billion, eighty five million dollars ($1,085,000,000) on mining and oil operations abroad in 1970, but because of their use of the foreign tax credit loophole, these firms paid not one penny in U.S. taxes on that income.

The Arabian American Oil Company (Aramco), a huge oil producing consortium consisting of Exxon, Texaco, Mobil, Standard of California and the Saudi Arabian government, is the world's biggest petroleum producer and the world's largest money maker. But, they are very skimpy U.S. taxpayers. In 1973, the company had gross revenues of $8.7 billion and a net income or profits after taxes of $3.25 billion. How much did the United States government get from them in taxes? No income tax, and a meagre $2.7 million in payroll taxes.

Is Aramco an exception? By no means! One glance at this chart dispels that illusion.

U.S. TAXES PAID BY U.S.-BASED MAJOR OIL COMPANIES IN 1972/1962/71

[Dollar amounts in billions]

Company	Net income before taxes, 1972	Percent paid in U.S. taxes, 1972	Net income before taxes, 1962-71	Percent paid in U.S. taxes, 1962-71
Exxon	$3.700	6.5	$19.653	7.3
Texaco	1.376	1.7	8.702	2.6
Mobil	1.344	1.3	6.388	6.1
Gulf	1.009	1.2	7.856	4.7
SoCal	.941	2.05	5.186	2.7

Source: Senate Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate.

How has the foreign tax credit aided profitmaking? Here is an example of how three major international oil firms in 1970 significantly reduced its tax burden via the increasingly important mechanism of the foreign tax credit.

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NET TAX BEFORE AND AFTER FOREIGN TAX CREDIT IN 3 MAJOR OIL COMPANIES IN 1970

[In millions]

Oil corporations	Total income	Net tax before FTC	Foreign tax credit	Net tax after FTC
A	$2,798	$168	$133	$35
B	2,651	231	213	18
C	2,135	114	101	13

Source: Philip Stern, "The Rape of the Taxpayer."

The operation of the foreign tax credit aids a privileged few multinational firms. For the solely domestic segment of the petroleum industry, this provision is a dead letter.

THE HARTKE SOLUTION

The termination of the foreign tax credit would put domestic production in a more competitive position with foreign development. And this is exactly what the Hartke trade package, if enacted in 1971, would have done—and if enacted in 1974, will do. The U.S. Geological Survey states that there are still four hundred forty billion barrels of producible and undiscovered oil in the United States. This is enough to meet America's need well into the next century. The shift of the foreign tax credit to a deduction as proposed in my measure might well have provided the impetus to domestic production which, by this time, would have made us dependent on *no one* for oil.

(At this time I would like to insert in the record my statement on eliminating the foreign tax loophole for international oil companies.)

The use of the foreign tax credit and deferral loopholes is not at all limited to oil producers overseas. They are readily available to large international manufacturing companies as well. My bill will plug both of these gaping loopholes. For example: taxes on overseas profits of foreign subsidiaries would be taxed as soon as these profits are earned. There would be no tax deferral. As for tax credits, the Hartke approach would shift them to a deduction.

THE BALANCE OF PAYMENTS, IMPORTS AND AMERICAN JOBS

Between 1960 and 1971, the total volume of United States imports increased by 200 percent, while over the same period, the total volume of United States exports increased by only 120 percent. In 1971, the United States suffered a trade deficit of $2.2 billion—the first trade deficit since 1893. In 1972, the trade deficit increased to over $6 billion. The first eight months of 1973 showed a trade deficit of $1.5 billion, however, the United States did show a small trade surplus for the total year of $1.7 billion.

But, much of this surplus in the trade account was due to the heavy exports of agricultural products and critical raw materials which caused severe shortages at home and brought on the rapid acceleration of inflation. Huge agricultural exports have meant hardship for the American consumer because of soaring prices and very little job creation as farming is a very low-labor content industry. Our trading policy and problems seem very similar to the developing nations.

Our trade surplus is a mere aberation which will soon be wiped out by the increased price of oil imports. Walter Levy, a leading petroleum economist, has forecast a whopping $13 billion dollar trade deficit in 1974 because of the increased prices of imported oil.

(At this time I would like to insert a Washington Post Article dated February 13, 1974 in the record which discusses Levy's report.)

In the postwar years, the United States has been the only major country in the world whose share of world exports has decreased while its share of world imports has increased. In the space of a mere half dozen years (1964 to 1970), the U.S. share of world exports fell by more than 11 percent while its share of imports rose by more than 17 percent.

Few American-made items can withstand the pressure. In the 1950's, only about 30 percent to 40 percent of the imports were comparable with U.S. products. Now, about three-quarters of the imports compete with U.S. items, according to the U.S. Department of Labor.

In a number of industries there has been an absolute loss of jobs—fewer workers today than a few years ago. In women's apparel alone, the number of

workers declined absolutely by more than forty thousand (40,000) between 1956 and 1971. In electronics, there was a loss of one hundred and nine thousand (109,000) jobs between 1966 and 1972, according to Labor Department figures. In shoe manufacture, jobs declined from two hundred thirty-three thousand to about two hundred thousand in the past five years.

THE HARTKE SOLUTION

To meet these problems of future deficits in the balance of payments and job loss due to imports, I propose a system of quantitative import restrictions in which imports would continue to grow in concert with domestic production, preserving the 1965 to 1969 base period relationship.

Other countries make sure that their own markets are secure and protected. It is time we provided the same security for America. You have before you only a partial list of the quantitative restrictions perpetuated on foreign products by our trading partners. Take, for example, the case of Japan on page 3. They have an international tax of 150 to 220 percent on imported whiskey. Compare this with the fact that the United States, in 1972, suffered a seven hundred twenty-three point 4 (723.4) million dollar trade deficit in distilled alcohol alone. That amounts to 10.6 percent of the entire 6.8 billion U.S. trade deficit in 1972. In that year we exported a mere four million gallons of bourbon. What happens when a fifth reaches Japan. First, they put on the 35 percent GATT duty, then they add their landed costs (stevedoring, freight, insurance, etc.). If this total exceeds 16 dollars per bottle, they introduce another 220 percent duty. Below 16 dollars they add a 150 percent tax. This brings the price of a fifth of American bourbon to 20 dollars. What has happened, in effect, is that the Japanese non-tariff barriers have done to American spirits what Carry Nation with an ax and Bible could never have accomplished. This is not just an isolated example, but as you can see from this list, it is one of hundreds of non-tariff barriers which discriminates against American products.

RUNAWAY MULTINATIONAL FIRMS

In industry after industry, plants have folded up in the United States as multinational corporations simultaneously opened plants in other countries.

In the electronic trade, for instance, the Standard Kolman Company closed its plant in Oshkosh, Wisconsin, with one thousand one hundred (1,100) employees, and shifted the jobs to Mexico in 1970.

Emerson closed a plant of several thousand employees and set up shop in Taiwan. Bendix deserted 600 employees in York, Pennsylvania and Long Island, New York, to open a plant in Mexico. Warwick Electronics transferred sixteen hundred jobs from Zion, Illinois, to Mexico and Japan. General Instrument recently closed down two-plants in New England although it employs twelve thousand Taiwanese to make television parts. RCA transferred an operation from Cincinnati to Belgium and Taiwan displacing two thousand workers.

Two thousand machinists lost their jobs in the General Electric plant at Utica, New York, between 1966 and 1972 as the company phased this operation out of the United States and into its subsidiary in Singapore where labor works for eighteen cents an hour.

In 1971, International Silver exported more than one thousand steelworkers' jobs from their plant in Meriden-Wallingford, Connecticut to Taiwan. The stainless steel flatware formerly made in Connecticut is now imported from International Silver's affiliate in Nationalist China.

THE HARTKE SOLUTION

As long as America's tax policy makes it more profitable to invest abroad than at home, plants will continue to move overseas and the foreign export market will be increasingly supplied from foreign based plants instead of from domestic-based industry. The Hartke trade proposals provide dramatic new tools for meeting this challenge. Tax advantages for investing abroad would be removed so that domestic investment would be on an equal economic footing.

THE EXPORT OF AMERICAN TECHNOLOGY

Although most countries strictly regulate and protect their own technology, America has left this matter largely to the discretion of private business.

According to the U.S. Tariff Commission's study of multinational firms, these super-companies dominate the development of new domestic technology. The exports of this technology from multinational corporations outweight imports by a factor of more than ten to one. These industries have been prominent generators of high technology exports from the United States.

One example of this practice is McDonnell Douglas' sale of the Thor-Delta Launch system to the Japanese. The sophisticated technology which went into the construction of this system cost the American taxpayers millions of dollars in research and development funds.

THE HARTKE SOLUTION

Under present law, U.S. corporations are relieved of paying taxes on any income arising from the firm's transfer of a patent or similar right to foreign companies. This encourages U.S. firms to export their technology. The Hartke approach would repeal the tax-free treatment for U.S. companies' incomes from licensing and transferring patents to foreign companies.

CONCLUSION

We cannot ignore nor fail to correct the growing power of these giant multinational concerns. They feel no allegiance to any national entity. They support no government on ideological grounds. They have no qualms about investing in Democratic or totalitarian, capitalistic or socialistic, civilian or military governments, as long as their profit goals can be realized.

Let me conclude with a reference to public opinion. Sentiment against multinationals runs so high, that the public—by a margin of almost two to one—currently thinks that the Federal Government should discourage, rather than encourage the international expansion of U.S. companies. Many more simply do not buy the idea that corporate growth abroad has increased employment at home. Seven Americans out of ten are convinced that the main reason U.S. firms go abroad is "to take advantage of cheap foreign labor and that costs jobs here."

Here are the results of a nationwide public opinion survey conducted by the Opinion Research Corporation *for businessmen*. Forty-two percent of total public opinion is strongly opposed to expansion of U.S. companies abroad. Even a majority of the managers are opposed to expansion (37 percent opposed, against only 30 percent in favor of expansion). Perhaps most surprising are the results when broken down by party preference. Even the majority of Republican voters are on my side in this controversy. Republicans strongly oppose expansion (40 percent opposed to 30 percent in favor of expansion).

The Foreign Trade and Investment Act of 1973 is designed to put our industry on an even footing with foreign competition and make domestic investment just as attractive as investment abroad. By controlling predatory trade practices and regulating the American based transnational firm, the Hartke approach to trade policy will put America back on the path to a world of free and fair trade.

PREPARED TESTIMONY OF VANCE HARTKE, A U.S. SENATOR FROM THE STATE OF INDIANA

Mr. Chairman, three years ago, I stood before Congress and warned of the international trade and investment crisis which was then beginning to engulf us. At that time, I stated that disorders in our foreign trade, and I quote from my 1971 remarks, "would threaten the livelihood of most Americans and the status of this country as a world industrial leader."

Today, after two devaluations, the loss of thousands of domestic jobs, and blackmail in the international marketplace, we are in the very throes of that crisis. Its destructive effects continue unabated because we have failed to adopt a comprehensive course of assertive self-interest in world trade.

Unlike the Trade Reform Act (H.R. 10710), the Foreign Trade and Investment Act (S. 151) directly addresses the major irregularities and problems of international finance and their effect upon the American economy. Specific mechanisms are provided for plugging tax loopholes which provide an incentive to invest

abroad, correcting our balance of payments deficits, assuring American jobs and preserving our industrial base.

The Administration's bill contains no provisions to remove tax breaks on overseas investment, to regulate the wholesale exodus of America's newest technology and production units, and to combat the rising prices in the United States caused by trade and investment problems. In short, the President's bill is obsolete.

Unless we address ourselves to the real trade problems with a comprehensive trade bill, crises like the one we are experiencing in energy will continue and worsen. The Foreign Trade and Investment Act, which I first introduced in 1971 and then again in January of 1973, can avert future crises.

TAX LOOPHOLES, THE INTERNATIONAL OIL MONOPOLY, AND THE U.S. DEPENDENCE ON ARAB OIL

The United States is now dependent upon the Arab world for its supplies of oil and gas because our present tax structure provided the economic incentive for gigantic U.S. based multinational petroleum companies to go abroad rather than to produce more oil at home.

The single, most direct tax loophole available to corporations which move abroad is the foreign tax credit. Our tax laws provide that foreign subsidiaries of United States' corporations may credit their foreign taxes paid against the foreign source income tax liability of the parent corporation.

The multinational oil companies earned $1,085,000,000 (one billion and eighty-five million dollars) on mining and oil operations abroad in 1970, but because of their use of the foreign tax credit loophole these firms paid not one penny in U.S. taxes on that income.

It has been estimated that for fiscal year 1975, the taxes that the oil companies would pay to the United States, were it not for the tax credit, could be as high as $1.75 billion. Yet, in all likelihood, the companies will pay not one cent of taxes because of the foreign tax credit. Foreign credits from profitable overseas operations have, in fact, exceeded U.S. tax liabilities every year since 1962, and, therefore, these companies will have a large carryover in foreign tax credits for the next five years.

The U.S. oil companies account for more than 45 percent of all the foreign tax credits claimed by all U.S. industry. And the size of the loophole has increased tremendously since 1971. In Saudi Arabia alone, the so-called taxes paid the government on a barrel of oil have increased over 8 times since February, 1971.

The Arabian American Oil Company (Aramco), a huge oil producing consortium consisting of Exxon, Texaco, Mobil, Standard of California and the Saudi Arabian government, is the world's biggest petroleum producer and the world's largest money maker. But, they are very skimpy U.S. taxpayers. In 1973, the company had gross revenues of $8.7 billion and a net income or profits after taxes of $3.25 billion. How much did the United States government get from them in taxes? No income taxes and a meager $2.7 *million* in payroll taxes.

Is Aramco an exception? By no means! One glance at this chart dispels that illusion.

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SoCal	.941	2.05	5.186	2.7

Source: Senate Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate.

How has the foreign tax credit aided profit-making? Here is an example of how three major international oil firms in 1970 significantly reduced its tax burden via the increasingly important mechanism of the foreign tax credit.

NET TAX BEFORE AND AFTER FOREIGN TAX CREDIT IN 3 MAJOR OIL COMPANIES IN 1970

[In millions]

Oil corporations	Total income	Net tax before FTC	Foreign tax credit	Net tax after FTC
A	$2,798	$168	$133	$35
B	2,651	231	213	18
C	2,135	114	101	13

Source: Philip Stern, "The Rape of the Taxpayer."

The operation of the foreign tax credit aids a privileged few multinational firms. For the solely domestic segment of the petroleum industry, this provision is a dead letter.

The operation of the foreign tax credit, like the depletion allowance, created perverse incentives for the oil industry. In the years after W.W.II, domestic involvement in foreign production increased considerably. With this increasing involvement, foreign governments placed growing pressure on the oil companies to increase their royalty payments.

To the oil companies, the advantage of claiming these increased payments as taxes rather than royalties was clear. A tax payment can be credited against a U.S. tax liability, whereas a royalty payment must be treated as a deductible business expense when computing U.S. taxes. It was in the interest of the U.S. oil companies to persuade their host governments to enact income tax statutes to replace their royalty claims. In 1954, King Saud changed the royalty payments into a tax, as requested by the industry, so that the companies could benefit from the foreign tax credit.

The impact of the ruling has been to create an artificial incentive for investment abroad. Whereas the domestic producer must pay for mineral rights to land through royalty payments, which are treated as a business expense, the same payments by a foreign producer qualify as a tax credit.

THE HARTKE SOLUTION

The termination of the foreign tax credit would put domestic production in a more competitive position with foreign development. And this is exactly what the Hartke trade package, if enacted in 1971, would have done—and if enacted in 1974, will do. The U.S. Geological Survey states that there are still 440 billion barrels of producible and undiscovered oil in the United States. This is enough to meet America's need well into the next century. The shift of the foreign tax credit to a deduction as proposed in my measure might well have provided the impetus to domestic production which, by this time, would have made us dependent on no one for oil.

The use of foreign tax credit and deferral loopholes is not at all limited to oil producers overseas. They are readily available to large international manufacturing companies as well. Direct U.S. foreign investments have a book value of over $90 billion. Profits thereon are $20 billion or some 20 percent of total profits of domestic corporations.

However, U.S. taxes paid on these foreign profits were only 5 percent or less than $1 billion. The output produced by U.S. affiliates abroad is about $200 billion with sales by manufacturing affiliates several times the level of U.S. manufactured *exports*.

Ownership of foreign affiliates, finally, is concentrated heavily in a small number of large corporations, the degree of concentration being higher even than for domestic production.

At present, our tax laws make an overseas investment more attractive than one in Indiana. For example, profits earned by a foreign subsidiary of an American firm are not taxed until they are repatriated. To the extent that the firm does pay taxes to a foreign government, these taxes count as a dollar-for-dollar credit against their federal tax liability. Profits made in Indiana are taxed when earned. Taxes paid to the State of Indiana can only be taken as deduction against gross income rather than as a Federal tax credit.

My bill will plug both of these gaping loopholes. For example: taxes on overseas profits of foreign subsidiaries would be taxed as soon as these profits are earned. There would be no tax deferral. As for tax credits, the Hartke approach would shift them to a deduction.

Under my measure, the depreciation allowances for companies owning business property in foreign lands would also be tightened. The allowance would be computed on the basis of actual useful life of property to the corporations and on the basis of the straight line accounting method rather than an accelerated method.

The Hartke approach will control the worst practices of multinational corporations. My proposals are designed to put our domestic industry on an even footing with foreign competition, make domestic investment just as attractive as investment abroad and assure America of full employment with a diversified production base.

THE BALANCE OF PAYMENTS, IMPORTS AND AMERICAN JOBS

Between 1960 and 1971, the total volume of United States imports increased by 200 percent, while over the same period, the total volume of United States exports increased by only 120 percent. In 1971, the United States suffered a trade deficit of $2.2 billion—the first trade deficit since 1893. In 1972, the trade deficit increased to over $6 billion. The first eight months of 1973 showed a trade deficit of $1.5 billion, however, the United States did show a small trade surplus for the total year of $1.7 billion.

But, much of this surplus in the trade account was due to the heavy exports of agricultural products and critical raw materials which caused severe shortages at home and brought on the rapid acceleration of inflation. The domestic price rise last year averaged 8.8 percent. It should also be pointed out that our trade surplus of $1.7 billion in 1973 quickly becomes a trade deficit of $3.8 billion if C.I.F. figures, which include insurance and freight, are used rather than F.O.B. calculations.

Huge agricultural exports have meant hardship for the American consumer because of soaring prices and very little job creation as farming is a very low-labor content industry. Our trading policy and problems seem very similar to the developing nations.

Our trade surplus is a mere aberation which will soon be wiped out by the increased price of oil imports. Walter Levy compares rising oil import costs with trade balances and monetary holdings in his recent study, "Implications of Exploding World Oil Costs," For the United States, he says, "total exports are estimated at about $70 billion in 1973; total imports about $69 billion, for a net trade surplus of $1 billion. United States oil import costs (F.O.B.) in 1973 are estimated at some $7 billion. U.S. oil import costs could amount to $21 billion in 1974."

"The indicated 1974 level of U.S. oil import costs represents a $14 billion *increase* over 1973. This would be equal to 20 percent of *total* imports last year. An expansion in imports of this magnitude would be enough to swing the U.S. trade balance from a surplus of $1 billion to a deficit of $13 billion. Such a deficit would exceed U.S. gold and foreign exchange holdings of $12 billion as of October, 1973"—hardly a very sanguine forecast!

The United States faces another grave problem—the rising tide of imports. During the decade of the Nineteen-sixties, more than half a million jobs were lost to imports, many in industries where parent firms invested overseas and then imported their products to supply the domestic market.

In 1973, manufactured imports amounted to $44.8 billion. This was an increase of 18.5 percent over the previous year. In 1972, imports were 16.6 percent of steel sales in the United States, 22.8 percent of auto sales, 25 percent of women's apparel, 35 percent of shoes, 81 percent of phonographs, 60 percent of sewing machines, and 90 percent of calculators, radios and tape recorders.

In the postware years, the United States has been the only major country in the world whose share of world exports has decreased while its share of world imports has increased. In the space of a mere half dozen years (1964 to 1970), the U.S. share of world exports fell by more than 11 percent while its share of imports rose by more than 17 percent.

This unfavorable trade balance is especially marked in manufacture—the economic sector of most immediate and intimate concern to American labor. The U.S. share of world exports of manufactured products has fallen from 27 percent in 1958, to 21 percent in 1970, to 19 percent in 1971; a decline of almost 30 percent in a dozen years.

Few American-made items can withstand the pressure. In the 1950's, only about 30 percent to 40 percent of the imports were comparable with U.S. products. Now, about three-quarters of the imports compete with U.S. items, according to the U.S. Department of Labor.

BEST AVAILABLE COPY

In a number of industries there has been an absolute loss of jobs—fewer workers today than a few years ago. In women's apparel alone, the number of workers declines *absolutely* by more than 40,000 between 1956 and 1971. In electronics, there was a loss of 109,000 jobs between 1966 and 1972, according to Labor Department figures. In shoe manufacture, jobs declined from 233,000 to about 200,000 in the past five years.

While the figures on job loss reveal part of the problem, they tend—by their impersonality—to conceal the human dimensions of the tragedy. The people employed in labor-intensive industries—the hardest hit—tend to be drawn largely from the nation's marginal populations: black, Hispanic, poor white, recent immigrant. To these people, the labor-intensive industry—with its openings for unskilled and semiskilled labor—was the gateway to the economy. As these plants collapse, the hopes of these people collapse.

THE HARTKE SOLUTION

To meet these problems of future deficits in the balance of payments and job loss due to imports, I propose a system of quantitative import restrictions. Based on the relationship between imports and domestic production in the 1965–69 period, this measure would stabilize imports, preserve domestic industry and keep hundreds of thousands of jobs in America. Under my plan, imports would continue to grow in concert with domestic production, preserving the 1965–69 base period relationship. Our trading partners would be assured of a steadily expanding market while our domestic interests would be fully protected.

Other countries make sure that their own markets are secure and protected. It is time we provided the same security for America. You have before you only a partial list of the quantitative restrictions perpetuated on foreign products by our trading partners. Take, for example, the case of Japan on page 3. They have an international tax of 150 to 220 percent on imported whiskey. Compare this with the fact that the United States, in 1972, suffered a 723.4 million dollar trade deficit in distilled alcohol alone. That amounts to 10.6 percent of the entire 6.8 billion U.S. trade deficit in 1972. In that year we exported a mere four million gallons of bourbon. What happens when a fifth reaches Japan. First, they put on the 35 percent GATT duty, then they add their landed costs (stevedoring, freight, insurance, etc.). If this total exceeds 16 dollars per bottle, they introduce another 220 percent duty. Below 16 dollars they add a 150 percent tax. This brings the price of a fifth of American bourbon to 20 dollars. What has happened in effect is that the Japanese non-tariff barriers have done to American spirits what Carry Nation with an ax and Bible could never have accomplished. This is not just an isolated example, but as you can see from this list, it is one of hundreds of non-tariff barriers which discriminate against American products.

Many firms and whole industries have been lost to the sudden tide of imports that started in the late 1960's. The personal impact of recent trade figures can be found in high unemployment, lost pensions, and socially and economically weakened American communities.

MULTINATIONAL CORPORATIONS

The post-war era is the age of the giant international company. Today they do about 500 billion dollars of business annually in each other's territories, or about one-sixth of the world's gross product. That is more than the entire gross national product of Japan. These super-sized multinational corporations are characterized by a global strategy of investment, production and distribution.

The multinational company is creating the outlines of a genuine global economy. Their rate of growth is truly phenomenal. It is double that of purely domestic companies. By 1975, nearly 35 percent of the Western world's non-U.S. production will be accounted for by American subsidiaries. The book value of direct investments by the U.S. based transnationals grew from 32 billion dollars in 1960 to 90 billion dollars in 1971—an increase of 280 percent. In addition, about 1.5 billion dollars a year has been added through reinvesting the profits from foreign subsidiaries. Foreign portfolio investment in securities is over 19 billion dollars. Together, U.S. foreign direct spending, reinvestment of profits, and portfolio investments amount to 120 billion dollars.

From 1960 to 1970, plant and equipment expenditures by U.S. multinationals rose 60 percent faster than purely domestic firms. Responding in part to favorable tax treatment and America's old line free trade policies, more than 8,000 subsidiaries of American firms have been established overseas. Following this flow of capital and firms is American technology and superior know-how. Frequently developed at the great expense of American tax dollars, this technology fuels economies of foreign lands at domestic expense.

Foreign direct investment by U.S. companies has been increasing at a rate of 15 *percent. On the basis of* present trends this figure will rise to over 20 percent by 1980. By contrast, the GNP of the world's principal industrialized countries will increase at between 3 and 5 percent. If a corporation's sales were to be equated with a nation's output of goods and services, then 54 of the world's 100 biggest money powers would be multinational corporations and only 46 would be countries. General Motors, for example, with a yearly turnover of more than 24 billion dollars, was in 15th place on this list, just behind Spain, Sweden and Holland and just before Belgium, Argentina and Switzerland. Exxon and Ford each made more money than the GNP of Pakistan, Denmark or Austria.

I am not against bigness per se, but I am vigorously opposed to unregulated bigness that adversely affects the United States' trading position in the world. Multinational firms export American jobs by the hundreds of thousands, as they move their operations abroad in search of cheaper labor, non-union shops and tax holidays.

Because of the protean character of multinationalism, the official figures on the amount of imports coming back into this country from U.S. multinational corporations are necessarily a gross understatement. For instance, a Department of Commerce figure of 1968 that sets imports from multinationals at 14 percent of total U.S. imports, omits purchases from joint ventures, from foreign firms with sizable American corporate investments, from overseas producers who are contractors for U.S. companies, and from plants operating under U.S. franchises, licenses or rentals.

There is clear evidence, however, that even the strictly defined multinational corporations are stepping up their exports from overseas back to the United States. A 1972 special survey of the Department of Commerce, covering 298 U.S. multinationals shows that exports to the United States are outpacing sales to the host country. Thus, between 1966 and 1970, these overseas subsidiaries with a 60 percent rise in world sales showed only a 52.9 percent rise in the country of location but a whopping 129.4 percent rise in sales back to the United States.

One section of the present tariff code actually encourages American multinationals to do their manufacturing in other countries precisely in order to bring the finished product back into the United States. Item 807 provides that American firms that export components for assembly outside the United States may then bring the finished commodity back into the United States while paying duty only on value added. In 1967, under this provision, $14.6 million of components were exported and $931.6 million of finished products imported; by 1972, the exports had grown to $691.6 million and the imports to $3.1 *billion*. The multinationals engaged in this operation could boast in 1972 that they had greatly expanded our nation's exports, but they were also responsible for the disastrous inflow of the multi-billion dollar imports that, the Tariff Commission concedes, had by 1970 cost this country more than 100,000 jobs. (In the case of Mexico, for example, Item 807 corporations are not allowed to sell their products in the host country; they *must* bring them back into the United States.)

RUNAWAY MULTINATIONAL FIRMS

In industry after industry plants have folded up in the United States as multinational corporations simultaneously opened plants in other countries.

In the electronic trade, for instance, the Standard Kolman Company closed its plant in Oskosh, Wisconsin, with 1,100 employees, and shifted the jobs to Mexico in 1970.

Emerson closed a plant of several thousand employees and set up shop in Taiwan. Bendix deserted 600 employees in York, Pennsylvania and Long Island, New York, to open a plant in Mexico. Warwick Electronics transferred 1,600 jobs from Zion, Illinois, to Mexico and Japan. General Instrument recently closed down two plants in New England although it employes 12,000 Taiwanese to make televesion parts. RCA transferred an operation from Cincinnati (2,000 workers) to Belgium and Taiwan.

One of the most painful stories, related by Paul Jennings, president of the International Union of Electrical, Radio and Machine Workers, is about an RCA plant of 4,000 employees in Memphis, Tennessee. In 1966, Robert Sarnoff, RCA president, boasted that this plant "was destined for a key role in the unfolding story of RCA." The installation was already providing meaningful employment to people living in the ghettos of Memphis. Four years later (1970) RCA closed down the plant.

Two thousand machinists lost their jobs in the General Electric plant at Utica, New York, between 1966 and 1972 as the company phased this operation out of the United States and into its subsidiary in Singapore where labor works for 18 cents an hour.

In 1971, International Silver exported more than 1000 steelworkers' jobs from their plant in Meriden-Wallingford, Connecticut to Taiwan. The stainless steel flatware formerly made in Connecticut is now imported from International Silver's affiliate in Nationalist China.

More than 19,000 shoe workers in Massachusetts lost their jobs in the 1960's as American Footwear Industries succumbed to cheaper imports and large conglomerate multinationals like Interco and Genesco which began producing shoes in France, Belgium, England, Italy and South America. Spain alone exported 280 million dollars in shoes last year and the U.S. purchased 210 million dollars, or three-fourths of them.

THE HARTKE SOLUTION

As long as America's tax policy makes it more profitable to invest abroad than at home, plants will continue to move abroad and the foreign export market will be increasingly supplied from foreign based plants instead of from domestic-based industry. The Hartke trade proposals provide dramatic new tools for meeting this challenge. Tax advantages for investing abroad would be removed so that domestic investment would be on an equal economic footing.

THE EXPORT OF AMERICAN TECHNOLOGY

Although most countries strictly regulate and protect their own technology, America has left this matter largely to the discretion of private business. According to the U.S. Tariff Commission's study of multinational firms, these supercompanies dominate the development of new domestic technology. The exports of this technology from multinational corporations outweight imports by a factor of more than 10 to 1. These industries have been prominent generators of high technology exports from the United States.

One example of this practice is McDonnell-Douglas' sale of the Thor-Delta Launch system to the Japanese. The sophisticated technology which went into the construction of this system cost the American taxpayers millions of dollars in research and development funds.

American taxpayers want a fair chance to reap the benefits of their tax dollars spent on American technology. But as fast as the technology for space or electronic equipment is developed and the patent is received, that technology is often transferred abroad with the help of U.S. tax laws.

THE HARTKE SOLUTION

Under present law, U.S. corporations are relieved of paying taxes on any incoming arising from the firm's transfer of a patent or similar right to foreign companies. This encourages U.S. firms to export their technology. The Hartke approach would repeal the tax-free treatment for U.S. companies' incomes from licensing and transferring patents to foreign companies.

Also, under my approach, the President would have the discretionary power to limit the export of technology. He could control the granting of licenses to produce a product abroad. Specifically, the President could prohibit any holder of a U.S. patent from producing the patented product abroad or from licensing someone else to produce it overseas. The penalty for violating the statute or regulations issued under it would be to make the patent unenforceable in the United States Courts. This would permit other producers to make and sell the product in the United States without paying royalties.

CONCLUSION

We cannot ignore nor fail to correct the growing power of these giant multinational concerns. They feel no allegiance to any national entity. They support no government on ideological grounds. They have no qualms about investing in democratic or totalitarian, capitalistic or socialistic, civilian or military governments as long as their profit goals can be realized.

Let me conclude with a reference to public opinion. Sentiment against multinationals runs so high, that the public—by a margin of almost two to one—currently thinks that the Federal government should discourage, rather than encourage, the international expansion of U.S. companies. Many more simply do not buy the idea that corporate growth abroad has increased employment at home. Seven Americans out of ten are convinced that the main reason U.S. firms go abroad is "to take advantage of cheap foreign labor and that this costs jobs here."

Here are the results of a nationwide public opinion survey conducted by the Opinion Research Corporation for businessmen. Forty-two percent of total public opinion is strongly opposed to expansion of U.S. companies abroad. Even a majority of the managers are opposed to expansion (37 percent opposed against only 30 percent in favor of expansion). Perhaps most surprising are the results when broken down by party preference. Even the majority of Republican voters are on my side in this controversy. Republicans strongly oppose expansion 40 percent opposed to 30 percent in favor.

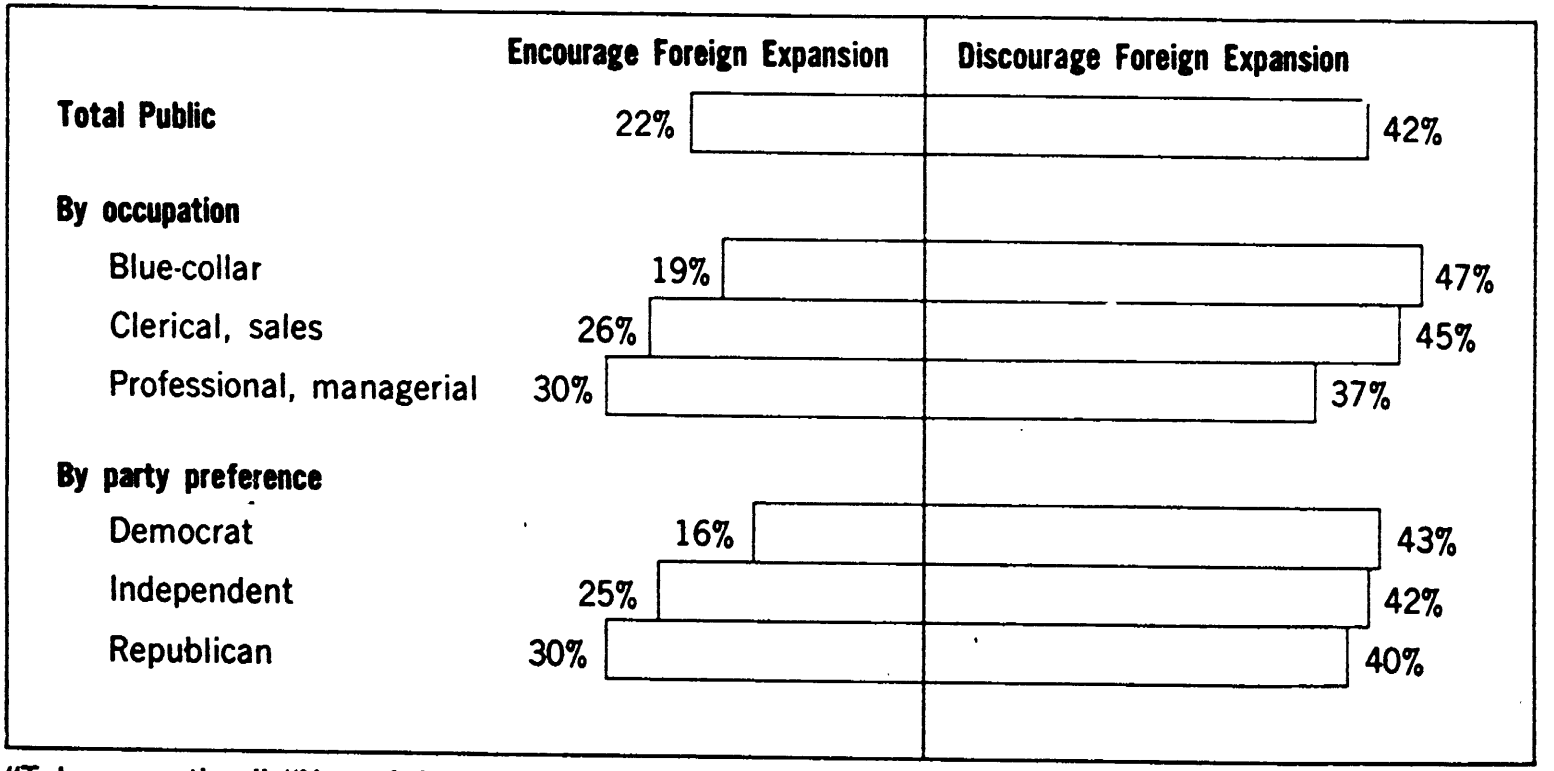
The Foreign Trade and Investment Act of 1973 is designed to put our industry on an even footing with foreign competition and make domestic investment just as attractive as investment abroad. By controlling predatory trade practices and regulating the American based transnational firm, the Hartke approach to trade policy will put America back on the path to a world of free and fair trade.

U.S. Companies Heavily Dependent on Foreign Sales & Earnings

Company	Estimated Foreign Sales 1970 (millions)	Percent of Total	Foreign Earnings (millions)	Percent of Total	Where Sales and Profits Come From
Standard Oil (N.J.)	$8,277	50	$681.2	52	Worldwide
Mobil Oil	3,267	45	246.3	51	Canada, Middle East
ITT	2,673	42	123.6	35	Europe, Latin America
Texaco	2,540	40	NA	NA	Worldwide
Gulf Oil	2,428	45	115.5	21	Middle East, S. America, Canada
Standard Oil of California	1,885	45	209.3	46	Middle East, Indonesia, S. America
Caterpillar Tractor	1,118	53	NA	NA	Export sales worldwide
Occidental Petroleum	1,105	46	NA	NA	Middle East, S. America, Africa
Dow Chemical	771	40	46.4	45	Worldwide
CPC International	692	50	31.1	51	Worldwide
Colgate Palmolive	670	55	NA	NA	Worldwide
National Cash Register	643	45	15.3	51	Worldwide
Englehard Minerals & Chem.	589	40	NA	NA	Britain, Europe, Japan
American Smelting & Refining	467	65	49.0	55	Australia, Peru, Mexico
H.J. Heinz	433	44	16.7	44	Worldwide
Pfizer	412	47	44.6	55	Britain, Europe, Latin America
Schlumberger	341	59	NA	NA	France, Canada
Otis Elevator	301	50	8.4	35	Worldwide
Gillette	289	43	33.0	50	Worldwide
USM	203	46	9.8	98	British Com., Europe, Lat. America
Chesebrough-Pond's	111	43	8.4	40	Europe, Canada, Latin America
Black & Decker	107	42	10.0	50	Export sales

Overall, the Public Favors Curtailment of U.S. Companies' Expansion Abroad by Almost a Two-to-One Margin.

"In your opinion, do you think the federal government should encourage the expansion of U.S. companies abroad, or discourage their expansion?"



"Take no action," "No opinion" omitted.

U.S. TAXES PAID BY U.S.-BASED MAJOR OIL COMPANIES

Company	Net income before taxes (billions)	Percent paid in U.S. taxes
In 1972:		
Exxon	$3.700	6.5
Texaco	1.376	1.7
Mobil	1.344	1.3
Gulf	1.009	1.2
SoCal	.941	2.05
In 1962–71:		
Exxon	19.653	7.3
Texaco	8.702	2.6
Mobil	6.388	6.1
Gulf	7.856	4.7
SoCal	5.186	2.7

WORLD'S 15 LARGEST MANUFACTURING CORPORATIONS RANKED BY ASSETS IN 1972

Rank	Company	Assets (thousands)	Sales (thousands)	Rank
[1] 1	Exxon	$21,558,257	$20,309,753	2
[1] 2	Royal Dutch/Shell Group	20,066,802	14,060,307	4
3	General Motors	18,273,382	30,435,231	1
[1] 4	Texaco	12,032,174	8,692,991	10
5	Ford Motor	11,634,000	20,194,400	3
6	IBM	10,792,402	9,532,593	7
[1] 7	Gulf Oil	9,324,000	6,243,000	12
[1] 8	Mobil Oil	9,216,713	9,166,332	8
9	Nippon Steel	8,622,916	5,364,332	17
10	I.T.T.	8,617,897	8,556,826	11
[1] 11	British Petroleum	8,161,413	5,711,555	15
[1] 12	Standard Oil (Calif.)	8,084,193	5,829,487	14
13	General Electric	7,401,800	10,239,500	5
14	Mitsubishi Ind	7,264,272	3,980,559	22
15	ENI	7,088,636	2,747,973	25

[1] Indicates one of the "Seven Sisters".

Source: Fortune Magazine, May and September, 1973.

U.S. DIRECT FOREIGN INVESTMENT AND RATES OF RETURN, 1972 AND 1971

	1972						1971					
	Total [1] [2]	Rate of return [3]	Manufacturing	Rate of return [3]	Petroleum	Rate of return [3]	Total [1] [2]	Rate of return [3]	Manufacturing	Rate of return [3]	Petroleum	Rate of return [3]
Canada	25,784	8.7	11,587	10.0	5,311	8.5	24,105	8.1	10,590	9.0	5,149	7.2
Latin America	16,644	9.2	5,565	11.8	4,267	6.9	15,789	9.5	4,999	10.3	4,195	12.1
Europe [4] [5]	30,714	12.0	17,462	14.6	6,992.	1.7	27,740	9.7	19,820	11.6	6,192	Loss
Africa [6]	4,111	16.6	605	7.3	2,469	21.3	3,836	17.5	611		2,283	
Asia (without Middle East)	3,309	11.0	2,043	16.0	2,346	10.2	4,857	13.0	1,748	14.0	2,033	8.1
Middle East	2,053	119.4	104	7.7	1,807	133.9	1,661	113.1	92	7.6	1,464	126.8
Australasia	4,368	10.0	2,112	11.1	887	9.8	3,939	9.4	1,973	10.7	791	8.6
Total (free world minus United States)	94,631	13.2	39,478	12.7	26,399	17.2	86.198	11.9	35,632	10.8	24,152	16.0

[1] Book value of all foreign direct investment at end of year (this BI table does not report "mining and smelting" and "other industries" separately as does Department of Commerce, but BI does include such investments in columns representing totals. 1972 figures are preliminary and will be revised next year.

[2] 1972 data is preliminary; 1971 data differs from that published a year ago in BI since Department of Commerce this year reports revised 1971 data.

[3] Definitions: Direct foreign investment total (dollar figures) represent year-end book values (i.e., assets less debts or "net assets"). Rate of return (percent figures) represent net earnings (i.e parent share of foreign subsidiary plus branch earnings) divided by book values. Net earnings of foreign subsidiaries equal parent equity in earnings after provision for foreign income taxes, perferred dividends, and interest payments; while net earnings of foreign branches are after foreign income taxes but before depletion charges and U.S. taxes. n a. --Not available (i.e., either less than $500,000 plus or minus or combined in other accounts).

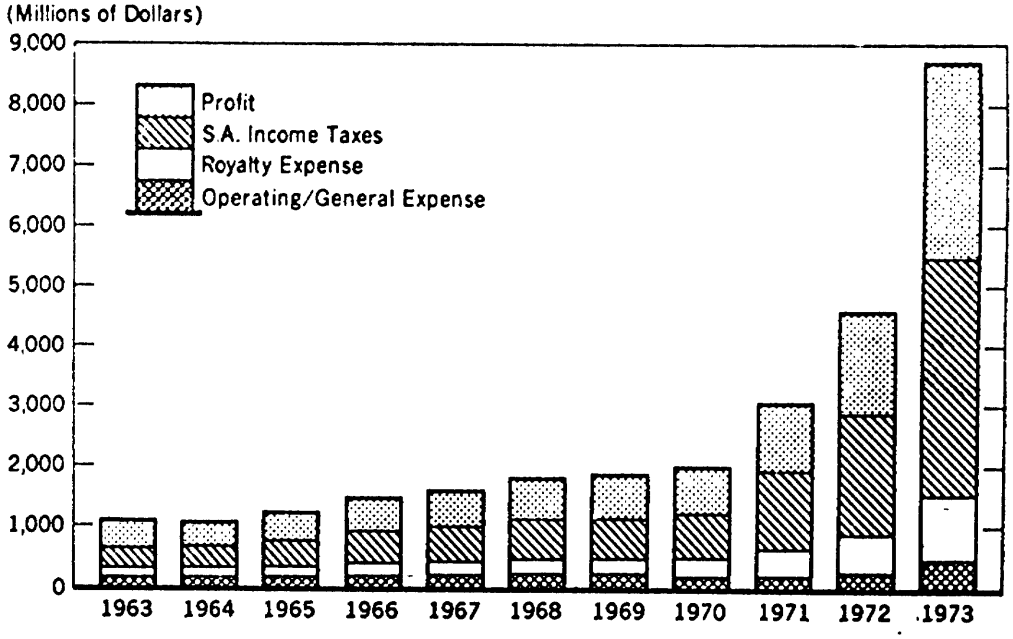
[4] Sum of country figures not equal to area total since some 12 smaller West European countries such as Austria and Portugal (all representing end-1972 book value of $1,318,000,000) are included in total.

[5] Direct investment figures for Europe do not include any investments in Eastern European (Comecon) countries.

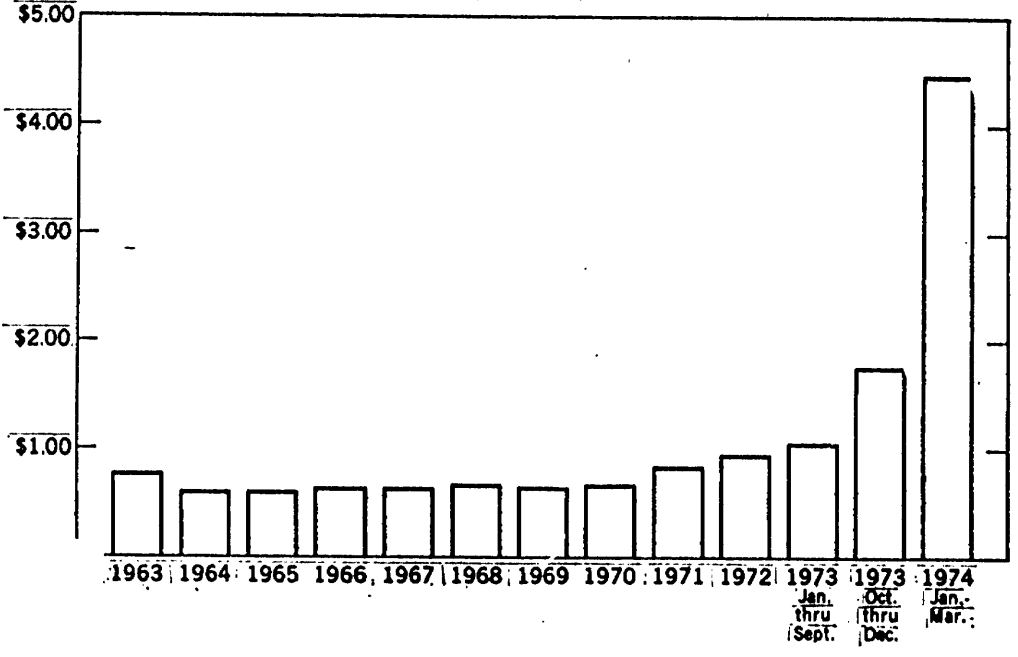
[6] Sum of country figures not equal to area total since some smaller African countries are included in total.

Source: Business Internatoinal, Nov. 23 1973.

TOTAL EARNINGS AND EXPENSES OF ARAMCO



PROFIT PER BARREL FOR ARAMCO



COMPARISON OF LIFTINGS WITH DIVIDENDS TO ARAMCO PARTNERS

YEAR	COMPANY	TOTAL LIFTINGS BBL./DAY	% OVERLIFT	DIVIDENDS/ BBL.	YEAR	COMPANY	TOTAL LIFTINGS BBL./DAY	% OVERLIFT	DIVIDENDS/ BBL.
1963	SOCAL	408,580	-	$0.955	1969	SOCAL	565,280	-	$0.792
	EXXON	471,740	15.5	0.937		TEXACO	914,670	61.8	0.658
	MOBIL	159,770	17.3	0.921		EXXON	1,029,350	82.1	0.622
	TEXACO	533,440	30.6	0.842		MOBIL	411,140	118.2	0.594
1964	SOCAL	449,850	-	$0.798	1970	SOCAL	713,490	-	$0.563
	EXXON	504,760	12.2	0.777		TEXACO	1,005,630	40.9	0.524
	TEXACO	531,550	18.2	0.730		EXXON	1,290,918	80.9	0.500
	MOBIL	189,810	26.6	0.733		MOBIL	475,100	99.8	0.545
1965	SOCAL	490,110	-	$0.662	1971	SOCAL	1,099,820	-	$0.461
	EXXON	606,790	23.8	0.600		TEXACO	1,288,400	17.1	0.499
	TEXACO	614,860	25.5	0.578		EXXON	1,458,490	32.6	0.542
	MOBIL	263,920	61.5	0.565		MOBIL	541,140	47.6	0.518
1966	SOCAL	492,560	-	$0.856	1972	SOCAL	1,537,140	-	$0.751
	TEXACO	695,470	41.2	0.699		TEXACO	1,688,140	9.8	0.766
	MOBIL	280,890	71.1	0.645		EXXON	1,729,850	12.5	0.756
	EXXON	875,410	77.7	0.585		MOBIL	630,510	23.1	0.831
1967	SOCAL	483,320	-	$0.748	1973	SOCAL	2,007,293		$1.038
	TEXACO	821,020	69.9	0.603		TEXACO	2,062,420	2.7	1.016
	EXXON	878,090	81.7	0.635		EXXON	2,147,880	7.0	1.007
	MOBIL	354,620	120.1	0.586		MOBIL	772,380	15.4	0.988
1968	SOCAL	535,390	-	$0.825					
	TEXACO	899,970	68.1	0.680					
	EXXON	941,870	75.9	0.627					
	MOBIL	389,410	118.2	0.586					

[From Congressional Record]

PUBLIC SUPPORTS THE HARTKE APPROACH TO TRADE—LATEST ROPER POLL, APRIL 1974

Mr. HARTKE. Mr. President, I might point out that a recent poll taken by Mr. Roper shows that one of the most astonishing facts developed was the situation that the American people were terribly upset about the loophole that was given to multinational corporations and oil multinationals in particular. I ask unanimous consent to have printed in the Record a summary of that finding by the Roper organization.

There being no objection, the Summary was ordered to be printed in the Record, as follows:

ROPER REPORTS

[Issued First of April, 1973]

LOYALTIES OF MULTINATIONALS CHALLENGED

66%, in damning indictment, say U.S. companies operating abroad put own interests above those of U.S.

NO TAX CREDITS FOR U.S. COMPANIES ABROAD

67% think U.S. multinationals should not be allowed to deduct foreign taxes from U.S. taxes owed. Full U.S. taxes should be paid.

PUBLIC COOLISH TOWARD FOREIGN TRADE

Only one-fifth want more foreign trade, 3 in 10 want less. Greatest resistance to more trade among union members.

MOST WANT EXPORT-IMPORT BALANCE

65% want exports to equal imports.

FOREIGN COMPANIES HERE?

By modest margin, public favors foreign companies operating in U.S. 50% think government should encourage them, 39% would discourage them.

MORE JOBS FOR AMERICANS

60% say foreign firms here would mean more jobs.

On another subject, would you like to see more trade between the United States and foreign countries than we now have, less trade than we now have, or about the same amount of trade we now have? More trade, 21 percent; Less trade, 30 percent; Same amount, 33 percent; and Don't know, 15 percent.

What do you think the long range goal of the United States should be when it comes to foreign trade—to export more than we import, or to import more than we export, or to have exports just about equal imports? Export more, 18 percent; Import more, 4 percent; Have exports about equal imports, 65 percent; and Don't know, 13 percent.

When American companies have operations in another country they usually have to pay taxes on their profits to that country. Do you think they should be allowed to deduct the amount of those taxes from what they are required to pay in United States taxes, or that they should be required to pay full taxes on their profits to the United States? Should be allowed to deduct foreign taxes, 19 percent; Should pay full taxes to the U.S., 67 percent; and Don't know, 14 percent.

Consonant with other signs of a national drawing inward noted in recent surveys, public sentiment is coolish toward increased foreign trade. Three out of ten favor less trade between the U.S. and other countries, while only two in ten want more foreign trade. One-third would keep trade at current levels. Greatest support for increased foreign trade is among executives/professionals (37%), the college educated (34%), the affluent (33%), and the politically and socially active (32%)). Greatest resistance to foreign trade is found among union members and blue collar workers (37%), probably because they see job threats.

EXPORTS VS. IMPORTS

Two-thirds of the public think exports and imports should be in balance. However, higher than average support for an export surplus comes from the affluent (31%), the college educated (28%), executives/professionals (27%), and the politically and socially active (26%).

OVERSEAS COMPANIES PAY FULL U.S. TAXES?

Perhaps influenced by recent reports on high oil company profits, and general suspicions about U.S. companies operating abroad (see I), two-thirds of the public thinks that American companies operating overseas should not be allowed to deduct foreign taxes from their U.S. tax bill, but rather pay full taxes on their profits to the U.S. Government. Again, the affluent, the better educated, and executives/professional are most likely to concede the point of subtracting foreign taxes, but even these groups favor full U.S. tax payments by two to one.

The tax credit feature of Burke-Hartke has strong public support.

AMERICAN COMPANIES ABROAD

The legend of "the ugly American" abroad extends in many minds to the American corporation. Two-thirds of the public believes it likely that American companies operating abroad put their own interests above those of the United States. This is a damning indictment indeed, and only two out of ten would defend overseas companies from it. Most convinced that companies abroad place corporate above national interest are Westerners (77%), political and social activities (76%), executives/professionals (74%), the college educated (74%), and the affluent (72%).

FOREIGN COMPANIES: AMERICAN OPERATIONS

By contrast, foreign companies should be encouraged to establish operations in the United States, say half the public. Another two-fifths thinks such operations should be discouraged. This is rather lukewarm acceptance, and in tune with general lack of enthusiasm about increasing foreign trade and regulations.

Last October the public expressed itself as against encouraging U.S. companies to operate overseas (50% to 26%). If the public's wishes were carried out, it would mean all multinational companies would be *foreign*, a conclusion not all who answered may have thought their way through to. Some education on international trade seems to be needed.

How widespread fears are of foreign "takeovers" was not measured; but another probable effect of foreign companies building plants here was: impact on American jobs. By a margin of six to one, Americans see foreign companies operating here as bringing more jobs to Americans, undoubtedly the main reason for favoring such operations.

There has been speculation to the effect that when large American companies have operations abroad they sometimes make agreements with other countries that are in conflict with U.S. foreign policy and not always in the best interests of the United States. Most of these large companies have denied this, and say they do not do anything that conflicts with U.S. foreign policy. What do you think is likely to be true—that American companies operating abroad put their own interests above those of the United States, or that they place the interest of the United States first? Put their interests above those of the U.S., 66 percent; Place interests of U.S. first, 20 percent; and Don't know, 14 percent.

There has been interest expressed recently by some foreign companies in building plants here in the United States. For example, a German automobile company might want to build a plant here to make its cars here instead of making them in Germany and shipping them here for sale. Generally speaking, do you think it should be our government's policy to encourage foreign companies having operations in the United States or to discourage them? Encourage, 50 percent; Discourage, 39 percent; and Don't know, 10 percent.

If more foreign companies *did* have operations in this country, do you think it would mean more jobs for Americans than there now are, or fewer jobs, or don't you think it would have any effect on the number of jobs for Americans? More, 60 percent; Fewer, 10 percent; No effect, 20 percent; and Don't know, 10 percent.

THE PETROLEUM INDUSTRY—A BACKGROUND

I should like to introduce into the Record a series of articles which indicate that in spite of the oil embargo in the Middle East and in spite of massive expropriation, oil companies are still more than willing to invest in the Middle East.

[From the Washington Post, Jan. 3, 1974]

MULTIBILLION-DOLLAR TAX BENEFIT SEEN FOR BIG OIL FIRMS

(By Morton Mintz)

The big international oil companies are getting multibillion-dollar tax breaks as a result of the unexpected sharp increases in the price of foreign oil, a public interest tax law firm said yesterday.

The companies pay royalties, taxes or both to Middle Eastern countries mainly, for the privilege of extracting petroleum from state-owned lands.

In the past, some of the Arab countries have helped out the oil companies with U.S. tax collectors by defining the charges as the firms desired—and they could do so again, Thomas F. Field of Tax Analysts and Advocates said in a telephone interview.

Under Internal Revenue Service rulings dating back to the late 1940s, the companies have been permitted to use the royalties as dollar-for-dollar offsets against their taxes in the United States. That is, if a firm paid $1 million in royalties abroad it would be allowed to pay $1 million less in taxes here.

At the same time, the tax laws allow taxes paid to other countries by all corporations also to be credited against American taxes.

The significance of the rulings and of the laws as they apply to the international oil companies increased enormously on Dec. 23, when the principal petroleum-producing countries in the Persian Gulf increased royalties and taxes by $3.95 per barrel—from $3.05 to $7.

BEST AVAILABLE COPY

The "posted" price, an artificial figure used as a basis for figuring royalties and taxes, increased to $11.65 a barrel, compared with $3.01 before the outbreak of hostilities with Israel in October. Production costs are about 12 cents a barrel.

The tax benefits to the oil companies cannot be precisely estimated because of many unknowns and because their effect is complicated by other special tax provisions for the oil industry, said Field, a former Treasury Department adviser-attorney in the Office of Legislative Counsel.

But he calculated that the companies in 1974 would have to pay at least $3 billion in federal taxes if the royalties and taxes paid to the oil kingdoms were to be treated as state income taxes are treated: as deductible business expenses.

Field's calculation was made in cooperation with other former Treasury specialists.

Martin Lobel, formerly an oil industry specialist for Sen. William Proxmire (D-Wis.), recalled that a big reason for giving the oil companies tax breaks was that domestic exploration, development and refinery construction were supposed to be stimulated. But he said the reverse has happened: the stimulus has been much more effective abroad than in the United States.

Now that Arab countries have embargoed shipments to the United States and may raise prices even more, the rationale for allowing foreign tax credits to the oil companies operating in the Persian Gulf becomes highly questionable, Lobel said in an interview.

The IRS, under State Department pressure, agreed in the late 1940s to treat royalties as taxes and did so with a series of private letter rulings, tax lawyer Field said. The argument made at the time by the companies was that royalties, no matter what they were called, were truly taxes. A public ruling to this effect was issued by the IRS about 20 years ago.

Field said the IRS is empowered to order a fact-finding investigation into the extent to which the royalties are used for the same governmental purposes as taxes. The agency is also empowered to modify the ruling.

The IRS is technically free to cancel the ruling altogether. Such an effort would be vulnerable to a legal attack by the oil companies on the grounds that the ruling had acquired the force of law, Field said.

The artificial nature of "posted" prices for crude set off a clash between the IRS and the American firms operating in the Persian Gulf in the 1960s, when the agency filed a $1 billion tax lien—the largest in history—against them.

The firms were understood to include Gulf, which has a joint venture with British Petroleum in Kuwait, and the owners of the Arabian-American Oil Co. (ARAMCO): Mobil, Standard of California, Standard of New Jersey (Exxon) and Texaco.

The IRS contended the $1 billion was owed because the companies had computed the oil depletion allowance, then 27½ percent, on inflated "posted" prices rather than on actual market prices.

Field told a congressional joint economic subcommittee two years ago that the IRS settled for 50 cents on the dollar. The agency says it is not permitted to discuss such negotiations involving any taxpayer.

In a related matter, Sen. Proxmire has been unable for four years to get the IRS to act on his request that it revoke a ruling which, Field says, has benefited only the owners of ARAMCO and BP's partner in Kuwait, Gulf.

The ruling, issued in 1956, made an exception to a 1954 regulation that prohibits corporations with a subsidiary enjoying a depletion allowance to pass the subsidiary's savings through to stockholders. The savings from the ruling are unknown.

Proxmire in February, 1970, asked the IRS to revoke the ruling on the grounds that it was inconsistent with the regulations. "A study has been initiated," the agency replied in April, 1970.

In September, 1971, Proxmire asked for a status report. The study is under "active consideration," Assistant Commissioner Harold Swartz replied two months later. "Every effort is being made to bring the study to an early conclusion."

In 1972, Gulf paid the lowest rate of federal taxes on net income before taxes, 1.2 per cent. Mobil paid 1.3 per cent, Exxon 6.5, Texaco 1.7, and Standard of California, 2.05.

[From the Wall Street Journal, Feb. 19, 1974]

Occidental Petroleum To Study Feasibility $500 Million Libya Gas-Processing Plant

(By Barth Healey)

Occidental Petroleum Corp. is planning a feasibility study for a $500 million natural-gas processing plant in Libya, it was learned in Tripoli.

Occidental officials in Los Angeles said the company didn't have any plans at present to build such a facility, but it said it was studying ways to utilize its gas in the North African state.

The utilization is being considered even as Libya is thinking of cutting crude oil production to prop its high auction prices of as much as $20 a barrel. Evidently, some earlier buyers of this crude have been having second thoughts about the bloated price.

And the expansion planning comes, too, only a week after Libya nationalized the remaining operations there of three U.S. oil companies.

Occidental wasn't affected by the latest take-over; it agreed to a 51% nationalization last year. To the contrary, only a few days earlier, Occidental had signed a production-sharing agreement with Libya that will entitle it to search for oil over about 11 million Libyan acres.

As learned in Tripoli, Occidental's study of a $500 million gas-processing facility is contingent on progress in building a planned $50 million methanol plant in Libya. This smaller plant would consume an average 50 million cubic feet of gas a day.

Both the larger plant and the methanol facility, however, couldn't fully utilize the enormous gas reserves that Occidental is believed to have on its Concession 103 in Libya. Gas from this field, together with gas from neighboring Concession 100 at Bu-Attifel, operated by Agip S.p.A. of Italy, is currently being reinjected into oil structures below ground.

This reinjection, being done at high pressures and at considerable expense, will permit an 80% recovery rate of crude oil from Occidental concessions, about double the normal recovery rate in Libya, it was believed.

Under the oil-production-sharing agreement announced earlier this month, the first exploration pact signed by Libya since the 1969 revolution, Occidental will get 19% of any oil found, free of taxes in Libya. Libya would take the rest.

An oil lawyer outside of Occidental said the overall terms are roughly parallel with the company's previous agreement, which gives the government 51% of all oil produced on earlier concessions and gives the company 49%, subject to taxation.

Occidental's current production share in Libya is about 365,000 barrels of oil a day.

Overall, Libya's share of all production on its land has grown to about 1.3 million barrels a day from 213,500 in 1971, but much of it is subject to dispute.

Last week, for instance, the government took over the remaining Libyan portions of Texaco Inc., Standard Oil Co. of California and Atlantic Richfield Co. but the companies are expected to continue challenging, as they did when 51% of their enterprises were taken over last year.

Libya staged an auction Dec. 19 to sell some of its newly acquired oil, and the fuel drew huge bids. Crude oil to which the government had clear title went for $20 a barrel. Crude under legal shadow because of contested nationalizations went for $16 a barrel. Persian Gulf crude oil, by contrast, carries a posted price of $11.95 a barrel.

Since the auction, however, some of the 22 corporate buyers of the fuel have been backing out, Libyan government and company oil executives said. The names of the withdrawing bidders couldn't be learned, but it was believed that some potential U.S. buyers were still interested. It was believed that other buyers were reluctant to pay the inflated prices in light of speculation that the Arab oil curtailment might be eased soon.

Libyan officials said they would be prepared to cut production if need be to keep buyer interest at a high level, and so, too, the price. Unlike Saudi Arabia, Libya is adamantly opposed to letting oil prices retreat from their recent highs.

But obviously market pressure was building for lower quotes. Kuwait, according to an Associated Press dispatch, postponed announcing the results of its latest auction amid reports that the highest price offered was $9 a barrel.

[From the Jan. 5 issue]

GOING TO THE SOURCE—FUEL-SHORT U.S. FIRMS ARE EYEING ARAB LANDS AS SITES FOR FACTORIES

(By Urban C. Lehner)

Many U.S. corporations, unable to get enough fuel for their factories, are planning to build factories where the fuel is—in the Mid-east.

"We decided that you have to move industry to the gas rather than the gas to industry," says Charles W. Robinson, president of Marcona Corp. of San Francisco. Marcona heads a consortium planning to build a $500 million steel mill in Al Jubayl, Saudi Arabia, in partnership with the Saudi government.

Others are laying plans for production of everything from automobiles to fertilizer in Arab lands, particularly Saudi Arabia. A U.S. government official says that since last spring the State Department has seen 30 proposals for joint-venture projects in the Mideast. (The Arab governments insist that any projects be jointly owned.)

Given the delicate political situation in the Mideast, however, few companies are eager to discuss their plans. Walter Wriston, chairman of New York's First National Citicorp., sloughs off inquiries about a luncheon hosted at which business leaders reportedly discussed the topic. Kaiser Aluminum & Chemical Corp. of Oakland, 38%-owned by Kaiser Industries Corp., responds to rumors about its plans by saying it has looked at the possibilities "from time to time" on a "purely exploratory" basis.

Nevertheless, talks with executives indicate it's only a matter of time before American factories begin dotting the desert. "Everybody and his brother is racing over trying to put a deal together," says the chairman of one large petrochemical concern. "Now it's simply a question of finding congenial matches."

THE LURE IS OBVIOUS

For oil and gas guzzlers like the U.S. petrochemical, steel, aluminum and fertilizer industries, the lure is obvious; an assured supply of energy. Saudi Arabia, for example, "flares" or burns off about two billion cubic feet of natural gas each day. Almost all that gas could be recovered for industrial use at very low cost, industry and government officials agree.

For the Arab countries themselves, the lure is instant industralization. Sheik Ahmed Zaki al-Yamani, the Saudi oil minister, spread the message during his recent U.S. tour: Saudi Arabia wants to build "substitute industries" against the day when oil reserves are depleted or new sources of energy found.

"We want American companies to establish themselves here as our partners," Mr. Yamani said at one press conference. "We aren't interested in foreign capital. We're interested in one, your technology, and two, your markets."

Businessmen are well aware that Mideast ventures may be fraught with perils. Unpredictable Arab behavior, like the current embargo, is one risk. Distraught anti-Arab American shareholders are another. From a strictly economic point of view, the tiny populations of Arab countries (Iraq has only 9.7 million people; Saudi Arabia, 7.7 million) mean small labor forces and markets. "We get lots of risks and absolutely no guarantees," one executive says.

But businessmen also realize the risks may be necessary if machines are to keep running and petroleum-based products are to keep rolling off the line. One large chemicals and fibers company, Hercules Inc. of Wilmington, says it has no current plans for Arab ventures, but a spokesman adds: "If you look back historically, petrochemical plants have always been built near the wellheads. And right now, most of the wellheads are on that sandy strip between Casablanca and Afghanistan."

If nothing else, foreign competition may force U.S. companies to act. A French-Japanese steelmaking venture in Saudi Arabia was announced recently, and a few days ago the British government sent a mission to Saudi Arabia to discuss aiding economic development there in exchange for guaranteed oil supplies.

There is even a theory among some businessmen that with Arab industrialization will come economic and political changes. "As the Arabs become buyers of raw materials and sellers of finished products, they'll be enmeshed in the global economy," says Marcona's Mr. Robinson. "That will greatly reduce the risk of the kind of unilateral action we see today."

ONE CAR FOR 117.3 PEOPLE

As a result of all this, Arab economic prospects look rosier than ever. Rodger P. Davies, deputy assistant secretary of state, told a congressional subcommittee in November that "the Persian Gulf has the potential in economic terms to be the fastest growing area in the world." General Motors Corp. says it's discussing building an auto-assembly plant in Saudi Arabia—not for energy reasons, but to serve what it thinks will be a growing market. A GM spokesman excitedly rattles off statistics showing that in Saudi Arabia there is only one passenger car for every 117.3 people, compared with one for every 2.5 in the U.S.

Some executives contend that with low-cost Arab energy, it could be feasible even to produce goods without indigenous Arab markets. Marcona, for example, sees Japan as the primary market for its made-in-Arabia steel. But Marcona's Mr. Robinson also claims it will be able to ship semifinished steel to the West Coast of the U.S. more cheaply than American makers can even from mills west of the Mississippi.

As they scramble to digest the economics of Mideast ventures, some companies are also having to relearn their ways of doing business in order to deal with Arab counterparts. Recalls a public-relations man for a company that closed a fentative agreement in Saudi Arabia last year: "It was during prayer time or some religious holidy. It's a 40-hour trip over there, and the day after our people got there the Saudis had this prayer thing and went off for two weeks. And our people just sat there waiting for them to get back."

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THE ARABIAN FANTASY

A DISSENTING VIEW OF THE OIL CRISIS

(By Christopher T. Rand)

Christopher T. Rand is a Middle East specialist who has worked for Standard Oil of California and Occidental Petroleum. He has translated Arabic and Persian materials for the U.S. Department of Commerce, and is now writing a book entitled Oil and the Moslem East.

The present calamity of the oil or energy crisis has become widely accepted as an article of the popular faith. Everybody talks about the crisis as if it were the implacable nemesis from which no man can escape, and if everybody says so (not only the major oil companies, but also the environmentalists, the U.S. government, and the citizen unable to heat his house), then it must be true. What other misfortune could possibly explain the higher prices for gasoline and the sudden shortage of winter fuel? Does not the United States possess vast natural resources and an incomparable genius for capital formation and technological invention? If so, how else could it have been ensnared in the present crisis unless through the machinations of sly and resentful Arabs?

For the past few years, the major oil companies have spent considerable sums of money advertising a vision of the apocalypse. The October war between some Arabs and all Israelis seemed to testify to the truth of this vision. The embargoes placed on Arab oil shipments to the United States and the Netherlands, together with unilateral price raises and threats of reduced production, provoked a further outpouring of oil industry bulletins announcing the approach of an energy crisis akin to the millennial scourge of Huns from the Asiatic steppes. The bulletins have been confirmed by the proper authorities in Washington, and they have been amplified in the hollow echo chamber of the national press.

The official broadcasts resolve into variations of what might be called the Arabian fantasy. The editorial writers—unchallenged but not encouraged by company spokesmen—explain that the Arab states (principally Saudi Arabia, Kuwait, Libya, Iraq, and Iran[1]), control the bulk of the world's proven oil re-

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[1] Although Iran is not properly an Arab country, on the reasonable ground that Iranians don't understand Arabic and show little interest in anything Arabian, the producers of the Arabian fantasy find it convenient to refer to the Middle East as a geographical and political unity.

serves, and that they have become rich beyond all reason or understanding. The demagogues among them entertain radical and dangerous political ideas about the sanctity of Western economic interests, and they refuse to recover their oil in ways convenient to the major international oil companies. In their more ominous moments they threaten to shut down the flow of oil unless the Western nations accede to their demands against Israel. The Western nations must prepare for the worst, and the worst undoubtedly will be expensive. Thus, the need for rationing and higher costs to the consumer.

WHAT ENERGY CRISIS?

Although sufficient to its melodramatic purpose, the prevailing rhetoric fails to answer a number of awkward questions, especially now that the October war has come and gone. Few people point out that in the past year the major oil companies have reported enormous profits, or that they have enjoyed a policy of generous forbearance on the part of the Nixon Administration,[2] or that they appear to get along quite successfully with even the most radical of Arab governments. Worse, virtually nobody explains that the energy crisis is a crisis taking place in time future rather than time present.

Even October's war was not the vengeful uprising against the West that the American information media represented it to be. When the war broke out, the Arabs stopped virtually all criticism of American action or policy. Arab officials did not claim that American troops or pilots participated in the war, Beirut newspapers, even while publishing photographs of bombed-out buildings in Damascus, quoted the Lebanese premier to the effect that America had informed him that it would make the necessary efforts to ensure Lebanese security against Israel. King Faisal of Saudi Arabia had already upped Aramco's production by a million barrels a day during the hot months of July and August, thus allowing him to reduce production when the war began and still retain normal supply levels for the year. The war has created a few problems with the logistics of oil supply, but these have aggravated the American public more than they have inconvenienced American oil companies. For the time being, the world's supply of oil far exceeds the world's demand, and so the crisis must be discerned in a network of theoretical lines converging at imaginary points in time future. The oil companies therefore project a rate of increasing demand for oil, and then they project a rate of declining supply.[3] When these two lines intersect, presumably in the early 1980s, the actual crisis (as opposed to the abstract or hypothetical crisis) will be unloosed upon an innocent and law-abiding world.

This is what the oil companies tell the public, not what they themselves know to be the case. In the Middle East they play the part of middlemen rather than principals, and in their various dealings, both with the Arabs and with each other, they display the devious cunning that characterizes the dealings of middlemen in any trade. The instability of Arab politics once frightened them (so much money invested in such unsafe places, etc.), but after the Arab-Israeli war of 1976 and the closing of the Suez Canal they began to understand this instability as a chronic condition much less harmful than it seemed. They found that they could bear the cost of shipping oil around Africa instead of through the Suez Canal; and the construction of supertankers, as well as the hurried discovery of new reserves in the North Sea and Prudhoe Bay, Alaska, obliged them to become more independent of the Arabs. As a result of their efforts, the inventory of the world's available fuel has been increasing rather than diminishing, even when measured against the annual rise in the rate of the world's consumption The inventory has become so extensive that it has become a luxury, or at best a waste of time, for most people to worry about it.[4]

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[2] The Nixon Administration in 1973 had eased the restrictions on the importation of foreign oil, consented to increases in domestic prices of gasoline and heating fuels, encouraged the clearing away of legal obstacles to the building of the Alaska pipeline, and argued for the deregulation of natural gas traded in interstate commerce.

[3] The two most often quoted authorities on either side of the prophecy are Prof. M. A. Adelman of MIT and Walter J. Levy, an economist often employed by the major oil companies. Professor Adelman foresees a vast surplus, and Mr. Levy foresees an equally vast emptiness.

[4] The discoveries of new reserves had been exceeding the rate of consumption even before the Nixon administration's generous grants to the oil and gas industry last spring. Aside from the discoveries in Alaska and the North Sea, the oil companies also have found satisfying quantities of oil off the shores of Indonesia, in Ecuador and Australia, in Nigeria, Brunei, Cabinda, and Gabon. Production has been expanding offshore Louisiana and offshore California; onshore California, the 5 billion barrels at Elk Hills remain virtually intact.

"The consumer should wonder why the oil companies sell gasoline wholesale at 21 cents a gallon when it costs them only 4 cents a gallon to provide it."

The oil companies obviously worry about it, but their worries have to do not so much with the supply of oil as with the cost at which they can trade it. It is the disparity between these two concerns that gives rise to the convenient misperception of the oil crisis. Anybody who hopes to make sense of the present confusion must bear in mind three primary facts:

(1) There is a tremendous volume of oil in the world. (The oil companies publish deceptively conservative figures on this subject; as an example, British Petroleum in 1971 estimated the proven world reserves at about 641 billion barrels; figuring on an annual consumption rate of 18 billion barrels, this leaves enough for at least thirty years.)

(2) There is a tremendous difference between the cost of producing oil and the price at which it sells.

(3) The inhibitions against vengeful political acts on the part of the suppliers depend not so much on fear of military reprisals as they do on the implications of facts 1 and 2.

The fact of volume is the easiest to establish. The largest reservoirs of oil in the world are those in Saudi Arabia (at least 160 billion barrels) and those in Iran (at least 100 billion barrels). Between them these two nations possess the bulk of the oil in the Middle East, and dominate the entire subject of Middle Eastern oil. They lie opposite one another across about half the length of the Persian Gulf, but they have little in common except a mutual distrust. The majority of people in Iran speak Persian or Turkish; they know Arabic only as a sacred language, and they have virtually no relations of any kind with the Arab world. The oil reserves in both countries have been developed and exploited by two combinations of Western oil companies, the combination in Iran being known as "the Consortium," and the one in Saudi Arabia as "Aramco." The seven major oil companies (British Petroleum, Royal Dutch Shell, Texaco, Mobil, Exxon, Standard Oil of California, and Gulf) take part in both combinations, and it's because of these partnerships that they dominate the international oil trade.[5]

Although both Saudi Arabia and Iran contribute a huge volume of oil to the market, the oil companies choose to give much more publicity to the reserves in Saudi Arabia. They imply that only they could be assured of access to the Saudi Arabian fields, then they would feel far more secure about the reserves elsewhere in the world. As a measure of the quantity of Saudi Arabian oil, consider, for example, the Ghawar field; roughly 155 miles long and in some places 22 miles wide, this field still contains as much oil as has ever been consumed in the United States.

The Iranian fields contain comparable amounts of oil, but the oil companies prefer to underestimate their volume. The various spokesmen usually explain that Iranian production has been declining, that it has passed its maturity, that it never will exceed 8 million barrels a day. This may be true of the smaller fields that have been onstream since the 1930s, but there are other fields yet to achieve full production and a number of enormous fields, discovered in the past decade or so, that have yet to be tapped. The largest mature fields are those of Agha Jari and Gach Saran, which, although immense, have no more than about forty-five wells, spaced much farther apart than wells in American fields; many of these wells have the capacity to produce 100,000 barrels a day. Other enormous fields recently have been brought onstream at Marun, Ahvaz, Binak, Karanj, and Bibi Hakimeh—each one of them as large as any field in the United States. Equally large fields remain "on hold" at Mansuri, Kilur Karim, Golkhari, Ab Teymur, and Susangerd.

The waters of the Persian Gulf also conceal at least one immense accumulation of oil, in what is known as the Fereydoon-Marjan field. The Iranians and the Saudis share the field, but potential production in only the Iranian half of it, at Fereydoon, has been estimated at 1 million barrels a day.[6] A number of

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[5] Each of the five American companies owned a 7 percent share in Iran's Consortium. Although Iran "nationalized" its oil production in 1973, the same companies draw the same volume of oil from the same fields. With the exception of Gulf, the same companies also own the major shares of Aramco, currently producing about 7.5 million barrels of oil a day. As a consolation of sorts, Gulf owns three-eighths of the Kuwait Oil Company.

[6] The concession to Fereydoon does not belong to the Consortium. It is shared by the Iranian government and an "independent," Standard Oil Company of Indiana. To wonder why Standard of Indiana and Aramco, on the other side of the gulf, have chosen not to draw oil from the field is to raise the possibility of a deal. It is conceivable that the Aramco partners could be supplying Standard of Indiana with crude oil at cut-rate prices in return for Standard's willingness to forestall operations in Iran.

people in the oil business assess the reserves of the entire field at about 30 billion barrels.

The oil companies do not like talk about increasing production in Iran because it is more expensive than increasing production in Saudi Arabia. Before the Tehran and Tripoli price agreements in late 1970 and early 1971, the companies figured the per barrel profit on Saudi Arabian oil at between 50 and 53 cents a barrel; in Iran the comparable figure was between 43 and 45 cents a barrel for crude oil of the same specific gravity. The oil pumped out of the ground in Saudi Arabia is the cheapest in the world for its volume. It costs 4.6 cents a barrel, or one-tenth of a cent a gallon, to load into a tanker. Although Iranian wells individually produce twice as much oil a day, it costs roughly 12 cents a barrel to load into a tanker. The Iranian wells are more distant from water than those in Saudi Arabia; the pipelines cross mountain ranges rather than flat sand, and the "drive" provided by the water latent under the oil reservoirs is generally not as great in Iran as it is in Saudi Arabia.

Which probably explains why the oil companies prefer to turn the conversation to the wonders of Saudi Arabia. They say that only in Saudi Arabia can production be raised to 20 million barrels a day, and then they go on to develop the terrible fantasy about King Faisal suddenly deciding to quit the business if he doesn't find his customers congenial.

But Faisal continues to raise production whenever he can do so, and the fantasy omits a simple calculation in arithmetic. If, for instance, the oil companies hold their offtake in Iran to 8 million barrels a day and at the same time increase their offtake in Saudi Arabia to 20 million barrels a day, they will save about 8 cents a barrel on every barrel produced in Saudi Arabia instead of in Iran. Divided by two for tax purposes, and multiplied by 12 million barrels a day by 365 days in the year, the oil companies achieve an annual saving of $165 million. This is precisely what they are in business to do.

It is this kind of calculation that illuminates the difference between the oil-company definition of a crisis and the connotations ordinarily attributed to the same word by people who buy gas or heating fuel. The companies define crisis not in terms of available resources but, rather, in terms of when those resources can be delivered, in what quantities, and at what cost. The illusion of crisis helps them to exact further concessions from alarmed politicians in Washington. If the crisis can be presented as a national emergency, then how can the patriotic Senator refuse to grant hurried permits for drilling off the Atlantic coast, for alleviating pollution controls, for whatever might hasten the delivery of energy to a suffering electorate?

By the early 1950s, the oil companies and the oil-producing nations had established a protected market that has now begun to collapse. Twenty-five years ago the oil companies clearly understood that their dealings with the volatile rulers of the Middle East (or, indeed, with the rulers of any oil-producing state, such as Mexico or Venezuela) could easily deteriorate into bitter disputes. They accepted the Middle East's traditional aversion to the West, and they assumed that Arabs could be extremely difficult people with whom to bargain; they further assumed that this unpleasantness sooner or later was bound to make itself manifest, no matter what the pretext. The companies, therefore, hoped to limit all negotiations to matters having nothing to do with politics. They chose to wall themselves off from the communities in which they operated, and they kept themselves aloof from the social or political concerns that threatened to provoke unseemly incidents. With this strategy in mind, the oil companies confined their discussions to relatively small fiscal points within a narrowly legalistic context. Oil negotiations in the Middle East over the past twenty years thus became a continuous debate over such points as royalty expensing, acceleration of tax payments, gravity allowances, rates of depreciation, port and customs duties, marketing allowances, and allowances for the devaluation of foreign currencies. An entire chapter of the recent history could be written on the question as to whether forty-degree Zakum oil should be taxed at the same rate as thirty-seven-degree Umm Shaif oil. These questions often involved millions of dollars, but they rarely touched on social or political events taking place beyond the compounds of the oil installations.

In return for this convenience, the Middle Eastern governments received munificent royalties, also known as "economic rents," computed on the basis of the difference between the cost of producing oil and the price at which it could be sold. The companies could afford to pay these rents because, by paying large

sums of money to Middle Eastern governments, they could run their operations in Europe and the United States at a low rate of profit, or even at an apparent loss. They could also avoid paying taxes to the United States government. The companies insisted on only one condition: that the Middle Eastern countries refer to these payments as "taxes" rather than as "royalties." Before World War II, and in most places until about 1950 or 1951, the Middle Eastern governments earned a royalty of from 12 to 18 cents a barrel. The rulers were content with this arrangement until they discovered that their oil sold for at least six times that price on the world market. By the middle 1950s, various political figures in the Arab world began to understand that oil-company executives were easily frightened, and so they began talking, or, preferably, screaming about the shabby terms of their concessions. They raised public and impassioned complaints whenever possible, and by so doing they threatened to wreck the industry policy of nonengagement. Their harangues gradually induced the companies to pay higher rates of royalty, and they became the beneficiaries of one of the weirdest practices in the annals of international commerce.

This practice accounts for the inflated and fictitious price at which Middle Eastern oil sells on the world market. The fictitious price has been in effect since before World War II, when the center of gravity in the petroleum export trade was to be found in the Gulf of Mexico rather than in the Persian Gulf. The trade shifted eastward in the late 1940s with the first development of prolific fields in Kuwait, Saudi Arabia, and southern Iraq. In those days, the major exporting companies controlled even more of the trade than they do now, and they sold almost exclusively to themselves and to each other, in both Europe and the United States. They could set the price largely as they pleased, but for reasons of convenience they agreed to set it on the basis of the old rates that had prevailed in the Gulf of Mexico. This was done even though the new and abundant oil in the Persian Gulf cost far less than the fixed price at which the companies agreed to trade it to each other. The barrel of oil shipped from Saudi Arabia might cost 4.6 cents to load into a tanker at Ras Tanura, but it would be priced in Europe as if it were the most expensive barrel of the same kind of oil delivered from Texas. Other "costs" (depletion, depreciation, and amortization) would be added to the company's actual expenses of 4.6 cents to provide further tax deductions.

The posted price was considered extravagant in 1950, but by 1960 it had become so remote from market conditions that the companies with interests in the Persian Gulf tried to lower it. This decision proved calamitous. By trying to bring the price of oil into line with what it would bring from a customer willing to buy it (an American fuel-oil dealer, for instance, or the government of Ceylon, or an Italian petrochemical firm), the oil companies set off the enraged outcries of their necessary partners in the Middle East. The Arabs and the Iranians had been receiving revenue calculated on the basis of the posted price, and they refused to let it drop. In their rage and anxiety they formed the Organization of Petroleum Exporting Countries, and this combination has since become the bane of the oil companies. The first agreements within OPEC stopped the downward trend in prices and thereby introduced a principle that has yet to be publicly questioned by any of the major oil companies: the tax-reference price on Persian Gulf oil (or on any other oil produced by the members of OPEC) can never drop. The corollary to that principle states that revenues paid to the governments in the Middle East can only rise.

It was the weakness of the oil companies that brought about the organization of OPEC. First the companies tried to lower the old price; then they couldn't agree on a line of bargaining with the Arabs. And yet it is precisely these people who attribute an almost godlike omnipotence to OPEC. The oil companies at least share similar political interests, and they have far more in common with one another than do the several factions within OPEC. The assignment of magical force to OPEC also presents a major contradiction within the structure of the Arabian fantasy so widely proclaimed in the American press. The emotional aspect of that fantasy portrays the Arabs as childish, petulant, and treacherous, but the analytical aspect of the fantasy shows them as idealistic, fearless, and beyond corruption. The historical evidence suggests that OPEC will collapse for the same reason that the oil-company front collapsed.

The system of fictitious prices worked so well for twenty years that it gave the Middle Eastern governments great, and constantly increasing, sums of money.

Contrary to popular misconception, much of this money found its way into the local economy, and wherever it has been present (most notably in Saudi Arabia and Iran) it has strengthened the society. The exorbitant sums of money presented few difficulties as long as the system remained intact, as long as there remained an oligopoly of oil supply.

It was not just an oligopoly of companies but also of system. The companies had no more freedom within the system than did the oil-producing states. They did not dare allow a drop in the posted price (or, to use the preferred euphemism, the tax rate) because they knew that if they did so the Arab states would promptly seize their holdings. The supposedly dreadful consequences of such a doom terrified a generation of oil executives. But now this doom has come to pass, and, lo and behold, it isn't as dreadful as everybody had foretold. The companies have given up larger and larger shares of their concessions, but these proved to be nothing more than pieces of paper assigning them the right to produce the oil that they now can buy from the same producing states under nearly the same conditions as before. The Middle Eastern states have realized the old dream of controlling their own production. In Iran this so-called "nationalization"; other countries refer to it as "participation," but, even though the politicians have been satisfied, the oil still must be sold to somebody. The oil companies themselves don't much care where the oil comes from, or who owns it, or at what point along the stream it changes nationality.[7]

The apostles of crisis predict that the Arabs will ignore the laws of free enterprise and choose to sell their oil to nobody. Presumably they will do so because they already have all the money they require, and in the desert countries (Libya, Kuwait, Saudi Arabia) the small population makes no loud demands for social improvements. Thus the rulers can afford to leave the oil in the ground, waiting for a desperate industrialized world to comply with their political demands or to bid the price of oil to the bankrupting levels of $8 a barrel. The rulers then will take advantage of the inflated prices, and in a few years they will destroy the international monetary system and bring about the devaluation of everybody else's currency.

The trouble with this argument, as with most theoretical arguments dependent on imaginary lines converging in abstraction, is that it takes little account of the moderate behavior shown by the Arabs in the aftermath of war. It assumes that the West will do nothing to protect its own interests, that everybody will stand around placidly watching the projections become political realities. Which is, of course, nonsense. Either the oil companies will arrive at a profitable détente with the Middle East (less profitable than in the old days, perhaps, but still satisfactory), or they will suddenly discover that alternate sources of oil and energy were far more accessible than heretofore had been imagined.

"The illusion of crisis helps the oil companies to exact concessions from Washington. How can the patriotic Senator refuse to grant permits for drilling off the Atlantic coast?"

The October war reinforces this observation. It does not seem as though the war violated legitimate American aims in the Middle East at all; in fact, it has probably contributed to a détente. An American official sympathetic to the Arab cause but aware of the political power of the Zionist cause in U.S. might shrewdly have confided as follows to a friendly Arab diplomat: if the Arabs threaten Europe with an oil embargo—and thus threaten NATO and American strategic interests—the American government would have no choice but to go before its public and demand a more evenhanded American policy toward the Arabs. American strategic interests would of course be even more jeopardized by Soviet adventurism in the Middle East. The threat of embargo would, at the very least, force the American government to aid in the restitution of Arab lands occupied by the Israelis in 1967. Americans might also feel constrained to do something about the Palestinian diaspora. All in exchange for an Arab-Israeli peace treaty, to be sure. The Zionists would not like it, but they would have

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[7] This is an important aspect of the oil trade, and it explains the reluctance of Standard of Indiana to develop the field at Fereydoon. The lack of owned crude oil may not be a serious liability for a major oil company. Mobil, for instance, has been buying maybe 150,000 barrels a day from Standard of California, one of its partners in Aramco, at what is called "eighth-way price," i.e., a price one-eighth of the way between the tax-paid cost of the oil and its posted price. This represents a markup of perhaps 8 or 9 cents a barrel. Why should Standard of Indiana go the trouble and expense of developing a field like Fereydoon if it can arrange a comparable deal with a partner in Aramco or the Consortium?

little choice but to accept it. After all, they seem to have as few friends left as Taiwan, and the Arabs are getting stronger. The Arab leaders would not like to make peace with Israel, but they could afford to do so if they could show that they had forced America to shift its policy somewhat in their favor: no Arab who might oppose them could say that they had done more than these moderate leaders had done to restore lost Arab honor. And the conservative oil states would brandish the oil weapon just a bit to gain immunity from radical anti-Western Arab opinion.

NEW MYTHS FOR OLD

The careful welding of the oil weapon—specifically, the process of "nationalization"—has gradually shifted the politics of oil negotiation in the Middle East. If the producing nations no longer possess the great threat of expropriation (do what we say, or we will seize your holdings), then they will have lost their most effective advantage. As they become wholesale dealers instead of privileged concessionaires, they will find themselves forced to compete in what will begin to resemble a free market. The oil companies still will own 75 percent of the refineries in the non-Communist markets, as well as most of the port facilities, and so they will continue, albeit less directly, to determine price and regulate production in the international oil trade.

The Middle Eastern countries will also find themselves more concerned about the stability of Western economics. Earlier this year, for instance, Saudi Arabia agreed to buy 25 percent of Aramco for a price of about $1 billion. By so doing, it becomes a major partner in the combination of Western oil companies, and to some extent it will come to share similar interests. As the Middle Eastern governments acquire larger percentages in Western companies, they probably will invest their assets in Western banks and multinational corporations—not because they want to do so, but because they will lack sensible options.

All this will take time to come to pass, but as it does the specter of an oil crisis will gradually diminish and fade. The specter will then be replaced by that of the refinery crisis. Suddenly no one will be talking about the lack of crude oil or the vindictive politics of the Arabs; instead, everybody will be saying that oil is plentiful but means nothing unless it can be refined into useful products, and that the environmental demands placed on these products (low sulphur content, etc.) require a new generation of refineries that will be extremely expensive to construct. This, in turn, will lead to the elaboration of another myth.

The major American oil companies have neglected to build refineries over the past few years because there hasn't as yet ben enough profit in the enterprise. In order to justify the expense of building a refinery, the oil companies require the long-term assurance of crude oil supplied at low prices. Refinery construction is expensive: a fair-size plant might cost about $100 million. The big companies have this kind of money. Standard Oil of California, for instance, added $120 million to its cash reserves in 1972, but it allocated none of this money to constructing new refineries in the United States. Until the Nixon Administration relaxed the quotas last spring, the long-term importing of crude oil was restricted, and so the companies had little crude as collateral with which to secure new refinery construction financing. At this moment, it costs well over $2 a barrel to bring Saudi oil into an American port (as opposed to a net production cost of 75 cents for a barrel of American oil), and so the energy crisis continues to be thought of as low crude-oil supplies rather than high oil cost.

When the tax-paid cost of Middle Eastern crude drops, the rush to build refineries in America will be on. As soon as that occurs, the last vestiges of popular illusions about the energy crisis will have disappeared. All the participants in the drama will remain as they were, but in a clearer light.

The independent oil man, the marginal, will be even more threatened and insecure than he has always been and may vanish altogether. The consumer will continue to pay more and more for the services it has always been very much worth the companies' while to provide him with anyway. The consumer had better get busy learning about prices and wondering why the oil companies sell gasoline wholesale at 21 cents a gallon when it cost them only 4 cents a gallon on the average to provide it. He had better start investigating pipeline and production costs, too, and had better find out what it costs the companies to get oil into the top end of the trans-Alaska pipeline and how much they will sell it for at the bottom end when it is finally built. The latest gasoline price hikes are an ominous harbinger of things to come.

The American government will continue to make the same mistake as the consumer: our Congressmen and Senators will continue to worry about supply and ignore cost. And the companies? They are not deeply concerned about Saudi Arabia, Iran, or the Middle East. They know the limitations of the Arab oil weapon, and are profoundly concerned about protecting their immense assets and safeguarding the accessibility of their assets. If money in the Middle East no longer comes easily to the oil companies, they will be happy to keep looking for it elsewhere. They recognize that it is good enough to have ridden the Arab carousel for more than a generation.

U.S. 1973 Balance-of-Trade Figures

The 1973 figures for the U.S. balance of trade show a slight surplus, but the basic balance is headed for the red in 1974.

[From the New York Times, Mar. 28, 1974]

Surplus in U.S. Trade Shrinks But Exports Again Exceeded Imports in February

WASHINGTON, March 27—The United States trade surplus diminished again in February as higher oil prices more than offset some decline in the volume of oil imported, the Commerce Department reported today.

The surplus of exports over imports last month was $213.1-million, down from $643.8-million in January and $869.6-million in December. On the newly reported "C.I.F." basis of valuing imports—with insurance and freight costs added to the cost of the import itself—there was a trade deficit of $297-million last month.

IMPORTS SHOW GAIN

Both exports and imports were at record levels in February, and there was no sign of an end to the extraordinary export boom that has lasted for more than a year. At $7.61-billion, exports were up 7 per cent from January.

But imports grew even more last month. Of the increase of $925.2-million, or 14 per cent, about $300-million was attributable to oil. Total imports in February were $7.39-billion.

The total value of imports of petroleum and petroleum products has risen from $758.7-million in October to $1.53-billion in February, or almost exactly double.

In the same period the volume imported fell from 211.4 million barrels in October to 164.2 million barrels in February, chiefly because of the Arab oil embargo.

Secretary of Commerce Frederick B. Dent has said that last year's trade surplus may turn into a deficit this year because of the oil price problem.

MEANY STRESSES U.S. NEEDS

WASHINGTON, March 27 (AP)—The president of the A.F.L.-C.I.O., George Meany, told the Senate Finance Committee today that the United States needed a trade policy that would put United States interests above all others.

He described the House-passed trade reform bill, generally supported by the Nixon Administration, as totally obsolete and urged the committee to abandon it in favor of a bill that would reflect the realities of today's world.

Mr. Meany said the United States was already in a recession even while "the American people are the victims of a rampant inflation which in part has been brought on by this Administration's misapplication of present foreign trade and investment policies."

"The achievement of the $1.7-billion 1973 trade surplus, about which the Administration is so boastful, came at the expense of the consumer," the labor leader asserted.

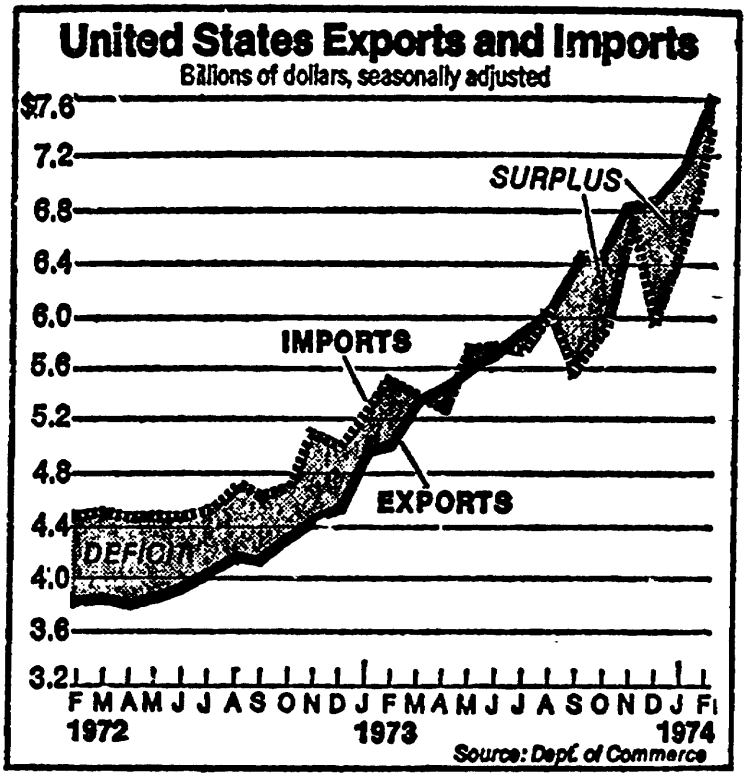
"Much of the gain in the trade accounts was the result of heavy exports of farm goods and critical raw materials. And it was exports of these commodities

which caused sharp domestic shortages and brought on the rapid acceleration of inflation," he added.

Mr. Meany said the American trade surplus last year is a dangerous illusion since imports continue to flood the United States market, wiping out jobs and industries.

But the most disturbing aspect, he said, is that America is exporting sophisticated technology that is used abroad to create jobs to maufacture products that will compete with American goods.

Mr. Meany said Congress should repeal some of the tax breaks that provide incentives for multinational corporations to do business outside the United States. He said United States corporate profits from foreign operations were taxed last year at an effective rate of five per cent.



[From the Wall Street Journal, Mar. 21, 1974]

U.S. Had Surplus in '73 Payments, First in 14 Years

WASHINGTON—Aided by more black ink in the fourth quarter, the U.S. in 1973 registered the first yearly surplus in its "basic" balance of payments since it started collecting the figures in 1960.

The $1.21 billion surplus reported by the Commerce Department is a vast improvement from 1972's $9.84 billion deficit in this key statistic and illustrates how swiftly a turnaround has occurred in the nation's financial accounts with the rest of the world.

Government analysts yesterday warned that a big splash back into the red could occur just as swiftly this year, however. This well could happen, these analysts say, if the U.S. doesn't gain trade-off concessions from major oil-exporting countries for the large supplies of expensive crude oil expected to be shipped here now that the Arab embargo has been lifted. Unless these exporters are encouraged to invest a good portion of their U.S.-generated oil receipts in American goods and services, this country's payments position will deteriorate rapidly, the analysts say.

The surplus in the basic payments position contrasts with deficits reported earlier using two other measures of the payments balance. On the "official reserve transactions" basis, the U.S. recorded a $5.29 billion deficit last year, and on the "net liquidity" measure, a $7.79 billion deficit was registered.

But the basic balance figure is considered by many analysts to be the best guide for determining the trend in U.S. international payments because short-term capital flows, which can often be quite volatile, aren't included in it.

The basic balance reflects trade, government grants, long-term corporate investments and a few other key ingredients. The official-reserves basis, on the other hand, mainly measures dollars accumulated by foreign central banks through exchange-market operations. And the "net liquidity" measurement counts nearly all the net flow of dollars to or from foreigners in private as well as governmental transactions.

The $24 million fourth quarter surplus in the basic balance was much smaller than the $2.55 billion surplus of the third quarter, which was the first quarterly surplus since 1969. A $1.56 billion deficit was posted in the 1972 final quarter.

The surplus last quarter was trimmed primarily by a $1.73 billion deficit in long-term private capital flows, which offset big gains in the merchandise trade balance and the U.S. "services" account, which covers such things as travel and tourism. The capital deficit reflected a rise in U.S. direct investment abroad, a decline in foreign direct investments here and an increased net outflow in other net long-term private capital transactions, the Commerce Department said.

The fourth quarter merchandise trade balance was a $1.36 billion surplus, up from a $612 million surplus in the third quarter. The "services" account showed a surplus of $2.61 billion, up from a $1.54 billion surplus in the previous quarter.

[From the Journal of Commerce, Mar. 14, 1974]

U.S. Plans Close Watch on Japan Export Drive

(By A. E. Cullison)

Tokyo.—It is considered by the United States Department of Commerce that it is too early to determine whether the latest Japanese export drive might cause another very serious imbalance for America in trading with Japan this year, but Washington definitely will be watching the situation extremely carefully over the next few weeks and months.

This was revealed today by U.S. Undersecretary of Commerce John K. Tabor in a meeting with newsmen in the American Embassy in Tokyo. Mr. Tabor told the press the U.S. definitely did not want another huge trade deficit with the Japanese.

"The United States is indeed most encouraged," he said, by the results of the year 1973 in which the deficit balance of the U.S. in its trade with Japan was reduced from an annual total of $4.2 billion to $1.3 billion."

He explained that this improvement in the situation "involves much greater access to the Japanese market for American exporters." The undersecretary added that while the Commerce Department is encouraged, "nevertheless the $1.3 billion is still a big deficit and we want very much to see a continuation of the direction and the momentum of the past year."

ARRIVED MONDAY

Mr. Tabor arrived in Japan on Monday and is expected to leave for Taiwan tomorrow to attend the official opening of another American trade center. His stay in the Japanese capital coincided with a prediction by leading trading house executives and manufacturers that Japan's current export drive in 1974 will bring the nation's exports this year to something between $50 billion and $52 billion.

These figures are considerably higher than the official estimates released earlier by the Ministry of International Trade and Industry (MITI). The government's official expectation is that the nation's exports will total no more than $48 billion for the year.

"With close consultation with our friends in Japan," the Commerce undersecretary said, "we hope that the overall problems both in trade and fiscal affairs and security matters will always proceed on a multilateral basis and in the spirit of cooperation rather than in the spirit of autarchy or go it alone or begger thy neighbor spirit."

He told the press Washington hoped that the U.S. could avoid a repetition of the experiences of 1971 and 1972 when the Japanese pushed their exports to the American market to the extent that a $4.2 billion annual surplus was built up for Japan.

BASIC REACTION CITED

Speaking of the problems of such a surplus, the Commerce undersecretary commented: "The basic Washington reaction is that so long as the necessary effort by the Japanese to continue to export is consistent with the principles of techniques which were used in 1973, namely that there was an equal receptivity to the exports from America into Japan of both consumers goods, investment opportunities and capital goods sales, that this does not raise any great concern in America."

He explained that, based upon his conversations while he has been in Japan this trip, he does not expect to see such a deficit developing for the U.S.

"It is too early to say, and I think to a large degree it will depend upon the degree to which American imports are received here and this includes a retention of the diminished barriers that now exist and, as we have earlier indicated, a further reduction of barriers," Mr. Tabor said.

He admitted it is quite possible the trade figure for both countries can be a healthy one. But he added that Washington will watch the situation with great interest in the months to come.

Mr. Tabor emphasized that "it is possible that a figure which will be healthy from the American viewpoint can be urged and we will be watching closely over the weeks and months ahead to assure that."

MONEY SHIFTS CITED

Speaking of the recent up-and down changes in the relative values of the Japanese yen and the American dollar, the Commerce undersecretary told the newsmen that the Nixon Administration does not want to see the yen decline too much in value because of the trading position edge this might well give Japan in the U.S. market.

"It has been an essential part of United States policy since President Nixon's, I think, very old and realistic policy of devaluing the dollar, not to have it artificially support any of our competitors in the export field," he commented. "Therefore, the present floating arrangement of both the dollar and the yen is, I think, in the best interest of realistic trade policies."

Mr. Tabor declined to say what the proper exchange rate for the dollar should be in terms of the Japanese currency, but he suggested that the general range of the present time is realistic. The yen-dollar rate is around 280 yen to the American dollar.

CONCERN OVER YEN VALUE

He said he delivered the * * * Japanese might have some concern if the rate of the yen decreases in the sense that it goes over 300 or 302 yen to the dollar because it could create the possiblity of the kind of competitive devaluation that the U.S. does not think is in the best interest of all trading countries.

"We think such competitive devaluations are not a healthy development," he said. "We think that perhaps the Japanese would recognize this could expose them to an unhealthy situation," Mr. Tabor added.

Although he avoided commenting on the point, it was explained to the U.S. undersecretary of Commerce that only recently a prominent Japanese trading house had predicted a deficit for the U.S. in trading with Japan this year of $3.3 billion, he did warn that there has to be reciprocal opportunities for America to export to Japan and to enjoy investment opportunities in Japan.

[From the Wall Street Journal, Mar. 28, 1974]

TRADE SURPLUS SLASHED IN MONTH BY OIL IMPORTS

U.S. BLAMES JUMP OF 22 PERCENT IN COSTS OF PETROLEUM FOR PLUNGE IN FEBRUARY

WASHINGTON.—The nation's soaring oil-import bill bit deeply into the U.S. trade surplus in February, helping shrink it to a third of the January level.

Exports outran imports by a seasonally adjusted $213.1 million last month, the Commerce Department said, as overall imports paced by increasingly costly oil, surged 14% from January. The February trade surplus was much slimmer than the adjusted $643.8 million black-ink showing in January, but a vast improvement over the $411.6 million deficit in February 1973.

The February report demonstrated how the monthly surpluses that the U.S. has had since mid-1973 are increasingly vulnerable to the rising cost of petroleum. The volume of oil imports dropped about 4% last month, but their value jumped 22%, reflecting the spectacular price boosts of recent months.

RENEWAL OF SHIPMENTS

Renewal of shipments of high-priced Arab oil to the U.S., following the recent lifting of the six-month embargo, is sure to accelerate the rise in the nation's oil import bill and imperil its trade surplus. The surging oil bill is the main factor behind Nixon administration predictions that the trade balance will swing into the red during the year and may show a deficit for all 1974 after last year's surplus of $1.68 billion.

The department said U.S. exports rose 7% in February to an adjusted $7.61 billion from January's $7.11 billion, and were a hefty 50% above the year-earlier level of $5.07 billion.

Commerce Secretary Frederick Dent said the February export advance was broadly based. The largest single factor, he said, was a surge in shipments of commercial aircraft. Agriculture exports "were mixed," he said, with a sizable gain in soybean shipments partly offset by declines in rice, wheat and corn exports.

The "major element" in the 14% climb in imports, Mr. Dent said, was the higher cost of foreign oil. Detailed figures issued by the department showed imports of petroleum and related products totaled 164.2 million barrels, down 4.4% from January. But the value of these products rose to $1.51 billion, up 22% from $1.22 billion in January.

IMPORTANT FACTORS

"Although U.S. foreign trade has been consistently in surplus since last July," Mr. Dent said in a statement, "it is clear that the volume and price of petroleum imports will be important factors in the balance of trade this year." He didn't make any new forecast for the U.S. trade balance for 1974, but he indicated earlier he expects a deficit about as large as last year's surplus.

For the first two months of 1974, the U.S. had a cumulative surplus of $856.9 million, compared with a deficit of $700.7 million in the 1973 period.

The department said the U.S. trade account was in deficit by $297 million in February when calculated on the basis used by most other nations, compared with a $165.4 million surplus on that basis in January. The dual bookkeeping on trade figures was started in January to provide one set of figures comparable to those of other nations.

UNITED STATES-WEST GERMAN TRADE COMPARISONS

Our administration asserts that our labor costs are too high. That despite two dollar devaluations, our increased labor costs have driven us right out of the international marketplace. They assert that this is the reason why we are great exporters of agricultural products (a low labor intensive industry) and cannot be very large exporters of manufactured goods.

I should like to submit for the record these various newspaper accounts of the German wage earner. He makes more than his American counterpart, yet the Germans are still very well able to increase their exports of manufactured goods. The West German balance of payments is soaring into surpluses despite the fact that they have to import most of their petroleum.

There seems to be a blatant contradiction in what the administration is telling us on this particular matter.

[From the Washington Post, Oct. 14, 1973]

West German Pay Rates Soar

(By David Haworth)

Pay rates in Western Germany are equal to—and in some industries even exceed—salaries paid in the United States, which until now has always been the world's highest-paying nation.

According to a study published here by a management consultant firm, a German marketing executive in an engineering company gets an average of $32,200 a year compared with his U.S. counterpart who will receive an annual $29,540. A manufacturing manager in Germany this year is getting an average of nearly $2,000 more than he would in America, and the finance manager will get an extra $400 above his U.S. opposite number's income.

Although these differences are not large, they indicate a new trend. The study also points out that the recent variations in the exchange rate caused a further increase of some 20 percent in the German pay levels in relation to those in the U.S. since the inquiry's figures were completed earlier in the year.

The survey concludes that French pay levels are not far behind the German ones, averaging at the moment some $2,000 a year less for comparable executive jobs, but rapidly closing the gap. In contrast, Britain and Ireland, the two worst-paying countries in the nine-member Common Market, seem to have little prospect of catching up with their more dynamic partners.

Working hours have gone up in Germany, however, though they have dropped in all other European Economic Community countries. The report shows up one oddity. German executives insist on having an "elegant office" and this is their most commonly expected bonus. In the U.S. a paid-up club membership, a company car and an entertainment allowance are the most valued job bonuses.

It is better to retire in France, Italy or Luxembourg, the report says, but France and Belgium give the best social security handouts to families. Italy is at the bottom of the ranking for per capita wealth.

Bonuses and other cash payments are shown to be an important part of West German and U.S. salary structures, but virtually none is given in Britain. Special types of remuneration, such as representational fees, extra holiday and subsidized housing are less in the U.S. than elsewhere. They are most numerous in Japan.

Despite America's slipping position in the salary league, the report points out that the country still has by far the highest gross national product of any other nation in the world: $1.15 trillion last year. The survey cites Japan as the second leading economic entity, with a GNP of about $274 billion, followed by West Germany with an estimated $258 billion.

The combined GNP of the nine European Economic Community countries is rapidly approaching that of the U.S., last year reaching some $824 billion.

[From the Washington Post, Sept. 2, 1973]

The Relative Wealth of Nations

West Germany has now equalled the United States in national wealth per person. It happened last Thursday. The exchange rate of the dollar, sinking steadily on the Frankfurt exchange, hit the point at which the German level in marks is worth as much as the American in dollars. On Friday the dollar sank a bit more and left the Germans, technically at least, just a bit richer than we.

This new fact is going to change the way that Americans look at the world and at themselves. It may strengthen the current disinclination to carry the burdens of world leadership. It will probably stiffen this country's economic negotiations with other countries. It will certainly set off a long slightly defensive debate on the defects and omissions of the conventional methods of measuring wealth. But there is no doubt about the message that those conventional methods currently convey.

To the extent that national wealth can be reduced to a single figure, it is Gross National Product. GNP is, as the textbooks say, the grand total of all the goods and services sold for money in a country. In the United States, GNP per capita for 1973 will probably be about $6,100.

Sweden overtook the American figure earlier in the dollar's long slide downward. Sweden's GNP per capita this year, at current exchange rates, is over $6,500. But Sweden's population, a little over 8 million, is less than half of California's alone. West Germany, with its 62 million people and its rising political position, is another matter.

In West Germany the GNP per capita this year, at last weekend's exchange rate, translates to roughly $6200. The Deutschemark traded at 3.21 to the dollar at the beginning of this year. By last Thursday it was down to 2.48 and, on Friday, fell to 2.43.

These figures are, obviously, only a rough approximation of a reality that cannot be entirely reduced to statistics. While Germany has reached 102 per cent of the American level, the same calculations show France around 84 per cent, a disparity that may reflect the mysteries of the international exchange rates more than any substantial difference in real wealth between those countries.

Britain, on the other hand, is still at about the same position in relation to us that it has occupied for many years. A decade ago it stood at about half the American level, and there it stands today. It has the lowest growth rate of any of the major industrial powers, and the price of the British pound, in dollars, has remained comparatively stable.

The other extreme is, inevitably, the case of Japan. In 1960 it had a GNP per capita that was one-sixth of the American level. Currently it is almost two-thirds of the American level. If the trends of recent years are maintained, according to Isaiah Frank of Johns Hopkins University, the Japanese will equal us, per capita, by about 1980.

These comparisons are based on currency exchange rates, which means that they are based mainly on the value of goods traded in world commerce. But the goods traded across borders are only a small part of any country's GNP. The prices of services can vary sharply from one country to another. So do housing and real estate.

GROSS NATIONAL PRODUCT PER CAPITA

[As percentage of U.S. level]

	1960	1965	1970	Current
Sweden	69	74	79	108
West Germany	48	55	63	102
Canada	66	67	73	85
France	47	57	60	84
Japan	16	25	39	62
Britain	49	51	45	51

Sometimes economists try to compare purchasing power from one country to another, by constructing and pricing a hypothetical market basket of all the things that a typical family buys. But here the statistics run into an altogether different kind of questions—the questions that one experienced economist, Lawrence B. Krause of the Brookings Institution, calls the philosophical issues. Whose market basket shall we use? The typical American family's, reflecting American culture and tastes? A German basket? A Japanese basket? Housing is vastly more expensive in Japan than here, for example, but most services are a good deal cheaper.

Using any basket, the American dollar now buys more in the United States than its Deutschemark equivalent can buy in Germany. In other words, the international value of the mark somewhat overstates its current purchasing power at home. Even though wealth per capita is equal in the two countries, the average American still lives more comfortably than his German counterpart.

The GNP figures are anything but exact in reflecting standards of living. Americans, for example, regard leisure as an important item in the standard of living. But, as Krause points out, the Japanese put much less value on it. The five day work week has been standard here since World War II, but the Japanese still generally work five and a half days. Leisure does not show up in the GNP accounts since it is, in effect, the labor that people choose not to sell.

But the Japanese do not live as well as the raw GNP figures might suggest because, among other reasons, they are a nation of savers. Their savings rate is, by the measure of any other country, phenomenally high.

Americans, to take another example, put a higher value on education than most other countries do. Although we are now equally wealthy, the proportion of young people pursuing higher education is almost four times as high in this country as in Germany. With its vigorous drives to discourage high school students from dropping out, the United States is making a full 12 years of education the normal minimum. In Germany, most youngsters still leave school and go to work at the age of 15, after nine years of education.

We now appear to be coming into a time in which a good many of the industrial countries will be clustered around the same general level of wealth per person, with the numerical differences depending heavily on the various statistical methods by which wealth is measured. The more interesting disparities will lie in the individual ways that these countries choose to spend their similar incomes.

Americans are accustomed, of course, to being by far the richest nation in the world. The assurance of wealth, and the highest standard of living in human experience, are woven through the American psychology. As Americans slowly realize that other nations have worked their way up to our economic level, American attitudes will doubtless change in some incalculable degree. Political concepts seem to be lagging about a decade behind economic realities. This shift in the distribution of the world's industrial wealth was going on at great speed through the 1960s, but the fixed values of currencies veiled it until the devaluations, revaluations and floats of this year.

In 1970 the top three nations, in rank of wealth per person, were the United States and, at a considerable distance behind, Sweden and Canada. Today the order is Sweden, West Germany, the United States, and the rest of the field closing up fast.

This article indicates that both West Germany and Japan are building up an unprecedented drive in orde: to earn more foreign exchange to buy oil. (Japan must import virtually 100 percent of its oil.)

The article follows:

[From the Washington Post, Mar. 31, 1974]

GLOBAL OIL AUSTERITY?

(By Hobart Rowen)

The end of the Arab oil embargo still leaves the industrial world with a terrible dilemma and the poor countries facing a disaster of unmanageable proportions.

Although it has become fashionable in banking circles to suggest that financial gimmicks of one sort or another can "solve" the problem, it is important for the public to keep in mind that loans and investments—while great for the banking business—solve neither the difficulty of growing trade deficits nor the loss of purchasing power due to the higher price of oil.

There are two facts that should be remembered when anyone tells you that the energy crisis is over because the Arab oil embargo has been lifted:

First, despite some easing in the auction price for oil in the Persian Gulf, the "mainstream" of supplies, as oil consultant Walter Levy points out, still ranges upward of $7 a barrel, compared to $3 as recently as October 1973, $1.25 in 1971 and 90 cents before that. Thus, the world oil bill for 1974 is something like $65 to $75 billion higher than last year's.

Moreover, the secretary general of the Organization of Petroleum Exporting Countries, Dr. Abderramman Khene, forecast on Wednesday that the cartel will boost prices after the current freeze expires in July. Oil prices are "artificially low," Dr. Khene alleges. The OPEC governments, watching the rate of inflation around the world climb, are talking of a "take" in taxes and royalties that will yield them about $12 a barrel instead of the present average of $7.50.

Second, as George W. Ball cautions, the end of the embargo "must still be regarded as provisional—for the embargo cannon will continue to be loaded and ready for firing until the Arab-Israeli dispute is finally settled which—even if we are lucky—is not likely to occur for another two to three years."

So, even with the oil embargo lifted, the oil problem remains. For the less-developed countries which last year had a combined trade deficit of $11 billion, the staggering oil price increase means that they will wind up with a deficit of $20 to $25 billion in 1974.

For the industrial nations, as West German central banker Otmar Emminger pointed out here the other day, the situation varies. But even the supposedly wealthy United States faces an Arab oil "tax" which will cut consumer purchasing power by perhaps $15 billion this year. And if prices go up, the situation will be worse.

Europe and Japan are feeling pressure to boost exports to earn more foreign exchange. Former Commerce Secretary Peter Peterson, now head of Lehman Brothers, says that this "may wipe out the advantage the United States increasingly enjoyed during 1973 from an under value dollar and restore roughly the same conditions that existed prior to Aug. 15, 1971, when American goods encountered serious problems of price competition in world markets."

Emminger, it should be said, thinks that the major nations will not engage in a cutthroat competition for export markets typified by exchange-rate wars or "beggar-thy-neighbor" policies.

But Japan—which must import virtually 100 per cent of its oil—already has indicated that it will junk the plans once made to improve the standard of living at home and return to the old emphasis of an export economy to improve its foreign exchange earnings. That can only mean a return to the bitter fights among Japanese, American and European manufacturers to obtain and secure outlets for their goods.

Where does all of this leave us? First of all, we must ignore the advice of such as Roy Ash, head of the Office of Management and Budget, that all allocation controls should be dropped once imports reach last August's levels. That would be stupid and short-sighted. We must accept as reality that the Arab oil weapon has not been discarded, only temporarily suspended.

ECONOMIC IMPACT

Second, we have to make Project Independence believable, rather than something—as Peterson says—"which currently suffers from a credibility gap."

The United States government, if it truly believes that price is the real problem, can bring pressure on the Arab monopolists only by setting specific production schedules and goals for oil shale, tar sands, offshore oil, solar energy, and so on, that will diminish our dependence on Arab oil.

If we yield to the temptation suggested by Ash to believe that the energy crisis is over, all necessary efforts to achieve major conservation in the use of oil will go down the drain.

IN A NEW analysis called "*Implications of World Oil Austerity*" which is gaining wide attention in Washington circles [Levy comes to the conclusion that there must be a substantial cut in world oil consumption until the latter part of the 1970s, with the burden of reduced production falling on Saudi Arabia, Kuwait and Abu Dhabi.]

Those are the countries in the cartel which are under the least pressure to generate increased revenue and also the ones least able—because of their small populations—to absorb added goods and services from the Western World in exchange for their oil.

Whether these countries would agree to reduce output while Iran, Iraq and others are expanding is an unanswered question. [But high oil prices unquestionably will force some kind of austerity in oil consumption on the West.]

Economic Council Chairman Herbert Stein, in a thoughtful speech on Project Independence, said this past week that "we will find it prudent to hold oil imports to a lower level than a free market would bring about and to try to avoid an increase in the import share of our energy supply."

This is necessary not only because we no longer can afford all of the oil we would like to use, but because the cartel has demonstrated it is an unreliable source.

This will require some new disciplines. It means smaller and more economical cars—by legislative order if necessary—and a conservation program to cut energy wastage of the same order of urgency that once was the accepted ethic in wartime.

[From the Journal of Commerce, Feb. 28, 1974]

DESPITE PROBLEMS—WEST GERMANY BOOSTS EXPORTS 32 PERCENT IN JANUARY

BONN—The West German export machine achieved an impressive foreign trade surplus in January of 3,600 million d-marks, according to provisional figures released by the Department of Statistics on Monday. This near-record figure resulted in a current account surplus of 2,100 million d-marks up from DM1300 million in December and compared with a small deficit in January 1973 of DM 300 million.

The export figures seem to defy a period of worldwide economic uncertainty, and even, to some observers, the laws of economic themselves.

INCREASE OF 32 PERCENT

Compared with the previous January, German industry achieved a 32 per cent increase in exports to 17,518 million d-marks against an increase of imports of 19 per cent to 13,946 million d-marks. Between December and January both imports and exports rose 16 per cent.

These figures tell of the pace of business in Germany at present, and also demonstrate how Germany's export performance has been able to more than offset the rise in price of imported raw materials. In the year to December 1975 the average price of imports rose 14 per cent and that of exports only 4 per cent. Businessmen agree with the point made in the last monthly report of the Bundesbank—that Germany's strong export performance is due to its industry's ability to predict deliveries exactly and reliably even in the middle of such traumas as the Arab oil embargo.

DEFICIT IN SERVICES

The difference between the latest trade surplus and the current account surplus resulted from a deficit in services of 50 million d-marks and one of 1,000 million d-marks in the transactions balance. The foreign exchange markets reacted without much excitement to the news, partly because the figures had been widely predicted in currency trading circles and partly because political events in Britain and elsewhere in Europe rather overshadowed them. The deutsche mark firmed slightly.

On March 1 the deutsche mark was showing a weighted up valuation against the rest of the world of 14 per cent since the end of 1972. At the beginning of this year the equivalent figure was 10 per cent.

The trade figures further support the contention of the latest IFO survey that the worst of West German industry's winter gloom has passed. The country's fears now concern not so much the level of business activity as the level of inflation. With wage settlements of between 10 and 20 per cent threatening to become the norm there have been calls from various quarters for wage and price controls. So far the Economics Minister Hans Friederichs has firmly turned down the idea.

[From the Wall Street Journal, Mar. 27, 1974]

REPORT OF RECORD BONN TRADE SURPLUS NIPS MODEST RECOVERY OF DOLLAR ABROAD

The U.S. dollar attempted a modest recovery on international currency markets yesterday but was hit by press leaks that West Germany had a record monthly trade surplus in February.

For the same month, Britain reported a record deficit, but sterling rose nearly a cent against the dollar despite it. News of Britain's stern budget came too late to affect the market much, though late dealings appeared influenced by the announcement that Britain was floating a $2.5 billion dollar loan in Europe—the biggest ever in the Eurodollar market—and had boosted to $3 billion from $2 billion its swap line with the U.S. Federal Reserve System.

With the focus of attention back on currencies, the gold price retreated $4.50, to $172.25 an ounce, at London's afternoon fixing.

WEST GERMAN FIGURES

West Germany isn't due to report its February trade figures until Friday, but German sources confirmed a newspaper's report that the surplus of exports over imports reached a record equivalent to about $1.85 billion, up from $1.42 billion in January and $763.9 million in February 1972. The previous monthly record was $1.56 billion in October 1973.

Rumors of a record trade surplus had fueled the mark's gains against the dollar on exchange markets in recent days. The latest news revived speculation that the mark would be untied from six smaller European currencies and float freely upward.

Sources in Bonn's economics ministry played down such talk, and emphasized the trade surplus had to be viewed in the context of the nation's overall balance of payments. But Paul Lichtenberg, chairman of Germany's big Commerzbank, forecast that the country probably would be the only industrial nation in the world to produce a payments surplus in 1974.

SLIGHT NET GAIN

On the day, the dollar strengthened to 2.5475 marks around midday, making up some of Monday's losses that carried it down to 2.5373 marks. Then, as news of the trade surplus circulated, the dollar fell to 2.5395 for only a slight net gain.

Sterling benefited more from the dollar's weakness against the mark than from its own strength, foreign exchange dealers in London said. It drifted downward to around $2.3600 in morning trading, then jumped to $2.3720 in later activity, from $2.3630 late Monday.

The British government reported Britain had a record $1.02 billion trade deficit in February, after adjustments for seasonal variations. January's deficit was $908.1 million.

Analysts said the cost of oil undoubtedly played a key role in the deficit. The country's recent three-day workweek also curbed exports. Imports, too, were higher because home production was unable to supply demand.

ANNUAL PACE

The analysts didn't think the indicated $12 billion annual-rate deficit would continue at that pace through the full year. For one thing, the return to normal working conditions would aid exports and reduce the need to import. But economists still are forecasting a deficit of at least $8 billion.

Covering this deficit was a major task of the budget that the new Labor Party government unveiled yesterday. In his budget speech, Denis Healey, chancellor of the exchequer, announced that Britain had secured a $2.5 billion loan in the international marketplace and had boosted its swap line of reciprocal credit facilities with the U.S. Federal Reserve System by 50%, to $3 billion.

The increase brings the U.S. system's swap network with 14 central banks and the Bank for International Settlements to $19.98 billion. The swap network is used by central banks to intervene in foreign-exchange markets to alleviate market pressure on a currency. A swap provides a renewable, short-term exchange by a central bank of its own currency for the currency of another central bank.

The 10-year Eurodollar loan was being arranged through a consortium of British banks, a Bank of England spokesman said. He s[illegible] the interest rate would float, but he didn't give details. The loan exceeds th[illegible] billion borrowing that France recently announced, amid much criticism, though British officials weren't among the critics.

TECHNICAL MOVES

In a series of more technical moves to bolster sterling, Mr. Healey also announced changes in Britain's exchange-control regulations. Their aim is to encourage the financing of British direct investment abroad with borrowed foreign currency and to require more of the proceeds of the sale of investments of all kinds to pass through the official foreign exchange market.

Britain has a separate foreign exchange market for "investment dollars," which currently cost some 41% more than dollars purchased in the official

market. Its main function is to deter investments outside the sterling area, but it can also provide a handsome profit when foreign investments are sold, as most of the proceeds so obtained can pass through the investment-dollar market to produce 41% more pounds than would be obtainable in the official market.

Foreign exchange dealers said sterling should be boosted by these changes, as they require more dollars to be sold in the official market.

DOLLAR EASES IN TOKYO

In other exchange markets, the dollar rose to 3.0015 Swiss francs from 2.9945 and to 4.7786 French francs from 4.7700.

In Tokyo, the dollar continued easing, to 275.15 yen Tuesday from 276.26 the day before.

According to Morgan Guaranty Trust Co., the dollar's strength yesterday narrowed its de facto devaluation to 7.40% from the rates set in December 1971 against 14 currencies, adjusted for their significance to U.S. trade. The rate had widened to as much as 7.46% on Monday from 5.84% a week before.

In Washington, Treasury Secretary George Shultz told newsmen that he believed the dollar has dropped so low of late that it's currently undervalued on international markets.

Mr. Shultz said he expects the value of the dollar to rebound a bit and then maintain a "center of gravity for a while around its level at the time of the second devaluation" on Feb. 12, 1973, that would be equivalent to about a 5.83% devaluation from the December 1971 rate.

The Treasury Secretary said he couldn't cite any specific reason for the swift drop in the dollar's value recently but he noted there has been "a great deal of uncertainty" over financial flows resulting from the explosive rise in oil prices during the past year.

[From the Journal of Commerce, May 30, 1974]

GERMAN RESERVES SEEN PLENTIFUL

BONN—The vast hoard of foreign exchange reserves held by the central bank insures the West German economy against any difficulties meeting its international payments obligation, even if foreign credits to German corporations and banks were suddenly withdrawn and the current account component in the balance of payments should take a turn for the worse under the impact of high oil prices.

This confident conclusion emerges from the Bundesbank's analysis of the West German balance of payments for 1973 published here today March 19, in its latest monthly report.

The figures show that West German foreign exchange reserves rose in 1973 by DM26.4 billion to reach a record high of DM90.5 billion at the end of last year. The dollar holdings worth DM65.6 billion or some $24.5 billion at the current market exchange rate accounted for nearly three-fourths of the total reserves.

GOLD COMPONENTS

The gold components added to DM14 billion calculated on the $42.22 per ounce basis.

"The gold holdings valued at the current market price of the metal represent therefore significant hidden reserve," emphasizes the Bundesbank.

On the other hand the report points out that gold and foreign exchange reserves in the Bundesbank coffers represent by far the largest share of all West German claims against foreign debtors.

The short-term foreign liabilities of German corporations and banks added at the end of 1973 to an estimated DM80 billion and even though foreign claims of banks and corporations were at DM60 billion, also considerable, they were primarily generated by export business and therefore less "liquid" by nature.

THREE SUDDEN THRUSTS

The Bundesbank report points out that the swelling of foreign exchange reserves in 1973 was a result of three distinctive and sudden thrusts. The first came

at the heights of the dollar crisis when the Bundesbank had to absorb some DM24 billion worth of dollars (gross) in support of dollar-deutsche mark parity.

Roughly DM7 billion in foreign currencies were accumulated in June and July as a result of support operations required to sustain the parity of currencies within the Euro-float bloc.

And finally the monetary disorders in September and the Bundesbank's intervention primarily to prop up the sagging French franc swelled the foreign exchange reserves by another DM5 billion (gross).

Subsequently, a steady outflow of foreign reserves has been recorded, but its magnitude, adding to only a fraction of earlier inflows, was relatively modest.

On balance, a net of DM26.4 billion worth of foreign exchange was accumulated in the source of the year.

However, the devaluation of the dollar in February and the appropriate adjustment in the DM value of dollars held, had reduced the net addition to the Bundesbank reserves in 1973 to "only" DM16.1 billion.

The drastic increase in oil prices in fall of 1973 and at the beginning of 1974 have had only marginal impact on the West German balance of payments in 1973. But it is evident that the surpluses in the current account as posted in 1973 are a question of the past, states the report.

The Bundesbank estimates that in 1974 imports of crude oil and refined petroleum products will require expenditures of some DM32 billion or about DM17 billion more than last year, given no additional increase in oil prices and no significant change in the international value of the deutsche mark.

"Assuming a reasonable expansion of German export business and an unavoidable increase in export prices, the current account this year should be about balanced," forecasts the Bundesbank.

[From the Journal of Commerce, Mar. 1, 1974]

West Germany Is Seen Headed for Healthy Payments Surplus

(By Jess Lukomski)

BONN—Despite the sharply higher costs of imported energy supplies, West Germany expects to maintain a healthy balance of payments surplus because of the reduced remittances of foreign workers' earnings, the opening of new export markets in the Middle East, and the possible inflow of Arab oil funds.

With the vast funds accumulating in Arab hands seeking safe long term placement opportunities in hard currencies, a heavy long term capital inflow into Germany is bound to be generated. Thus the German basic balance of payments which last year was DM10.2 billion, according to preliminary Bundesbank figures, will most likely show also a surplus position this year.

Dr. Walter Hesselbach, top executive of the Bank fur Germeinwirtschaft AG in Frankfurt, discards the balance of payments worries as an "absurd hysteria" generated by very "shortsighted consideration."

The oil crisis which is seen here now as primarily a problem of prices and not of supplies "opens new trade opportunities for German exporters", points out the German Middle East Association, urging German producers of capital equipment, which is the backbone of German export business, to seek markets in the Middle East and North African countries. They account for about two thirds of the additional $70 billion estimated to swell the foreign exchange reserves of oil nations this year alone.

ARAB MARKETS

And indeed West German industry can provide first rate equipment and high quality technology for the industrial development projects that the Arab oil producing countries want with equal if not greater facility than Great Britain or France.

The Bonn Government responding to the wishes of Iran and Saudi Arabia has assumed a very active role in providing German concerns with appropriate legal framework of industrial cooperation treaties that will facilitate industry's involvement in many specific projects already in planning.

Bonn's Economic Minister Hans Friderichs, pointing out that the economic growth "is no more determined solely by the capital and labor factors but by the availability of various raw materials," is urging German businessmen to seek new forms of cooperation with the raw materials producing countries.

Mr. Friderichs himself "is determined to visit in the near future," several Latin American and African countries "to prepare the political ground" for such cooperation. At the same time the Bonn Government is encouraging German industry to pursue actively the policy of cooperation with the Arab oil producing nations in form of joint ventures, be it in their lands, in West Germany, or in third countries.

This new "foreign economic relations philosophy" which Bonn is still evolving is evidenced in the well advanced negotiations with Iran on a score of industrial projects including construction of world's largest oil refinery there.

If need be, Bonn, which heretofore has been rather reluctant to peddle its weapons for oil will hardly resist such deals—if Reza Pehlevi, the Shah of Persia, should decide that his army must be equipped with German tanks.

TAKING OVER

The Bonn Government, overriding the objections of the High Cartel Authority, has already acquired the majority of the equity capital in the German Gelsenberg oil company for the purpose of merging all German oil interests in one company thus providing an instrument designed "to facilitate the cooperation with the oil prducing countries."

Bonn's new philosophy of foreign economic relations should also provide a handy vehicle for state subsidized credits to East bloc countries—primarily Poland and the Soviet Union, with whom the deals for supplies of electric power, natural gas, and other raw materials such as pelletized iron ore, in payment for delivery of conventional power plants, atomic power plants, direct reduction steel works, chemical plants are snagged only by the issue of financing.

The Soviet Union is the number one customer of the West German machine tools industry absorbing 13.4 percent of total German exports in this branch worth about DM3 billion or nearly two-thirds of its total output.

The entire West German mechanical engineering industry with 1973 foreign sales exceeding half of its total output of some DM70-billion must rely on export business even more heavily in 1974 than last year to maintain its overall output at the last year's level.

For the propensity to invest at home has weakened visibly and the industry's outlays for capital plant equipment are expected to just about reach the last year's magnitude when they were DM98 billion for gains of 5.6 percent and 3 percent reckoned in current and constant prices.

This means that in real terms the industry's expenditure on plant equipment will fall short of last year's performance.

The forecast for building construction including housing is even more gloomy. Already last year the investments in this sector at DM131 billion though 6.5 percent higher nominally were 0.1 percent under the previous year's level.

However, the Bonn Government has already initialed an emergency program to stimulate the sagging economy through an injection of DM600 million in additional spending for improvement of infrastructure and federal construction programs in the structurally weak regions of the country.

The producers of construction machines are bound to benefit also from such assistance.

German machine manufacturers argue that if the French monetary policy "designed to export unemployment" are not followed by other countries and the inflation of labor cost at home is kept at a reasonable rate their export chances are fair.

COMPETITION STIFFER

The impact of oil prices on balances of payments in a number of countries is bound to stiffen further international competition. But the repercussion of the energy shortage are expected to be manageable in most of the industrialized countries which absorb about two-thirds of German machines exports. The set backs on the British market will be most likely more than compensated on other

markets which the British producers will have to give up because of their inability to supply the products in demand.

The de facto devaluation of the French franc appears not as serious as originally anticipated. Although France absorbs 14 per cent of German mechanical engineering exports and supplies 10 per cent of all German imports of machines the competitive advantage of the de facto devaluation of the franc is now expected to be rather marginal and of very brief duration.

On the other hand the global efforts to force the development of alternative energy sources, particularly in the United States, are expected to provide additional export opportunities in several sectors of machine construction.

Also, West German steel industry does not exclude the possibility that the intensified exploration for oil and accelerated construction of natural gas and oil pipelines could provide a potent export stimulus for its products.

For the German chemical industry which with its 1973 exports of some DM26 billion and imports of DM13.5 billion counts among the country's best earners of foreign exchange the situation is less rosy. In 1973 with an export gain of 22 per cent German chemical producers have sold one third of their output abroad. And this high export share is a vital precondition for technologically efficient and economic plant units since the domestic market even at times of boom is too small to absorb the output of optimum size facilities.

FEEDSTOCK SHORTAGE

The chemical industry has felt already the shortage of petrochemical feedstocks and continued difficulties in procuring required raw materials could impair seriously its ability to meet the foreign demand for its products.

Major chemical producers have been forced to cut their deliveries of synthetic fibers and plastics by as much as one fourth of contracted quantities and had to idle some of their plants which could not be run efficiently because of feedstock shortage.

The potent increase in prices of oil based chemicals has been so far less of a problem since all major foreign competitors have been equally affected by horrendous increase in the cost of petrochemical feedstocks.

The German electrical engineering industry whose growth in the second half of 1973 was almost exclusively generated by export business "will have to rely also in 1974 for a strong showing on the export markets to keep up its overall sales." Whether the anticipated 9 per cent real gain in export business will suffice to provide such stimulus remains to be seen.

Certainly Siemens AG., West Germany's biggest electrical engineering concern which closed its business year ending Sept. 30, 1973 with 2 per cent increase in total sales but 12.1 per cent gain in its foreign business, is optimistic about export chances.

As of Dec. 31, 1973 Siemens had an order backlog of DM14.5 billion or equivalent to 10 months output capacities. And about half of the orders on books were for export. In the last quarter of 1973 Siemens' foreign orders increased by 9 per cent to DM2.3 billion while domestic orders advanced by only 2 per cent.

The plans for accelerated construction of power plants fueled by coal and atomic energy both in Germany and abroad are bound to open new opportunities for German electrical engineering industry.

The major victim of the oil crisis, the resulting high gasoline prices, and measures to conserve the oil fuels appear to be the German automobile industry plagued by a steep drop in domestic demand and expectations of declining export businesses in 1974.

Last year with 2.35 million vehicles sold abroad or 7 per cent more than in 1972 exports accounted for 59 percent of total German car output of 3.95 million units or 3.5 per cent more than a year before.

This year's sales expectations on European markets are estimated with considerable restraint while high hopes are placed on the U.S. business. Those hopes however could be frustrated if the demands of American labor unions for re-

stricting car imports are met by the administration or if excessive wage demands at home will push the price of German made cars beyond competition with the domestic sub compact models and other foreign imports primarily Japanese.

ADJUSTMENT ASSISTANCE

One of my major concerns is that the adjustment assistance provisions of the 1962 Trade Expansion Act have not worked well—too little assistance to too few.

I also think that adjustment assistance is the wrong approach to trade and the imbalances it causes in our domestic employment structure. Quotas, in my opinion, if applied appropriately would solve the problem before it became a problem. Assistance is just another word for welfare and our working men and women want jobs, not welfare.

Given this position, I am also concerned that so few were helped by the provisions of the 1962 act. The proposals in the President's trade bill now before Congress are essentially unchanged from those of 1962.

The following is a letter I wrote to Secretary of Labor Brennan asking him just how much assistance had been provided. His reply is also printed along with an article by Dominic Sorrentino which gives figures for the whole fiscal period from 1963 to 1973. This article is reprinted from the Monthly Labor Review, volume 97, January 1974.

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C., March 13, 1974.

Hon. PETER J. BRENNAN,
Secretary, Department of Labor,
Washington, D.C.

DEAR SECRETARY BRENNAN: I understand from the recently published Annual Report of the United States Tariff Commission, that in fiscal year 1973, the Commission voted in the affirmative in eight complete cases and part of three other cases, under Section 301(c)(2), "worker" investigation of the Trade Expansion Act of 1962. These cases are as follows: (from pages 8–11 of the Annual Report) Tariff Commission Report numbers 510, 511, 512, 519, 533, 545, 553, 561, 562, 575, and 585.

According to the Trade Expansion Act, if the Tariff Commission is affirmative, the Secretary of Labor may certify the group of workers involved as eligible for adjustment assistance. My question to you is how many of these eleven cases did you recommend for assistance and what was the extent of this assistance? Did these cases involve individuals or groups of workers? How much will this adjustment assistance cost?

There were also eight other cases where the Commission's finding was neither affirmative nor negative (numbers 502, 524, 528, 532, 544, 547, 559, and 588). In all of these cases, even though the Commission was equally divided, the Report makes reference to the fact that the Labor Department certified eligibility to apply for adjustment assistance. Did you recommend assistance in any of these cases? If so, how much? Again, were individuals or groups involved?

Your prompt attention to this request would be greatly appreciated. Should there be any questions, please contact Craig Hudson of my staff at 225–4814.

Sincerely,

VANCE HARTKE,
U.S. Senator.

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
April 12, 1974.

Hon VANCE HARTKE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HARTKE: In your letter of March 13, 1974, you referred to eleven trade adjustment assistance worker cases under the Trade Expansion Act of 1962 in which the Tariff Commission's findings were affirmative in whole or in part, and eight cases in which the Commission's findings were neither affirmative nor negative. You asked, pursuant to those findings, in how many cases did the Department of Labor recommend assistance, what was the extent of the assistance, were individuals or groups of workers involved, and how much will the assistance cost.

The types of assistance available to workers under the Act include weekly trade readjustment allowances training programs; testing, counseling and job placement services; and relocation allowances.

Trade adjustment assistance worker cases normally begin as a consequence of a petition filed by or on behalf of a group of workers. Pursuant to an affirmative ruling by the Tariff Commission or a Presidential authorization, the Department of Labor may issue a certification which specifies the adversely affected group of workers that may apply for adjustment assistance benefits. Following a Department of Labor certification, members of the group specified in the certification may apply to their local State Employment Security office for individual determinations of eligibility for benefits. The State agencies also deliver trade adjustment assistance benefits to eligible workers.

In all of the eleven cases in which the Commission made an affirmative finding of injury in fiscal year 1973, the groups of workers, about 6,300 workers in all, were certified as eligible to apply for adjustment assistance by the Department of Labor. As of January 1, 1974, the cost of providing trade readjustment allowances for qualified workers amounted to $4,247,848 for the eleven cases.

In fiscal year 1973, there were nine cases in which the Commission was evenly divided and made no finding as to whether the petitioning groups of workers were injured by increased imports. In all of these cases, after a review by the Interagency Trade Organization, on which the Labor Department is represented, the President, acting under the authority of section 330(d)(1) of the Tariff Act of 1930, accepted the views of the Commissioners who found in the affirmative as the finding of the Commission and authorized adjustment assistance for the workers. Subsequently, these groups of workers, about 5,000 workers in all, were certified as eligible to apply for adjustment assistance by the Department of Labor. As of January 1, 1974, the cost of providing trade readjustment allowances for qualified workers amounted to $4,745,048 for these nine cases.

For both groups of cases discussed above, additional costs totaling about $325,000 to date were incurred for training.

Sincerely,

PETER J. BRENNAN,
Secretary of Labor.

[From Monthly Labor Review, January 1974]

RESEARCH SUMMARIES

TRADE ADJUSTMENT ASSISTANCE TO WORKERS DISPLACED BY IMPORTS, FISCAL 1963–73

(By Dominic Sorrentino)[1]

Since 1962, when the Trade Expansion Act established a method for workers whose employment is adversely affected by import competition to seek compensation from the Federal Government, 41,000 workers in 29 States have re-

[1] Dominic Serrentino is an economist with the Bureau of International Labor Affairs, U.S. Department of Labor.

ceived adjustment assistance under the 84 petitions certified during fiscal years 1963–73. (As of December 31, 1973, the U.S. Department of Labor reported a total of 91 petitions certified, authorizing assistance for 43,439 workers.) Virtually all the assistance has been provided since July 1970; before that time no workers were found to be eligible under the act.

Outlays have totaled $56.8 million, either paid directly to the affected workers or as reimbursement to the States. Much of the assistance has gone to workers in the leather products, electrical equipment, and textile products industries. Three-fourths of the total expenditures have in the New England, Middle Atlantic, and East North Central States.

PROVISIONS OF THE ACT

A group of workers, their union, or other authorized representative may file a petition with the U.S. Tariff Commission for a termination of eligibility for adjustment assistance. The act establishes four criteria for workers' eligibility for such assistance: There must be increased imports like or directly competitive with products made by the firm or industry; the increase must result from concessions granted under trade agreements; a significant number or proportion of workers in a firm must be unemployed or underemployed; and the major factor causing unemployment or underemployment must be concession-generated increased imports.

If the Commission finds that the group meets the criteria of the act, the Department of Labor may then certify those workers who were displaced by imports and specify the date on which the import-generated unemployment or underemployment began or threatened to begin. A second route to compensation available to workers involves a determination by the Tariff Commission that an entire industry is imperiled or threatened with injury from increased imports generated by concessions granted under trade agreements. The President may then authorize, as part of the relief to the industry, that workers may apply directly to the Secretary of Labor for a determination and certification of eligibility for adjustment assistance.

Assistance to workers under the act may include cash adjustment allowances, testing, counseling, training, job placement, and relocation. The cash adjustment allowance is equal to 65 percent of the worker's average weekly wage, but the payment may not exceed 65 percent of the national average weekly wage in manufacturing (currently a payment of about $101). Payments are normally limited to 52 weeks, but workers 60 years of age and older at the time of separation are entitled to 13 additional weeks of compensation, and workers in approved training programs are entitled to 26 more weeks in order to complete their programs. In no case may payments extend beyond 78 weeks.

Eligibility rulings, payments, and other adjustment services, are made with Federal funds through the Division of Employment Security in the State where the worker resides. To be eligible, a worker must have been employed at the adversely affected plant for 6 months out of the year prior to layoff and must have been gainfully employed for at least half of the previous 6 years.

DIRECT WORKER PETITIONS

During fiscal years 1963–73, the U.S. Tariff Commission issued determinations of eligibility for adjustment assistance on 195 petitions filed on behalf of about 86,700 workers. (See table 1.) About half of these workers were ultimately certified to receive aid.

From October 1962, when the Trade Expansion Act was enacted, through June 1969, only six petitions, filed on behalf of 1,400 workers, were ruled upon by the Commission and none was found to meet the criteria of eligibility set forth in the act. During fiscal years 1970–73, the Commission found 33 petitions filed on behalf of about 18,000 workers had met the criteria of the act: 118 petitions filed on behalf of about 48,000 workers had not; and, in 38 petitions filed on behalf of 19,000 workers, the Commission was evenly divided. In the latter instance, the President may accept either view of the Commissioners. He accepted the view of those voting affirmatively in all 38 cases and authorized that the Secretary of Labor may certify the workers as eligible for adjustment assistance.

TABLE 1.—U.S. TARIFF COMMISSION DETERMINATIONS ON WORKER PETITIONS FOR TRADE ADJUSTMENT ASSISTANCE, BY INDUSTRY, YEARS 1963–73

Industry	Denied		Affirmed		Evenly divided [1]	
	Petitions	Workers	Petitions	Workers	Petitions	Workers
Total	124	49,384	33	18,166	38	19,113
Apparel: Men's, youths', and boys' furnishings	2	326				
Chemicals and allied products: Synthetic fibers	1	1,000				
Electrical equipment:						
Radio, TV, stereo, phonograph and tape recorders	7	2,310	5	6,300	2	3,500
Electronic components	10	6,580	1	240	6	3,740
Electrical lighting and wiring equipment	2	295				
Food and kindred products: Canned fruits and vegetables	1	163				
Fabricated metal products: Structural metal products			3	450		
Leather products:						
Men's shoes	11	2,354				
Women's shoes	40	9,035	8	2,450	23	7,153
Shoe components	4	507				
Leather tanning	1	400				
Metal, mining: Iron ores	1	650				
Miscellaneous manufacturing:						
Musical instruments			3	910	1	280
Games and toys	2	5,830				
Sporting goods	1	100				
Silverware and plated ware			3	1,810		
Nonelectrical machinery:						
Metalworking machinery	2	1,600	1	26		
Office machines	2	1,700				
Nonmetalworking machinery	2	625				
Primary metal industries:						
Ferrous metal refining	5	1,452	1	400		
Nonferrous metal refining	2	530				
Rubber products:						
Tires	1	100				
Rubber footwear	1	90	2	900	4	
Miscellaneous rubber products	2	1,683				
Stone, clay, and glass products:						
Structural clay products	3	985				
Glass products	3	475				
Pottery products	1	260				
Textile mill products:						
Cotton fabrics	6	2,554	5	2,680	1	
Knitted fabrics	3	3,100				
Manmade fabrics	1	600				
Wool fabrics	2	700				
Spun yarn	2	1,280				
Yarn and thread	1	1,700				
Miscellaneous textile products	1	200				
Transportation equipment:						
Motor vehicles			1	2,000		
Motor vehicle parts	1	200				

[1] When the Commission is evenly divided and makes no trading, the President under Section 330(d)(1) of the Tariff Act of 1930, as amended, may accept either view of the Commissioners as the findings of the Commission.

About three-fourths of all the petitions and two-thirds of the affected workers were concentrated in three industries: leather products, electrical equipment, and textile mill products. Eighty-seven petitions were filed in behalf of 21,900 workers in the leather products industry. Most of these workers were engaged in the production of women's wear. Thirty-three petitions were filed for the 28,000 electrical equipment workers, almost all engaged in the production of consumer electrical products and electrical components. Twenty-five petitions were filed on behalf of about 18,000 textile workers. Nearly half of these petitions were filed for workers making cotton fabrics and related products.

INDUSTRY-WORKER PETITIONS

During fiscal years 1968–69, the Tariff Commission found none of the 12 petitions filed on behalf of all workers in an industry had met the criteria of import

injury set forth in the act. During the years 1970–78, the President authorized workers in five industries to apply to the Secretary of Labor for a determination and certification for adjustment assistance: two industries—pianos (except grand) and earthenware—received affirmative findings of import injury from the Tariff Commission; and three industries—barber's chairs and parts, marble and travertine, and sheet glass—received evenly divided rulings from the Commission.

Since fiscal 1970, the Department has received 17 worker petitions filed on behalf of about 4,800 workers in four of these five industries. Two originated in earthenware, two in marble and travertine, five in sheet glass, and eight in the piano industry. All but two of the petitions were certified, authorizing assistance to over 4,100 workers.

In addition, the Department has issued 33 certifications to worker groups who petitioned directly to the Tariff Commission and were found to have met the criteria of the act; and 186 certifications to worker groups who petitioned the Tariff Commission but the Commission, being evenly divided, made no finding. The President subsequently accepted the view of those Commissioners voting affirmatively.

Senator TALMADGE. The next witness is the Honorable Ben B. Blackburn, a Representative from Georgia.

It is a pleasure indeed for the Chair to welcome a warm, personal friend and one of the most distinguished Members of the House.

STATEMENT OF HON. BEN B. BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE FOURTH CONGRESSIONAL DISTRICT OF THE STATE OF GEORGIA

Mr. BLACKBURN. Thank you, Senator.

I have submitted a more complete statement, and I am giving a summary at this point.

In the body of the statement which I have submitted for the record, I recite instance after instance in which the United States has transferred to the Soviet Union computer and ball bearing technology. Both technologies have direct military application.

We are all aware of proposed and current American development of Soviet manufacturing facilities for trucks, petro-chemicals and fertilizers. Most of these facilities are being financed by American capital at the rate of approximately 90 percent of the investment cost.

Should any one need reassurance as to the lethal results which could flow from continuation of this policy, I would invite him to review the body of my statement with its abundance of documentation.

Any one whose imagination is not stultified by a self-induced sense of Machiavellian greatness cannot avoid the conclusion that, in our present trade relations with the Soviet Union, we are simply being duped. We are being duped, not so much by the cleverness of Soviet leadership, but by our own persistent stupidity.

Failure to see the obvious puts us in the position of the Emperor who had no clothes. The hazards of imperial streaking, however, are not so great as the hazard of blindly developing our enemy's strength at the expense of our own.

Our stupidity is compounded by our continued insistence in building up our Soviet adversary—even as he continues to demonstrate little more than implacable hostility toward us.

Permit me to cite but a few more notable examples:

(1). Soviet military advisers now in Peru.

(2). Soviet broadcasts to the Middle East urging citizens of oil-producing nations to pressure their governments not to remove the embargo against us—even while those governments seek to negotiate away the Middle Eastern atmosphere of permanent crisis.

(3). Middle Eastern events prior to, during, and following the latest warfare offering conclusive proof that those hostilities were inspired and supported materially by the Soviet Union.

(4). Soviet development of MIRV and ICBM delivery vehicles continuing at a feverish pace.

Historically, the mention of trade with another country conjures up an exchange of goods and services resulting in a net benefit to each trading partner. Such an image remains valid when dealing with a friendly country; a nation harboring no ambitions hostile to our national best interests.

The desirability of trading with such a country could be determined solely on economic grounds, with economic justification readily apparent even to the most sophisticated observer.

When, however, we speak of trade with a nation seeking world domination, as does the Soviet Union, the normal rules regarding trade desirability become inoperative.

From the beginning, Soviet leaders have made clear that their life's mission is seizure of the world in the name of so-called scientific socialism.

When the Bolsheviks seized control of Russia in 1917, their possibility of world domination seemed laughable. Subsequent events however, have silenced the laughter. Millions who once laughed have since been sent to their graves by the Soviet masters.

Today, after 55 years of terror, aggression and general duplicity, Soviet-created Communist regimes are firmly entrenched in the long, broad East European belt from the Baltic to the Adriatic; as well as in China and Cuba, with Soviet inroads elsewhere in our Southern hemisphere as well as on the continent of Africa.

Even so, the Soviet regime has continued to find itself on the horns of self-inflicted dilemma: To maintain order among the Russian and other peoples they have subjugated into the Soviet Union, they must continue to offer promise of a better life in the foreseeable future.

Yet, that regime remains determined that, before it can deliver a better life, it must first achieve its unswerving goal of world domination.

To do so, it must attain unquestioned military superiority over the West in general, and the United States in particular; for from the outset, Soviet leadership has seen the United States, with its unequaled capacity for productivity, and its great technological and scientific know-how, as the major barrier to the Soviet objective.

With a narrowly planned, rigidly controlled socialist economy badly hobbled by its own self-inflicted inefficiencies, pursuit of military superiority becomes a heavy burden.

Reliable sources within our government see the Soviet government's allocation of gross national product for military purposes running from 40 percent to 50 percent.

This, of course, has been made necessary by maintenance of massive armed forces at home, throughout Communist Eastern Europe, and into the Middle East. Further, in this era of highly sophisticated

scientific weaponry, research and development adds such burden that the Soviet economy becomes simply unmanageable. Consequently, little remains of life's material goods for Soviet citizens.

In stark contrast to this gigantic Soviet military allocation of GNP, the United States currently devotes just 6 percent of its gross national product to military purposes. West European countries are now working to devote up to 5 percent of their GNP to such purposes, compared to 2 percent and 3 percent previously.

The only way the Soviet regime can continue to maintain its position of dominance over its own people is by continued mass regimentation, discipline and control, with propaganda and indoctrination remaining as much a part of daily life as bread, vodka and cabbage.

In the main, the long-promised better, freer, more affluent tomorrow continues to hover somewhere around a yet unseen corner. The official alibi is, of course, that the Soviet military burden is necessary as protection against the capitalist aggressiveness of the United States.

So, in 1972, history repeated itself. Once again, the inevitable fruit of this Soviet policy was the threat of starvation for the Soviet citizens.

With such usual external food grain sources as Canada and Australia unable to meet the massive Soviet need, an uneasy and fearful Soviet leadership donned, once again, its mask of smile long enough to seek, and get, foodstuffs necessary to prevent serious upheaval among their people.

These Soviet leaders were, of course, well aware of Lenin's warning that revolutions were born on empty stomachs. To eliminate the problem with the program of planned death by starvation which Stalin once imposed would be difficult—and embarrassing. These leaders had denounced Stalin for that very practice. Further, the voices of such Soviet writers as Solzhenitsyn and Sakharov were being heard throughout the world; Kremlin efforts to restrain them notwithstanding.

So it was that, for instant treatment of their again irritated Achilles' heel, the Soviet leaders turned to Washington. And Washington responded with a favorable decision which gave low priority to traditional economic considerations.

Now, so enriched with our wheat that they have been able to sell it elsewhere, at a profit, the Soviet leaders have returned to their more traditional, tougher stance in such critical matters as SALT II.

Having purchased time via the U.S. filling of the stomachs of the Soviet citizenry, these Soviet leaders are intensifying their efforts to gain more and more U.S. goods with obvious economic and military use.

For example, vehicles assembled at the American built Kama River truck plant, ostensibly to carry crops from the field, also can carry troops and munitions into battle.

A petro-chemical plant purchased ostensibly for peaceful purposes can also manufacture plastics and chemicals for military use.

Computers purchased ostensibly to assist in crop planning also can compute trajectories in intercontinental ballistic missiles with MIRV warheads.

Precision machines for manufacturing ball bearings purchased ostensibly for peaceful purposes have direct military application. Note, please, that, here in the United States, 90 percent of the product of these machines which the Soviet Union has been able to purchase from us are used for the guidance systems for ballistic missiles.

Development of the Soviet Siberian gas reserve can serve the red war machine just as easily as it can heat apartments in Moscow.

The economic grounds on which this country is entering into trade with the Soviet Union are shaky, to say the least.

During the past year, the Soviet Union imported $1,2 billion worth of U.S. goods. The Soviet Union exported to the United States $235 million worth of goods. Thus, the Soviet balance of trade with the United States is running about 5½ to one in favor of the United States.

It takes little more than common business judgement to appreciate that such imbalance cannot long continue. Worse, Soviet inability to pay the yawning difference between their imports and exports with us remains a matter of serious question.

Most of the grandiose plans for American expansion of the Soviet industrial base entail financing by the United States; either through government-guaranteed loans or private sources, of $9 out of every $10 of the cost of such investment. That the shrewd Yankee trader would find himself entering willy nilly into such questionable business transactions is enough to boggle the mind.

We have not imposed what, normally, is the most fundamental requirement of any creditor: insist that the debtor reveal his net worth.

Requests to the Soviet Union for information on her gold reserves, gold production and gold consumption are met with stony silence. Such silences are justified with the rationale that, for Moscow to reveal its gold reserve might jeopardize its credit. This, the novel argument that if Moscow has too much gold in reserve, we might determine that Moscow needs no credit-and, if she has too little gold, she might not be credit worthy.

Any small town banker would laugh all the way to the door while ejecting any potential borrower with such logic. Such simple fundamentals seem to escape our own national leaders.

Since we are dealing with a nation whose primary consideration in development trade is political rather than economic, we will be extremely unwise if we do not take into account political factors before expanding trade.

We must appreciate that trade with the West under the thin guise of "detente," is the only device with which Soviet leaders can continue their drive for world domination at the expense of a mismanaged domestic economy.

In our own enlightened self interest, I submit that it's high time we stopped participating in this deadly game of Russian roulette.

Senator TALMADGE. Congressman, I hate to call the time on you, but the 10 minutes has expired.

Mr. BLACKBURN. I understand, Senator. We live on a 5-minute rule in the House, so I feel muchly enhanced by having a 10-minute rule.

Senator TALMADGE. I want to congratulate you on your excellent statement.

I take, from the thrust of what you have said, that you are not in favor of guaranteeing credit to the Soviet Union to develop its oil and gas industry, are you?

Mr. BLACKBURN. Oh, I definitely am not, Senator. The figures that I have seen indicate that we would end up investing perhaps as much as $48 billion in the Soviet Union to develop her oil and gas potential. If we are going to make that kind of investment, I think it would be far wiser that we made that investment here in this country where we sit on the tap.

Senator TALMADGE. I agree with you fully.

Senator Curtis has asked me to ask you this question: What is your view of granting most favored nation status to the Soviet Union?

Mr. BLACKBURN. Senator, as I understand the testimony of the Secretary of State, he stated to this committee that the proposal to grant most favored nation treatment to the Soviet Union was not different from our granting the same treatment to other nations.

Now, his statement was not completely candid. In fact, I think it was somewhat dishonest. The only basis for most favored nation is that there be a quid pro quo between this country and the other country to which we grant such most favored nation treatment. We have to keep in mind that most favored nations deals with a tariff imposed by a government to prevent its citizens from either buying too much of a foreign commodity or to raise taxes.

Now, Senator, there are no import duties to the Soviet Union. The Soviet Union is its own purchaser. When we sell, we are not exporting goods to be sold to Soviet consumers or Soviet businessmen. When we sell to the Soviet Union, the Soviet Union is buying for its own use. So if the Soviet Union attempted to impose a tariff on these imports it, in effect, would be taxing itself. So we are dealing with a completely different situation from that which exists where we are importing commodities to be sold to the citizens of a foreign country.

So what I am saying is that it is absolutely impossible for the Soviet Union to grant us a quid pro quo for most favored nations. Second, there are technical aspects of most favored nations with which the Soviet Union has not complied. For one, every nation that now enjoys most favored nation treatment is a member of GATT. They are also members of the International Monetary Fund.

In order to belong to the International Monetary Fund, it is necessary that these nations provide regularly to the whole world information on their balance of payments, their balance of trade, their gold production, their reserves of hard currency. Now, the Soviet Union absolutely refuses to comply with any of these requests.

Furthermore, one of the most fundamental concepts of International Monetary Fund membership is the convertibility of the currency. There is no convertibility of the ruble on international markets. The Soviet Union does not allow it.

So, Senator, I think it is a perfectly valid question as to how we can be proposing to grant most favored nation treatment to the Soviet Union when she is a unique country unto herself.

Senator TALMADGE. Thank you very much, Congressman.

Are there any questions?

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Congressman, that was a most interesting and illuminating analysis of the most favored nation treatment you have just given the committee. I have several questions based on your testimony.

Now, I gain the impression that you do not believe that the Export Control Act is protecting U.S. security and that the Soviet Union is importing U.S. technology and goods for military purposes.

Now, I know you discussed this problem with Commerce and State Department officials. What, if anything, is being done to remedy the problem?

Mr. BLACKBURN. Senator, as far as I can determine nothing is being done to remedy the problem. The export control desk at the Commerce Department at one time comprised some 135 people. Today it has been reduced to perhaps eight or nine people. In fact, instead of having an Export Control Office there to prevent the export of militarily useful technology or capital goods, there has been a substitution of several missions here in this country and abroad with the avowed purpose of encouraging American sales to the Soviet Union.

For example, we have just learned, from the Export Import Bank Bulletin, that we made a sale of a scientific computer to Poland, a member of the Warsaw Pact. We have to keep in mind that the goods sold to any Warsaw Pact nation are available to the Soviet Union, as if we were selling them to Moscow. But Ex-Im Bank announced that it has approved a credit to Poland of $1,236,000 to finance 45 percent of the total U.S. cost of a Cyber 72–16 computer system costing $2,747,000. Banker's Trust Co. in New York will also provide the credit for another 45 percent. The Polish Government will pay 10 percent, or $274,000.

Senator, these Cyber computers are the absolute latest in computer technology. I think no one challenges the fact that no nation could ever develop an intercontinental ballistic missile system without the use of computers. It is beyond human capability to develop these systems. Certainly, it is beyond anyone's capability to develop the MIRV warhead without advanced computer systems. The Soviets have never been able to develop computer technology on their own. The only computer technology they have is computer technology which we have sold them, or which American subsidiaries have sold them on behalf of American companies.

Senator BYRD. Are there no restrictions on the exporting of such vitally important military——

Mr. BLACKBURN. There is no effective restriction on it, as far as I can determine. What is so ludicrous about this is that it is stated that the sale to Poland by Control Data Corp. is for the use of the Krakow high school and scientific institute.

There are 10 installations of this type in the United States, and they are confined to the Atomic Energy Commission and the National Security Agency. I hope the Pentagon has a similar type of installation. Here in a country with over a trillion dollar economy, we only

have about ten such installations, and they are generally confined to the highest echelon of our scientific and defense mechanisms. Yet, now we are proposing to sell one to Poland, supposedly for high school use.

It would just be absurd on the face of it. It is absurd on the face of it.

We sold them 164 centilign last generation machines of a type of which we have about 70 in this country. Ninety percent of the production of those precision miniature ball bearing manufacturing machines in this country go to military uses.

Senator BYRD. Ball bearings are a vital material product to carry on war. I was interested in recollecting Dean Acheson's testimony, the former Secretary of State, when he testified before the Foreign Relations Committee several years ago to the effect that we should not be dependent upon Russia for any critical material. He was then speaking of chrome. But he mentioned this, he mentioned ball bearings. And he said—and I am quoting from his testimony now, "When you get a matter such as we had at the end of the last war, the German reliance on Sweden for ball bearings, this was a critical item, and once we cracked that business, we cracked the German munitions industry." So ball bearings is a vital war material.

Senator, there is no question about it. I think it is a right interesting observation that we first sold them these miniature ball bearing manufacturing machines in 1972. That was shortly after the signing of the SALT I agreement, which was a disaster as far as this country's defense was concerned, at that time, the Soviet Union began testing MIRV warheads.

These ball bearings are used in guidance systems for intercontinental ballistic missiles and for guidance systems in MIRVs. The Soviets could not develop them without these ball bearings.

Senator BYRD. Just one additional question, if I may, Mr. Chairman.

When did this country first begin to export such strategic materials as you have been mentioning in your statement today?

Mr. BLACKBURN. The first transfer of the Soviets of a computer system was in the early 1950's. That was done by a British subsidiary of General Electric. It was in the mid-1950's that we first sold them machines for manufacture of miniature ball bearings.

The real big expansion of American trade involving transfer of what I consider to be strategic technologies began in the early 1960's. It was in the late 1960's that it began to reach the unprecedented rate at which it continues today.

Senator BYRD. Thank you.

Senator TALMADGE. Any further questions?

[No response.]

Senator TALMADGE. Thank you very much, Congressman Blackburn. We appreciate your contribution.

Mr. BLACKBURN. Thank you, sir.

[The prepared statement of Congressman Blackburn and a subsequent letter follows:]

PREPARED STATEMENT BY BEN B. BLACKBURN, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

REPRESENTATIVE BLACKBURN SUPPORTS H.R. 10710, HOUSE-PASSED TRADE REFORM ACT AS HELPFUL IN SLOWING DOWN EXPORT OF U.S. TECHNOLOGY TO SOVIET WAR MACHINE

Mr. Chairman, I appreciate the opportunity to appear before this distinguished committee in its deliberations of H.R. 10710, "The Trade Reform Act of 1973."

I voted with the majority of the House of Representatives when it passed the bill last December 10th (272-140). Prior to that final passage, I voted for the Freedom of Emigration Amendment to Title IV. This was a critical amendment. It would have the effect of cutting off further U.S. Government credits to finance American exports to the Soviet Union. And it would deny the Soviet Union the most favored nation status it seeks on behalf of its export to this country, unless Soviet leaders allowed free emigration of their citizens.

Through all of the latest Moscow-originated public relations talk, handshaking, smiling phototgraphs, and carefully-gauged communiques, one chilling fact penetrates loud and clear:

Henry Kissinger has returned without agreement on that all important second stage of nuclear strategic arms limitations (SALT II).

It is my understanding that, in diplomacy, as in law, a quid pro quo is basic to any sincere relationship.

I suggest that, for all of the talk of improved relationship with the Soviet Union, I find little indication that the Soviet leaders are giving us anything but ominous threats covered but thinly with a bit of double talk here and there.

With all the window dressing ripped away, this is the "something" that we can expect to receive from them in return for the ever-broadening range of concessions, subsidies—even gifts—that they continue to receive from us.

There is, therefore, an urgent need for us to separate the hard, cold facts of "detente" from the deadly euphoria of "detente."

It is my purpose, today, to call this Committee's attention to what I consider the most ominous symptom of the total "detene" syndrome: The manner in which U.S. and British computer technology, together with other U.S. technology, continues to make its massive contribution to the continued buildup of an ever-more-sophisticated and deadly Soviet war machine.

For example: We know that U.S. and British computer technology has enabled the Soviet leaders to advance development of their feared MIRVs from two to four years.

This bill, with its Freedom of Emigration Amendment, will have the effect of, at least, slowing down this dangerous outflow of our most advanced technology into the ever-growing Soviet war machine.

Lenin boasted: "When the moment comes for the hanging of capitalism, the capitalists will bid for the hemp."

As a consequence of White House-demanded Congressional relaxation of export controls in behalf of the Soviet Union, all too many U.S. corporations have stumbled over themselves in their unwitting eagerness to prove correct Lenin's ominous prophecy.

This is no credit to the long-range intelligence of corporate leaders. It is even lesser credit to the leaders of our Government who, lulled by their own rhetoric about "detente," have lost contact with the realities of communism, its ways and wiles, and its ultimate goal: World domination.

These leaders have ignored, certainly, the definition of "detente" given, last September, by Soviet Communist Party Chairman Leonid Brezhnev to his Politburo and to East European Communist Party leaders.

As summarized by U.S. Defense and State Department officials the Brezhnev definition is this:

"To the Soviet Union, the policy of accommodation does represent a tactical policy shift. Over the next 15 or so years, the Soviet Union intends to puruse accords with the West and at the same time build up its own economic and military strength.

"At the end of this period, in about the middle nineteen-eighties, the strength of the Soviet bloc will have increased to the point at which the Soviet Union, instead of relying on accords, could establish an independent, superior position in its dealings with the West."

Actually, there was nothing new about the Brezhnev thesis. From the beginning, Soviet Leaders have often changed tactics; but only as a temporary means toward achievement of their ultimate goal.

That, at least in 1968, Dr. Henry Kissinger appeared to understand these basic Marxist-Leninist tenents and tactics was suggested by certain of the statements which he set forth.

Only last Tuesday, a *Washington Star-News* analysis reminded us of this 1968 Kissinger quotation:

"There have been at least five periods of peaceful coexistence since the Bolshevik seizure of power, one in each decade of the Soviet state. Each was hailed in the West as ushering in a new era of reconciliation and as signifying the long-awaited final change in Soviet purposes.

"Each ended abruptly with a new period of intransigence, which was generally ascribed to a victory of Soviet hardliners rather than to the dynamics of the system."

Referring to Dr. Kissinger's latest mission to Moscow, the *Star-News* analysis added this observation:

"Secretary of State Henry A. Kissinger's scene-setting mission * * * is surrounded with the diplomatic trappings of great events in the making and major achievements within reach. But the signs are abundant that the current stage of the U.S.-Soviet detente is reaching the end of a phase, and that the current 'era of reconciliation' is nearing the natural close."

It is most significant that this observation was written on the same day that the news wires were carrying glowing accounts from Moscow of how the American Secretary of State and Soviet Communist Party Chairman Brezhnev had publicly vowed that their so-called "detente" was "irreversible."

Much less reported was the infinitely more significant statement by Mr. Brezhnev that the "alternative" to detente "is war."

Unfortunately, just as this so-called "detente" is on Mr. Brezhnev's terms, so would be the "alternatives." It would be *his* "war."

One of Communism's oldest, most basic tenents is that the Communist Party must never engage in so-called "adventurism"; that is, a Communist power must never start a war without advance assurance of victory. Like his predecessors, Mr. Brezhnev continues to build for the day when his unleasing of Soviet military might against us will enjoy such advance assurance.

Unfortunately, laymen—in government, the media, the public—continue to think of military power in the traditional terms of guns, and planes, and tanks, and ships, and bombs—including nuclear bombs. We fail to appreciate that the very heart of latter 20th Century weaponry is the computer.

Told that U.S. computers are being sold to the Soviet Union, most Americans feel no alarm. But they should.

The computer is not simply a calculating machine. It is an entire system. Big operational structures such as missile forces, require computers; so do ships, airplanes, missiles and space vehicles.

Until recently, direct export of U.S. computers was restricted by export control regulations. Even so, the origin of today's Soviet systems can be traced to the United States. Following World War Two, the Soviet Union received computers almost entirely from West European plants of IBM.

The earliest American computer sale to the Soviet Union that can be traced was a Model 802 National-Elliott sold in 1959 by Elliott Automation, Ltd., of the United Kingdom. National-Elliott is a General Electric subsidiary.

In 1966, Standard Cables and Telegraph, Ltd. installed a Standard 7 x 8 instrument landing system at Moscow's D. Sheremetyeva Airport. Standard Cables was then a subsidiary of ITT.

In 1968, a second-generation Control Data Corporation 1604 System was installed at the Dubna Soviet Nuclear Facility near Moscow.

In 1972, Control Data sold the Soviet Union a third-generation CDC 6200 system computer.

For these systems, Control Data's operating statement has improved by about $3 million in sales over the past three years. And the Soviet Union has gained 15 years in computer technology.

As 1969 ended, it was estimated that Western computer sales to all of Communist Europe and the U.S.S.R. were running at $40 million per annum. In great part, three came from American subsidiaries.

In 18 months during 1964–65, Elliott Automation delivered five Model 503 computers to the U.S.S.R. The Elliott 503 ranged in price from $179,000 to more than $1 million, depending on its size.

By the end of 1969, General Electric-Elliott Automation sales to Communist countries were four times greater than in 1968.

This market accounted for one-third of General Electric-Elliott's computer exports. Other G.E. machines, including a Model 400 made in France by Compagnie des Machines Bull, were also sold to the U.S.S.R.

Livetti-General Electirc of Milan, Italy, also has been a major U.S.S.R. supplier of G.E. computers.

In 1967, Olivetti delivered $2.4 million worth of data processing systems to the U.S.S.R. This was in addition to Model 400 and Model 115 machines already sold.

In 1967, English Electric sold the U.S.S.R. its System Four Machine with microcircuits. This machine incorporated RCA patents. It was similar to the RCA Spectra 70 series.

Over the years, the U.S.S.R.'s largest single supplier of computers has been International Computers and Tabulation, Ltd. of the United Kingdom. The latter also licenses RCA technology. It has supplied at least 27 of 83 large computers to the Soviet Union.

In November, 1969, five of the firm's 1900 series computers valued at $12 million, went to the U.S.S.R.: These were large, high-speed uints with integrated circuits. Without question, they were well in advance of anything the Soviets were able to manufacture in the computer field; even by copying previously-imported technology.

These machines are capable of solving military and space problems. But, being machines, they cannot distinguish between military and civilian problems. There is no way that a Western firm or government can prevent Soviet use of computers for military work.

In 1970–71, came the ultimate insult:

The Soviets indicated that if International Computers, Ltd. of Great Britain was allowed to sell two big, fast, highly-sophisticated 1906A computers, American scientists would be allowed to participate in further research at the Serpukhov Institute of High Energy Physics. The key equipment at Serpukhov, including the bubble chamber, had come from the West.

The Soviets gave "ironclad" guarantees not to use these new British (RCA) 1906A computers for military research. Personal intervention by President Nixon forced a relaxation of U.S. opposition to the British sale. But, gentlemen, Mr. Nixon has not yet indicated how he proposes to prevent the Soviets from using the 1906A for military purposes against us.

Business Week of April 28, 1973, published word that the Soviet Union had contracted for an IBM third-generation 370 computer system. The price: A reported $10 million.

According to the *Washington Post* of July 6, 1973, and the *Wall Street Journal* of August 8, 1973, James Binger, Chairman, Honeywell Incorporated, Minneapolis, told a Moscow news conference his firm had begun negotiation with the Soviet government on two contracts involving several million dollars.

During a recent aviation-space industries exhibition, Soviet interests were noted. U.S. companies at the exhibition included: Westinghouse Electric Corporation, Bendix Corporation, Collins Radio Company, Texas Instruments, Inc., Boeing Corporation, United Aircraft Corporation, Lockheed Aircraft Corporation, Raytheon Corporation.

U.S. News and World Report of January 28, 1974, said International Business Machines and the Univac Division of Sperry-Rand were competing in two areas for contracts for two data systems for Soviet aviation.

Red Star, the official organ of the Soviet Army used the Remington-Rand Univac computer to illustrate an article on Soviet computers, with captions translated into the Russian language.

In *Science* magazine of February 8, 1974, Mr. Wade B. Holland, Editor, Rand Corporation's Soviet *Cybernetics Review*, stated:

"There are no rigid standards. Getting a license to export depends on how much weight you can throw or whether your timing is right, like if Nixon has just made a visit to Moscow."

BEST AVAILABLE COPY

Even as I am worried about the export of computer technology to the Soviet war machine, I am worried about export of precision grinding machines for manufacture of precision miniature ball bearings.

Ball bearings are an integral part of many weapons systems; there is no substitute. The entire Soviet ball bearing production capability is of Western origin. All Soviet tanks, all Soviet military vehicles, run on ball bearings manufactured on Western equipment—or on copies of Western equipment.

All Soviet missles, all Soviet related systems—including guidance systems—have bearings manufactured on Western equipment—or on Soviet duplicates of Western equipment.

Bryant Chucking Grinding Company, Springfield, Vermont, has been a major supplier of ball bearings processing equipment to the Soviet Union.

In the 1930s, when the U.S. Government and corporations were providing massive infusions of industrial technology into the Soviet Union, Bryant shipped 32.2% of its output to the U.S.S.R. In 1934, Bryant shipped 55.3% of its output to the U.S.S.R.

In 1959, under the then slightly relaxed restrictions commensurate with Khrushchev-decreed "peaceful coexistence," Bryant was able to sell 46 Centalign B machines to the U.S.S.R. In 1960, the U.S.S.R. placed an order for 45 similar Bryant machines. The U.S. Department of Commerce indicated willingness to grant Bryant an export license. Bryant accepted the order. It was not filled, however, because of Defense Department objections that the machines would be used for production of bearings utilized in strategic components for Soviet military end items.

The Bryant-Commerce Department effort to export the Bryant machinery resulted in an investigation by the U.S. Senate Subcommittee on Internal Security. The Subcommittee's report stated:

"We are now concerned . . . the decision to grant the license was a grave error."

Yet, in 1972, the Commerce and State Departments approved Bryant's export to the Soviet Union of 164 precision grinding machines of a new-generation so sophisticated as to be able to manufacture miniature ball bearings to tolerances of 25th millionth of an inch.

If this, in itself, is not a bit chilling to those who recognize the importance of such precision equipment in the hands of the Soviet Union permit me to add the information that while, in that manner, the Soviet's war machine gained 164 of these machines; while the United States, reportedly has never owned more than 77 of them.

Recent reports about agreements signed by General Dynamics Corporation with the Soviet State Committee for Science and Technology are also disturbing. The five-year agreement for scientific and technological cooperation covers such defense-related fields as ships and shipbuilding, telecommunications equipment, asbestos mining and processing, commercial and special purpose aircraft, computer-operated microfilm equipment, and navigations and water buoys.

Also upsetting is Fairchild Corporation's agreement with Communist Poland for sale of U.S. integrated circuit technology used extensively in modern weapons systems and in third-generation computers.

The February, 1974 issue of *Armed Forces Journal International* reports this: The Soviets are asking major U.S. aerospace firms (Boeing, Lockheed, McDonald-Douglas) to sell them, on a major scale, the manufacturing technology and managerial expertise to build wide-bodied commercial jet liners.

Development of the Kama River truck factory will undoubtedly contribute further to Soviet military capability. Quite obviously any truck can haul troops and ammunition to the front as easily as it can transport corn from the field.

In the Soviet view, the competition between Communism and U.S.-based non-Communism for scientific and technological superiority relates especially to direct military power. For there, as Soviet leaders have always seen it, rests the key to their ultimate goal of world domination. It follows, therefore, that strengthening the Soviet armed forces must forever have first call on all scientific-technological resources and capabilities.

Because, again and again, Soviet scientific-technological resource capabilities have ranged from inadequate to dismal failure, U.S.-based superior resources have been tapped. As they have been, so shall they continue to be—

unless—the Congress of the United States shuts off the supply of this which, like the U.S. scrap metal of the 1930s, must one-day find its end result in a Soviet-inflicted nuclear Pearl Harbor.

I respectfully commend this problem to the attention of this Committee. I do so with great concern. I do so in the hope that serious consideration be given to badly-needed legislation to bring an end to what should never have been started: Provision to the Soviet Union and other Communist countries of anything which, by any stretch of the imagination, could possibly be used for military purposes against us.

Mr. Chairman, again, I thank you for this opportunity. I thank the Committee for its attention. I request, most sincerely, serious consideration to the facts which I have set forth, and to my plea for sanity in the name of U.S. freedom.

Congress of the United States, House of Representatives,
Washington, D.C., April 3, 1974.

HON. BOB PACKWOOD,
Senate Office Building, Washington, D.C.

DEAR SENATOR PACKWOOD: During my April 1st appearance before the Senate Finance Committee, a question arose regarding the financing of our trade with the USSR.

In responding to the question, I stressed that credits being extended to the Soviet Union by the U.S. Export-Import Bank are not granted on terms and conditions equally applicable to all countries.

Export-Import Bank President William J. Casey had testified that the Soviets had not been required to submit financial data that would be required of a normal borrower.

It should also be pointed out that the United States is allowing far more generous terms in its credits to the Soviets than are any of the European countries. The Export-Import Bank interest rate charged to the Soviet Union is 6%. Analogous European financial institutions have been charging at least two to three percent more.

In my response to the question regarding absolute Soviet secrecy and refusal to disclose basic financial data I mentioned the June 30th *Business Week* interview with Soviet Deputy Trade Minister Vladimir S. Alkhimov in which he expressed Soviet policy regarding disclosure of Soviet reserves and other financial information.

I have enclosed a copy of this revealing interview for your consideration.

Sincerely yours,

BEN B. BLACKBURN,
Member of Congress,
Fourth District-Georgia.

Enclosure.

From Business Week, June 30, 1973

RUSSIA'S ALKHIMOV ANSWERS SOME MONEY QUESTIONS

Before the summit, Soviet Deputy Trade Minister Vladimir S. Alkhimov spent more than a month in the U.S. talking with businessmen and officials. In the following interview with BUSINESS WEEK, he discussed Soviet industrial projects and financing of U.S.-Soviet trade.

Question. What will the agreement with Occidental Petroleum to build a fertilizer complex mean for American business?

Alkhimov. There will be contracts for many American companies. This is a very big project. There will be pipelines from the Volga River to bring ammonia to the Baltic Sea, and another pipeline to Odessa on the Black Sea to receive Occidental's superphosphoric acid. We can produce ammonia and urea competitively, but we need superphosphates. [Occidental Chairman Armand] Hammer has the superphosphates, of course, which is a key part of the project. But we will need a great deal of equipment.

What is the status of the proposed liquefied natural gas joint ventures?

As you know, Hammer and [Chairman Howard] Boyd of El Paso Natural Gas Co. have signed a letter of intent with us, and we will go ahead and investigate the feasibility of the Yakutsk project. Nothing has been signed yet for

North Star. Price is a problem. Only the prices of gold and natural gas remained unchanged since the thirties. Now both have increased. You will have to resolve the price problem. There is no problem on our side.

Is the Soviet Union still insisting on fixed interest rates on credits from American private banks?

So far, yes. Our planners like to know in advance what things are going to cost. All the loans for the Kama River truck project carry fixed rates. But the financing terms for the fertilizer project have not been decided.

Don't fixed rates mean that you probably have to pay more than you would with fluctuating rates?

Well, of course, we would prefer very low fixed rates. But for some reason, your banks don't see it that way.

Reportedly, the Ex-Im Bank wants more information on the Soviet balance of payments, monetary reserves, and foreign debt before granting large additional credits. Will this be a problem?

This is a misunderstanding. We publish good trade statistics. For the last 20 years our balance of trade was positive, except in 1964, when we had a deficit of about $50-million, and last year, when the deficit was $800-million or so. We had to sell gold to cover it. We produce gold, but we manage our balance of payments very carefully to minimize the use of gold. The problem of our reserves is not of great importance. What criteria should one apply, anyway? Your gold reserves have dropped from 25,000 tons to 10,000 tons. If we published our reserves you might say we don't need credit, or if our reserves decreased you might say we are not reliable.

Of course, when it comes to these very big projects, we will need special assurances, both ways, that commitments will be honored. But this is not a bookkeeping problem. It is up to our government to decide what information it can properly give to the Ex-Im. But it won't act under threats.

Vneshtorgbank, the foreign trade bank, does all the Soviet Union's borrowing abroad, but U.S. banks are limited in the amount they may lend to one client. Could that put a ceiling on trade?

In the debt agreement between us and the Ex-Im, the two governments designated the Vneshtorgbank, or other bodies, as Soviet borrowers. We have our trading companies, too. This can be settled easily.

What of the periodic reports that the Soviet Union may apply to join the International Monetary Fund?

It is up to our treasury. I know they don't like some of the IMF's procedures, such as its system of voting. We have our own system of international banks, the Comecon Investment Bank and Settlements Bank, which wouldn't be easy to mesh with the IMF. But I wouldn't rule it out forever.

Senator TALMADGE. The next witness is Mr. Ralph Cross, the chairman of the Government Relations Committee, National Machine Tool Builders' Association, accompanied by Mr. James A. Gray, executive vice president.

The full statement will be inserted in the record, Mr. Cross, and you will summarize it for 10 minutes.

STATEMENT OF RALPH CROSS, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION ACCOMPANIED BY JOHN KOCH, COUNSEL—

Mr. CROSS. Mr. Chairman, Mr. Gray is not here this morning. In his place, we have Mr. John Koch, who is legal counsel for the Machine Tool Builders' Association.

We have prepared a written statement, which I assume will be made a part of the record.

Senator TALMADGE. It will be inserted in full, sir.

Mr. CROSS. In the interest of saving time, I would like to limit my remarks, therefore, to the highlights of this statement.

We testify today in basic support of the Trade Reform Act, other than title IV. The world military, political, and economic situation has changed considerably since the cold war days, in which some of our present trade laws were developed, including the prohibition against the grant of nondiscriminatory tariff treatment to Communist countries.

The administration has slowly and cautiously encouraged the expansion of trade with both the Soviet Union and the Peoples Republic of China, but the ability of Communist countries to purchase from the West depends to a considerable degree on their ability to sell here. We strongly oppose, therefore, title IV of the bill passed by the House, which would constitute a significant backward step in our efforts to normalize and expand international trade.

As businessmen, we look upon the Soviet Union and other Eastern bloc countries as important markets, markets that will enable us to expand our exports and thereby, besides increasing domestic employment and contributing positively to the balance of trade, strengthen our industrial base. But the benefits of expanded trade with the East are not solely economic. Both as businessmen and as citizens, we strongly share the administration's conviction that expanded world trade and resulting economic interdependence are perhaps the most promising assurance of continued world peace.

Accordingly, in the interest of both liberal trade policy and detente, we urge the committee to report a trade bill that does not attempt to tie the questions of nondiscriminatory tariff treatment and Export-Import Bank financing to the unrelated issue of Soviet emigration policies.

At this point, I would like to say a few words about the individuals and organizations we have traded with in the U.S.S.R. Personally, I have been trading with the U.S.S.R. for over 40 years, going back to 1934. And in all of this time, we have never had an order cancelled; we have never had an official of the Soviet organizations that we deal with go back on their word. They have always paid their bills on time. They have dealt with us openly and honestly. They have told us in advance what things we could expect when we came into the negotiation, what things were not negotiable, and our trade has been of the highest order.

There are two other matters that are appropriate subjects for comments at these hearings. One is the issue of taxation of foreign source income. The other is the U.S. tax treatment of capital investment here at home.

We are gratified that the trade bill passed by the House and pending before this committee does not include provisions that disturb existing U.S. tax policy applicable to foreign investment. As the Secretary of the Treasury testified before the House, and as various private and Government studies have shown, foreign investment by U.S. firms has been beneficial to the American economy and has, in fact, improved the U.S. balance of trade and added jobs to the U.S. economy.

As an example, I would like to tell you about what has occurred in our own company. We decided to build a plant in Germany in 1960.

Prior to that time, our export business was less than $1 million a year. Since we have built that plant, our export business has expanded, over a 14- or 15-year period, by 600 percent and has provided jobs for 250 people in our company for 15 years. We look, therefore, very highly on this type of business.

With respect to taxes, first we do not believe that U.S. corporations should be taxed on earnings of foreign subsidiaries operating in countries offering inducements to new investment.

Second, we do not believe there is any justification for taxing the foreign earnings of a controlled corporation which operates in a country with significantly lower income tax rates than the United States and whose exports to the United States exceed 25 percent of its total production, as the administration has proposed.

Third, we are opposed to any new restrictions or limitations on the availability of foreign tax credit, at least as applied to manufacturing industries generally.

It is provisions such as these that would operate to disadvantage U.S. corporations in relation to their foreign competitors. If the tax laws of country X operate to give companies located there an undue advantage with respect to the U.S. market, the problem, if there is one, calls for a tariff solution which would apply equally to all companies operating in country X, not solely to the subsidiaries of U.S. corporations.

With respect to U.S. tax treatment of laws applicable to capital investment, we do not believe that our tax laws should be used as a club to inhibit foreign investment. On the other hand, it is our firm conviction that the United States remain the industrial leader of the world, a Nation with an industrial plant sufficient to supply its basic peace and wartime needs and a provider of ample and rewarding industrial job opportunities.

To achieve these goals, we must be able to compete in world markets on an equal basis. As an example of how not to achieve these goals, let me tell you what has happened to the machine tool industry.

Up until a few years ago the American machine tool industry dominated the world machine tool business. We had the largest machine tool industry in the world. That no longer exists. We are now in third place, behind West Germany and the Soviet Union. And, in my judgment, this was brought about largely because of our export control laws which kept us from being able to participate in the markets in the Eastern countries.

Without minimizing in any way the importance of new and enlightened international trade legislation, I wish to emphasize our conviction that in the long run, America's success in world markets, its ability to attain its economic goals at home, and its future as an industrial nation, depend most importantly on one thing: its productivity. Winning the productivity war means lower unit cost, lower prices, and more industrial job opportunities.

So how are we doing in this productivity war?

Let me cite a few facts.

The amount of money being spent on machine tools and related equipment per American worker is declining. This means the American worker will not be able to maintain his present standard of living unless the trend is reversed. The ability of the American worker to produce depends entirely on the quantity and quality of the tools at his disposal.

Second, the United States spends a smaller part of its Gross National Product on machine tools and related equipment than any other industrial nation.

Third, the United States has the largest Gross National Product in the world, and it must have, in our opinion, the largest and strongest machine tool industry in the world. Of all of the Government policies that bear on our ability to increase productivity, none is more important than tax policy applicable to capital recovery. Tax laws that encourage investment in modern and efficient machinery and equipment constitute, in our judgment, the single most effective way that our Government can assist U.S. companies in their efforts to compete at home and in world markets.

Senator TALMADGE. Mr. Cross, I regret to call the time on you, but the 10 minutes have expired.

Mr. CROSS. Thank you, Senator.

Senator TALMADGE. I was interested in your statement that you had been making sales to the Soviet Union for some 40 years and that they had complied completely in all respects with the terms of the contract.

What have you been selling to the Soviet Union for 40 years?

Mr. CROSS. Machine tools.

Senator TALMADGE. What do you exactly mean when you say machine tools?

Mr. CROSS. Well, over the years we have sold them all kinds of machine tools. To begin with, in the 1930s we sold them tools for making tractors.

Senator TALMADGE. You say machine tools. Is that a machine that operates itself or tools to maintain the machines?

Mr. CROSS. They are power-driven machines that form and cut metal to make the parts for various products, such as automobiles, trucks, airplanes, and almost any manufactured product. The tools that the former witness was talking about for making ball bearings, for example, are machine tools, and I would like to comment on that, if I may.

Machine tools for making these precision miniature bearings that the witness was speaking about are readily available to the U.S.S.R. in Italy and not from subsidiaries of American companies. They are also readily available to them from Japan so that the Soviet Union is not dependent upon the United States to obtain its machinery to make miniature ball bearings.

Senator TALMADGE. Your principal competitors are American or foreign countries?

Mr. CROSS. We have plants in Germany, England, and Japan, plus the United States. And, of course, we have competitors throughout the world.

Senator TALMADGE. Do you have any figures comparing the imports versus the exports on machine tools?

Mr. CROSS. The trade balance of machine tools is—we export more than we import.

Senator TALMADGE. Do you know approximately——

Mr. KOCH. Senator, there are attached to Mr. Cross' statement some appendices which set forth the balance of trade with respect to the machine tool industry, machine tools generally, and various subcategories.

Senator TALMADGE. I am delighted that is in the record, because I am not aware of what the figures are. I thought we had a favorable balance on machines.

Mr. CROSS. If I could make one other comment.

The export restrictions that we have put on machine tools over the last 25 years have made the Soviet Union self-sufficient in the kinds of machines that they need to produce war materials. And restrictions on trade that extend over a long period of time, in my judgment, cannot help but make them self-sufficient. If they cannot rely on us for machine tools, they will find a way to make them for themselves, and they have proven this.

Today they are looking for machine tools to produce goods for civilian consumption. And if we do not participate in that trade, they will become self-sufficient in this area also, and they will be a force in the world machine tool market.

Senator TALMADGE. Any further questions?

Senator BENNETT. I would like to ask one.

Senator TALMADGE. Senator Bennett.

Senator BENNETT. When you say the Russians have made their own machine tools, have they copied those they have imported from abroad, or do they have the capability of designing original and different machine tools?

Mr. CROSS. They have the capability of designing original and new types of machine tools. Like all people in business, you borrow ideas from your competitors from time to time. We have borrowed ideas from them, and they certainly have borrowed ideas from us, as well as from other countries in the world.

Senator BENNETT. I will turn the question around. Would it be possible to put any kind of restriction on our export of machine tools to Russia which would interfere with their ability to develop their military capability?

Mr. CROSS. To develop their what?

Senator BENNETT. Military capability.

Mr. CROSS. Only on a temporary basis. Frankly, they have shown no interest in machine tools for military purposes, and I am positive that they have the capability to make these kinds of machines. In fact, I visited some of their machine tool plants in Russia, and I have seen that they have the capability. I have seen that they have the capability, if they want to, to make the machines that will make these miniature ball bearings also.

Senator BENNETT. Machine tools made in the United States are subject to patent, are they not?

In other words, can someone walk down to the Patent Office and, if he knows how to do it, get the essential ideas behind particular machine tools?

Mr. CROSS. Yes, you can pick up ideas from the Patent Office, but they are not generally of great value in transmitting new technology. Technology changes so fast that what you find in the Patent Office is generally obsolete by the time it would be available to you.

Senator BENNETT. You do not bother to patent your new ideas, you just go ahead and manufacture them?

Mr. CROSS. We do patent some, yes, but we do not place any great emphasis on patents. We do not rely on patents to keep ahead of our competitors, for example, either here or abroad.

Senator BENNETT. Is there a worldwide literature, as there is in scientific fields, where people can keep up to date in the development of machine tool ideas around the world?

Mr. CROSS. There are trade magazines that publish news about machine tool developments, and these are available around the world. We get them from Europe, and, of course, Europeans get ours, and from Asia too. There are publications that are developed in Russia that are available to us. We do not comb through those in our company very much, because it is very difficult for us, and we can get the ideas much easier by observation than we can by reading about them in the trade books.

Senator BENNETT. One other question: Are there international machine tool shows to which people may go?

Mr. CROSS. Yes, many of them. We have one this fall in the United States put on by our association. There is another one this year in Japan. There are shows in Europe periodically, and there are in Eastern Germany also. There is a show this month being put on in Moscow for American machine tool producers to exhibit their products for the Russians, and we are exhibiting in that show, and I will be leaving to attend that show at the end of this week.

Senator BENNETT. There will be no Russian machine tools in that show?

Mr. CROSS. No, this is entirely American. It is a trade show sponsored in part by the Commerce Department and in part by our association.

Senator TALMADGE. Any further questions?

Senator BYRD. Yes.

Senator TALMADGE. Senator Byrd.

Senator BYRD. Where will that trade show be held?

Mr. CROSS. I did not hear you, sir.

Senator BYRD. The trade show you just mentioned, where will that be held?

Mr. CROSS. In Moscow.

Senator BYRD. You mentioned that U.S. control laws prevent U.S. businessmen from participating in East European business.

What control laws did you have reference to?

Mr. CROSS. The export controls. To a large extent, they have been relaxed now, although there are still some export controls on some machine tools, mostly those that are controlled numerically.

Senator BYRD. Why are there still controls on that machinery?

Mr. CROSS. Because the Defense Department is of the opinion that these controls are necessary to keep the capability or the know-how from the Russian industry. But these machines that the Defense Department is concerned about are used largely for making high-speed aircraft, and they have been in existence now since 1955 or 1956. The Russians are making high-speed aircraft—that is aircraft that travel faster than the speed of sound. There is plenty of evidence of that. So, obviously, they must have the machines that make them. They are not buying the parts from us that go into these aircraft.

These NC machines, or numerically controlled machines, are also used for many other purposes. They are used for making things for civilian production. We use them to some extent for making machines that make parts for automobiles and test automobile engines and parts for appliances and typewriters and things of this nature.

Senator BYRD. Would you say that the restrictions on most products have been removed?

Mr. CROSS. Yes, most of the export controls on machine tools that my company manufactures have been removed, and we now can export to the Soviet Union without any restriction.

Senator BYRD. That has been in the last, what, 2 or 3 years?

Mr. CROSS. About 1 year.

Senator BYRD. So most of the controls have been taken off of so-called strategic exports during the last couple of years?

Mr. CROSS. Well, not what the Defense Department calls strategic. Controls on only non-strategic items have been removed.

Senator BYRD. Who makes the final decision on whether a product can be exported?

Mr. CROSS. There is an interagency committee that does this made up out of Commerce, Defense, Atomic Energy, State, and I do not know who else, but this committee is the one that decides.

If we were to apply for a license, for example, to export a machine with numerical controls to the Soviet Union, this committee would decide whether we would have that license to export, or whether we would not.

Senator BYRD. But you say there are not many products which are now restricted for export?

Mr. CROSS. Not many machine tool products, except numerically controlled machine tools and certain specialized equipment. If I may I would like to add that our exports to the U.S.S.R. and the East have been increasing since the export controls have been relaxed. If we can continue I am confident that we can regain our position as the largest machine tool producer in the world. If we don't extend MFN treatment to the U.S.S.R. I am afraid the business will go elsewhere, that is, to Germany, Italy, Japan, et cetera.

Senator BYRD. Thank you.

Senator TALMADGE. Any further questions?

[No response.]

Senator TALMADGE. Thank you very much, Mr. Cross. We appreciate your contribution to the committee's deliberations.

[The prepared statement of Mr. Cross follows. Hearing continues on p. 1515.]

PREPARED STATEMENT OF RALPH E. CROSS, PRESIDENT OF THE CROSS CO. AND FIRST VICE PRESIDENT OF THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION

Mr. Chairman, members of the committee, my name is Ralph E. Cross. I am President of The Cross Company, of Fraser, Michigan, and First Vice President of the National Machine Tool Builders Association on whose behalf I am testifying. I also serve as Chairman of the NMTBA's Government Relations Committee.

The NMTBA is a trade association representing more than 300 companies producing machine tools in the United States and, in some cases, abroad. These companies, which operate manufacturing plants in 27 industrial states and provide employment for more than 90,000 persons, account for more than 90% of U.S. production of machine tools. Machine tools, the vital machines that cut and bend and form metal, are the master tools of industry, the machines required to produce all others. They are essential to both a peacetime and a wartime economy, and have a significant effect in improving the productivity of all American manufacturers.

We are pleased to have the opportunity to express our views on H.R. 10710, the Trade Reform Act of 1973. Machine tool builders are vitally interested in international trade and in recent years have taken virtually every opportunity to make their ideas known on this important subject. In the 1960's many in our industry were alarmed by the inroads into the U.S. market being made by foreign machine tool manufacturers, particularly those from Western Europe and Japan, and our testimony at various trade hearings reflected this concern. But a policy of protectionism is something that we rejected long ago; and since at least 1968 we have urged a wide variety of governmental measures designed, not to reserve the American market for ourselves, but to put us on an equal and competitive footing in world markets. To these ends we have concerned ourselves not only with tariff and trade legislation but with laws equally relevant to the ability of U.S. manufacturers to compete abroad, those dealing with the tax treatment of capital investment.

We testify today in basic support of the Trade Reform Act—other than Title IV. In supporting this legislation we do not mean to suggest that we are no longer concerned over the increasing share of U.S. machine tool purchases supplied by foreign producers, particularly in certain product lines. We are. As the tables set forth in the Appendix to this statement show, while machine tools overall still show a positive trade balance, the U.S. has again become a net importer of certain machine tool lines, including lathes, milling machines and boring machines. Of even greater concern is the increase in imports of certain types of machine tools as a percent of domestic consumption. For example last year imports of both boring machines and gear cutting and hobbing machines accounted for nearly 20% of U.S. purchases, as appears from the chart on page A-2 and Table 7 on page A-6.

Nevertheless, we are persuaded that in the long run the free movement of goods and capital over international frontiers—assuming reciprocity, fair trading practices and adequate governmental authority to deal with emergency situations—is both inevitable and desirable. We are also convinced that a return to protectionist trade policies would only result in retaliation and would ultimately lead to the U.S. denying itself full and advantageous participation in the benefits of an expanding world economy. Those benefits, and the degree to which the U.S. machine tool industry has so far failed to tap them, are suggested by the chart on page A-1, which shows our industry's relatively flat export curve in relation to the expanding machine tool market outside the U.S.

Against that background we turn to the principal provisions of the bill now before this Committee.

1. PRESIDENTIAL NEGOTIATING AND RETALIATORY AUTHORITY

The Trade Reform bill would confer upon the President broad authority to negotiate reductions in such U.S. tariffs as survived the Kennedy Round negotiations of the 1960's or in some cases to eliminate them altogether.[1] It would

[1] Machine tools currently fall under one of three different tariff classifications—TSUS item 674.30 (machine tools for cutting or hobbing gears); TSUS item 674.32 (boring, drilling and milling machines, including vertical turret lathes); and TSUS item 674.36 (other machine tools). The pre-Kennedy Round rates of duty for these three tariff classifications were 20%, 12% and 15% respectively. Today they are half that level, or 10%, 6% and 7.5% respectively.

also empower the President, subject to a Congressional veto procedure, to agree to reduce or eliminate what our trading partners may regard as U.S. non-tariff trade barriers to their exports. The point of such concessions would be to enable us to obtain equally meaningful concessions from our trading partners, particularly in the area of non-tariff trade barriers which have so often proved such effective obstacles to U.S. exports.

We believe that international negotiation offers the greatest likelihood of our obtaining significant concessions from those countries and trading blocs that maintain tariff and, more importantly, non-tariff barriers against our products. Accordingly, we would confer upon the President the authority granted by H.R. 10710.

On the theory that sticks as well as carrots can frequently be useful negotiation tools, we also endorse the provisions of Section 301, which would authorize the President unilaterally to raise or impose tariffs or other import restrictions against any country that engages in unjustifiable, unreasonable or discriminatory practices affecting U.S. exports.

2. LIBERALIZATION OF THE "ESCAPE CLAUSE"

Since the 1960's we have urged that the escape clause of the Trade Expansion Act of 1962 be liberalized to make it a realistic vehicle for relief by industries suffering serious injury from increased imports. We are pleased that there is now the prospect of legislation that would apparently accomplish this purpose. As already indicated, we do not favor general tariff increases or the widespread imposition of quantitative restrictions on imports. We recognize, however, that as international trade expands temporary dislocations in domestic economies, both in this country and elsewhere, are inevitable. Depending upon the severity of those dislocations, a realistic and practically available mechanism should exist by which firms and workers can obtain relief. In the case of firms we believe that import relief, as distinguished from adjustment assistance, would probably be sufficient, and we so testified in the House. However, we have no objection to the provisions of H.R. 10710 that, going beyond the Administration's proposal, would make adjustment assistance available to firms as well as workers. Overall, however, we look upon the Trade Reform Act's new "substantial cause" test and its elimination of the need to show a causal connection between injury and prior trade concessions as the bill's most significant features relating to the escape clause, and we strongly endorse these provisions.

3. UNFAIR IMPORT PRACTICES

There are two international trading practices that are generally recognized, both in national and international law, as unfair and unlawful. The first is dumping, a form of international price discrimination. The second is the practice of governments' directly or indirectly subsidizing exports. We endorse those provisions of the Trade Reform bill that would make our antidumping and countervailing duty statutes more effective by imposing statutory timetables for the completion of investigations and make certain other procedural protections. Delay in enforcement has in the past been one of the major deterrents to aggrieved U.S. industries' initiating proceedings under these statues.

We would also urge that you give consideration to related provisions of S. 328 and perhaps other bills, which contain provisions that include additional improvements in these areas. For example, S. 328 would require the Treasury to complete investigations in six months from the filing of a complaint while H.R. 10710 would permit Treasury to take as long as nine months from the time that Treasury, on the basis of information contained in a complaint, published a notice of investigation. S. 328 also includes provisions that would permit judicial review of adverse Treasury Department or Tariff Commission decisions on the petition of a complaining domestic industry as well as an aggrieved importer.

4. BALANCE OF PAYMENTS AND COUNTER-INFLATION AUTHORITY

The Trade Reform bill would also give the President new powers to impose temporary restrictions on imports in response to serious balance of payments problems and temporarily to ease import restrictions as a counter-inflationary device. As we understand it, these would be essentially emergency powers. So

viewed, we approve the grant of such authority as desirable and in the national interest.

5. TITLE IV—MFN AND CREDITS FOR EXPORTS TO COMMUNIST COUNTRIES

The world military, political and economic situation has changed considerably since the Cold War days in which some of our present trade laws were developed, including the prohibition against the grant of non-discriminatory (MFN) tariff treatment to Communist countries. The current Administration has slowly and cautiously encouraged the expansion of trade with both the Soviet Union and the Peoples Republic of China. But the ability of Communist countries to purchase in the West depends to a considerable degree on their ability to sell here. For that reason we favor enabling the Administration to conclude trade agreements with Communist countries that, subject to certain conditions, would afford those countries the same access to our markets as that enjoyed by our non-Communist trading partners. The conditions relate essentially to the need for protection against possible abuse by Communist countries of their economic power as state monopolies.

We believe that the provisions of the Administration's original trade proposals that would limit trade agreements with Communist countries to three-year periods, that would empower the President to withdraw MFN and that would reduce the burden on a complaining U.S. industry in an escape clause proceeding satisfy these needs. Accordingly, we strongly endorse that legislation. It follows that we strongly oppose Title IV of the bill passed by the House, which would constitute a significant *backward* step in our efforts to normalize and expand international trade relationships.

As amended in the House, Title IV would not only effectively continue discriminatory Cold War tariff treatment of the Soviet Union and China but it would undo recent advances made in the area of export financing. These consequences are of course the result of the House's decision to use the trade bill as a device to bring about changes in Soviet emigration policies.

We can appreciate and share the House's objectives. Like Secretary Kissinger, however, we firmly believe that the trade bill is not the appropriate vehicle for pursuing such objectives.

As businessmen we look upon the Soviet Union and other Eastern bloc countries as increasingly important markets—markets that will enable us to expand our exports and thereby, besides increasing domestic employment and contributing positively to the balance of trade, rebuild our capital base. But the benefits of expanded trade with the East are not solely economic. Both as businessmen and citizens we strongly share the Administration's conviction that expanded world trade and resulting economic interdependence are perhaps the most promising insurer of continued world peace. Attempts to use the leverage of trade to accomplish still other purposes, such as bringing about changes in Soviet domestic policy, can only overload the circuits and deny to us the benefits otherwise to be gained.

Accordingly, in the interest of both a liberal trade policy and detente, we urge this Committee to report a trade bill that does not attempt to tie the questions of non-discriminatory tariff treatment and Eximbank financing to the unrelated issue of Soviet emigration policy.

There are two other matters that, though not directly raised by H.R. 10710, are appropriate subjects of comments at these hearings, both because they relate to international trade and because they fall within the jurisdiction of this Committee. One is the issue of U.S. taxation of foreign source income; the other is the U.S. tax treatment of capital investment at home.

6. TAXATION OF FOREIGN SOURCE INCOME

We are gratified that the trade bill passed by the House and pending before this Committee does not include provisions that would disturb existing U.S. tax policy applicable to foreign investment. As the Secretary of the Treasury testified before the House and as various government and private studies have shown, foreign investment by U.S. firms has been beneficial to the American economy and has in fact improved the U.S. balance of trade position and added jobs to the U.S. economy. It follows, we believe, that any basic revision of our laws relating to the taxation of foreign source income, such as repeal of the foreign tax credit, would be contrary to our international trade objectives.

Even some of the more limited proposals that have been advanced would be damaging to our international trade position. For example, it has been proposed that U.S. corporations should be subject to current taxation on the earnings of foreign subsidiaries operating in countries offering "tax holidays" or other inducements to new investment. Under this proposal, advanced by the Administration last year, what would constitute a "tax holiday" or other inducement would apparently be left to Treasury determination. Once the provision came into play and the parent was taxed on current earnings of the subsidiary, however, termination of the "tax holiday" or other inducement would not relieve the U.S. parent of its obligations to pay taxes currently on the unrepatriated earnings of the subsidiary.

The Administration's proposal apparently rested on two assumptions. The first is that when a company invests in a foreign country that offers tax incentives to investment, the sole or controlling factor in the investment decision is necessarily the existence of the incentive. The second is that it is the obligation of U.S. tax law to neutralize any such "distorting" influences on business decision-making.

The fact is that in virtually all cases a decision to invest in a particular country is not the result of a particular tax incentive program but a corporation's assessment of numerous and diverse market, commercial and legal considerations. To penalize an American company by taxing it currently on the unrepatriated earnings of a foreign subsidiary enjoying some form of tax advantage in its country of operation, far from providing a neutral climate for business decision-making, would introduce reverse distortions. It would also, of course, place U.S. firms at a significant disadvantage in relation to competing firms of other nationalities whose governments do not deny them the benefits of such local tax advantages as may otherwise be open to them. As such, it would of course impede our ability to compete.

Similarly, we do not believe there is any justification for currently taxing the foreign earnings of a controlled corporation which operates in a country with significantly lower income tax rates than the U.S. and whose exports to the United States exceed 25% of its total production, as the Administration proposed. First, such a provision could have significant and arbitrary consequences in a variety of situations that cannot be foreseen. More basically, however, such a provision would operate to disadvantage U.S. corporations in relation to their foreign competitors. If the tax laws of Country X operate to give companies located there an undue advantage with respect to the U.S. market, the problem, if it is one, calls for a tariff solutin, which would apply equally to all companies operating in Country X, not solely to the subsidiaries of U.S. companies.

With respect to a third Administration proposal, we are opposed to any new restrictions or limitations on the availability of the foreign tax credit, at least as applied to manufacturing industries generally. More specifically, we do not think that the failure of particular foreign countries to allow losses recognized under U.S. law justifies an exception to the general principles otherwise applied and approved. In this connection, it should be stressed again that most foreign investments are made to reach new markets. The overseas operations of U.S. corporations contribute importantly to industrial growth in both developing and developed countries. In addition, as already noted, they create U.S. jobs, provide taxable income to our Government and can contribute significantly to the betterment and growth of free world trade, economic stability and peace.

7. U.S. TAX TREATMENT OF LAWS APPLICABLE TO CAPITAL INVESTMENT

As should be clear, we do not believe that our tax laws should be used as a club to inhibit foreign investment. On the other hand, we may share with those who would use our tax laws in that manner one common, overall objective—to see the United States remain the industrial leader of the world, a nation with an industrial plant sufficient to supply its basic peace and wartime needs, a provider of ample and rewarding industrial job opportunities. To achieve these goals we must be able to compete in world markets on an equal basis.

Without minimizing in any way the importance of new and enlightened international trade legislation, I wish to emphasize our conviction that, in the long

run, America's success in world markets, its ability to attain its economic goals at home and its future as an industrial nation depend most importantly on one thing—its productivity. Winning the productivity war means lower unit costs, lower prices, increased exports, less dependence on imports, more industrial job opportunities, a positive effect on our balance of trade and balance of payments.

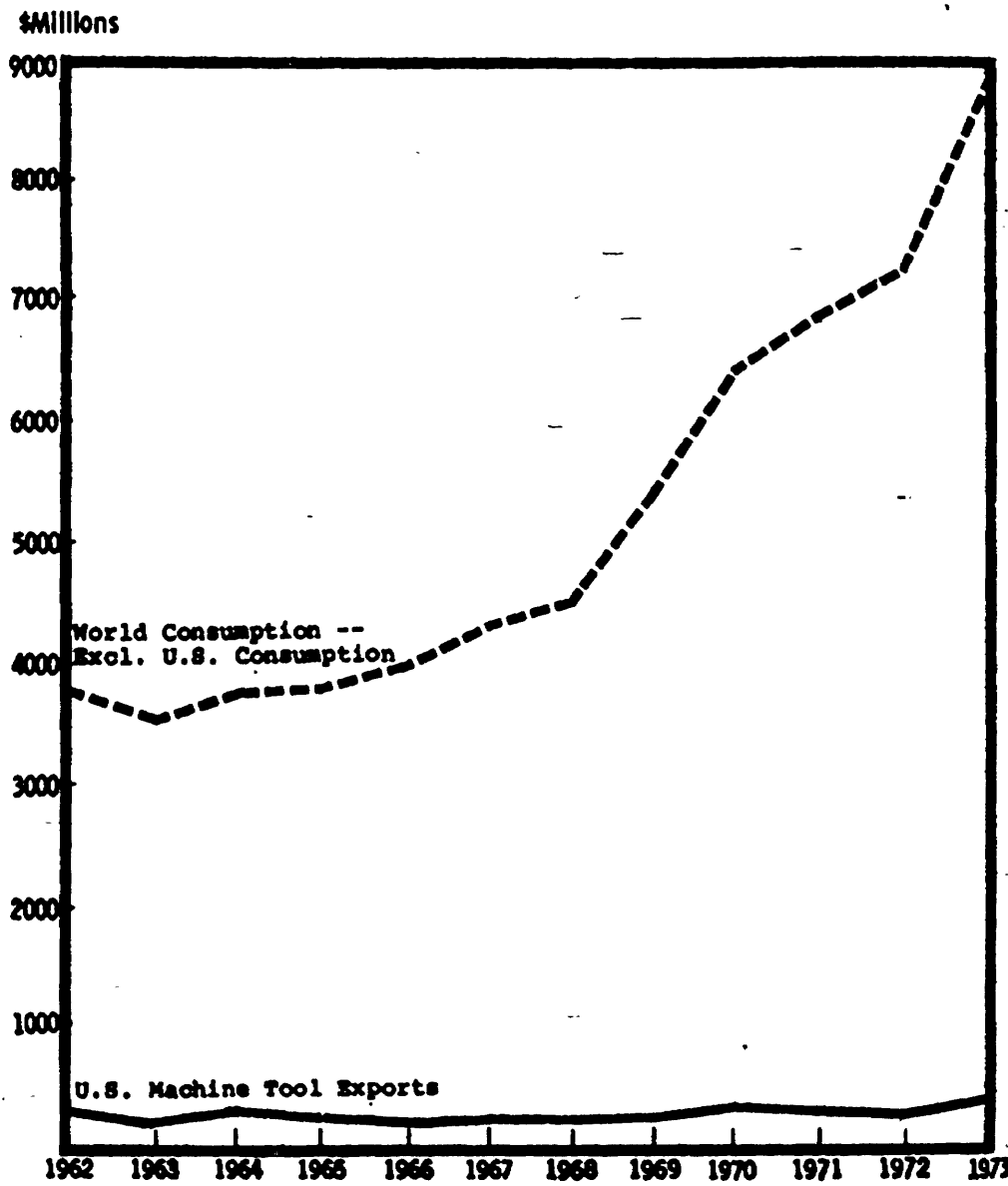
Of all the governmental policies that bear on our ability to increase productivity, none is more important than tax policy applicable to capital recovery. Tax laws that encourage investment in modern and efficient machinery and equipment—machinery to increase productivity—constitute, in our judgment, the single most effective way our Government can assist U.S. companies in their efforts to compete at home and in world markets.

No group of Senators occupy a more important and influential position with respect to these matters than the members of this Committee. Accordingly, let me close my testimony by, once again, urging that there be retained, as permanent features of our tax law, the job development or investment credit, at a fixed statutory level, and the ADR system of depreciation.

Enactment of the Trade Reform Act of 1973 would, subject to appropriate amendments to Title IV, be an important step toward open, equitable and fair international trade. As such it would offer benefits for all the people of the world. But if the bill were enacted and if at the same time there should be any whittling away of the capital recovery provisions of the 1971 Revenue Act, we are convinced that the net effect on U.S. manufacturers' ability to compete at home and in world markets would be negative. America needs new trade legislation; it also needs a system of capital recovery as good as those of other industrial nations.

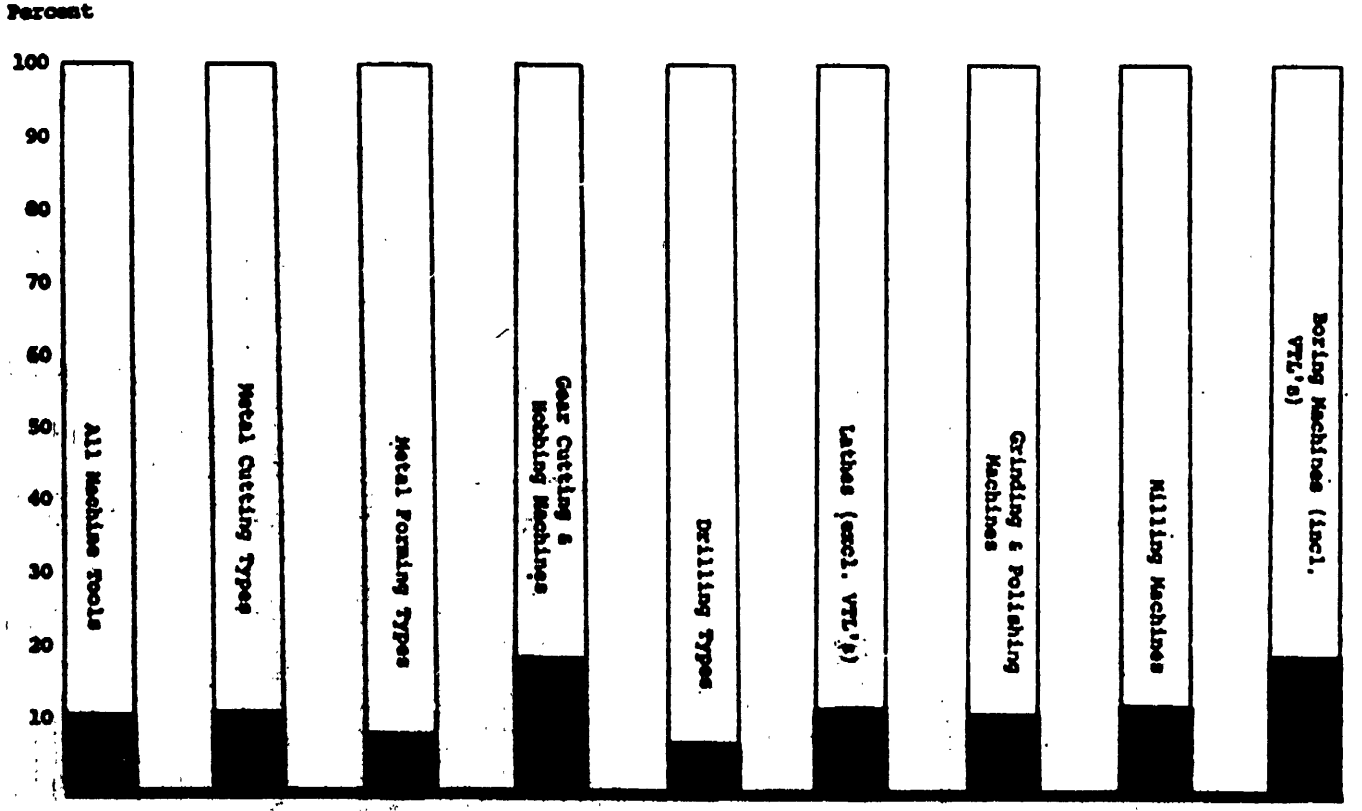
APPENDIX C

World Machine Tool Consumption - excl. U. S. Consumption and U. S. Machine Tool Exports



Source: U. S. Dept. of Commerce - McGraw-Hill

1973 U.S. MACHINE TOOL IMPORTS AS A PERCENTAGE OF U.S. MACHINE TOOL CONSUMPTION, BY TYPES (BASED ON DOLLAR VALUE)



Sources: U.S. Dept. of Commerce: Shipments - Current Industrial Reports, Metalworking Machinery (M35W); Exports - M35W, Bureau of the Census; Imports - FT 135, Bureau of the Census

TABLE 1.— ALL MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS), EXPORTS FROM, AND IMPORTS INTO, THE UNITED STATES, 1964–73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	14,110	$298.6	24,298	$36.6	$162.3
1965	12,475	171.2	32,152	56.3	114.9
1966	14,634	173.2	61,679	117.8	55.4
1967	12,861	194.1	64,710	178.1	16.0
1968	11,462	174.5	52,053	163.6	10.9
1969	13,083	181.5	52,330	156.1	25.4
1970	15,061	238.8	53,806	131.8	107.0
1971	13,634	191.0	68,941	90.1	[1] 100.9
1972	11,765	171.1	49,659	114.0	57.1
1973	NA	[1] 247.0	36,103	167.1	[1] 79.9

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; Exports M35W.

TABLE 2.—METAL CUTTING MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS), EXPORTS FROM, AND IMPORTS INTO, THE UNITED STATES, 1964–73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	10,577	$151.4	16,845	$30.6	$120.8
1965	9,137	127.1	23,600	48.1	79.0
1966	11,425	126.7	54,235	104.7	22.0
1967	10,037	143.9	53,356	153.5	(9.6)
1968	8,109	121.2	42,979	142.0	(20.8)
1969	9,098	135.6	41,398	132.8	2.8
1970	11,099	185.8	46,202	104.7	81.1
1971	8,854	133.2	36,284	70.8	62.4
1972	8,677	112.6	42,070	82.5	30.1
1973	NA	[1] 192.0	30,541	126.0	[1] 66.0

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; Exports M35W.

TABLE 3.—LATHES (EXCLUDING VERTICAL TURRET LATHES AND ALL PARTS AND ATTACHMENTS), EXPORTS FROM, AND IMPORTS INTO, THE UNITED STATES, 1964–73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	1,633	$28.2	6,083	$8.9	$19.3
1965	1,322	20.1	8,736	14.2	5.9
1966	1,131	18.6	14,819	37.2	(18.6)
1967	1,083	18.7	15,654	47.7	(29.0)
1968	683	15.3	11,452	38.1	(22.8)
1969	673	16.8	13,241	38.0	(21.2)
1970	842	29.3	12,082	27.9	1.4
1971	774	24.0	6,252	17.8	6.2
1972	520	19.2	5,578	22.9	(3.7)
1973	NA	[1] 22.1	6,058	45.7	[1] (23.6)

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; Exports M35W.

TABLE 4.—MILLING MACHINES (EXCLUDING PARTS AND ATTACHMENTS), EXPORTS FROM, AND IMPORTS INTO, THE UNITED STATES, 1964-73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	507	$14.8	656	$3.3	$11.5
1965	398	8.8	1,128	6.1	2.7
1966	338	10.2	3,405	17.4	(7.2)
1967	399	16.8	5,715	31.4	(14.6)
1968	304	12.1	5,428	30.6	(18.6)
1969	348	6.7	4,710	26.3	(19.6)
1970	456	12.2	2,047	13.4	(1.2)
1971	276	11.8	986	7.9	3.9
1972	416	5.3	1,441	7.5	(2.2)
1973	NA	[1] 6.8	1,760	12.4	[1] (5.6)

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; exports M35W.

TABLE 5.—BORING MACHINES—INCLUDING VERTICAL TURRET LATHES (EXCLUDING PARTS AND ATTACHMENTS), EXPORTS FROM, AND IMPORTS INTO, THE UNITED STATES, 1964-73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	283	$8.7	313	$3.8	$4.9
1965	174	4.8	394	6.1	(1.3)
1966	183	5.3	692	12.8	(7.5)
1967	177	4.8	937	21.0	(16.2)
1968	147	4.4	1,057	19.4	(15.0)
1969	121	6.2	797	21.0	(14.8)
1970	158	8.1	2,223	22.8	(14.7)
1971	139	3.8	808	11.6	(7.8)
1972	71	3.0	1,083	13.6	(10.6)
1973	NA	[1] 3.7	825	14.4	[1] (10.7)

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; exports M35W.

TABLE 6.—DRILLING MACHINES (EXCLUDING PARTS AND ATTACHMENTS), EXPORTS FROM AND IMPORTS INTO THE UNITED STATES, 1964-73

[Dollars in millions]

Year	Exports		Imports		Balance dollars
	Units	Dollars	Units	Dollars	
1964	737	$7.8	1,255	$ 1.5	$6.4
1965	612	4.2	1,864	2.3	1.9
1966	494	4.6	3,732	5.1	(.5)
1967	685	7.2	5,304	7.6	(.4)
1968	724	4.7	5,403	10.1	(5.4)
1969	1,153	5.6	6,146	6.0	(.4)
1970	1,353	5.5	5,680	4.3	1.2
1971	672	5.0	4,744	2.9	2.1
1972	587	4.4	8,223	4.3	.1
1973	NA	[1] 5.8	8,941	5.6	[1] .2

[1] Estimate.
NA: Not available.

Source: Bureau of the Census, U.S. Department of Commerce imports FT 135; exports M35W.

TABLE 7.—U.S. MACHINE TOOL IMPORTS AS A PERCENTAGE OF U.S. MACHINE TOOL CONSUMPTION, BY TYPES (BASED ON DOLLAR VALUE[1]) 1964–73

	1964	1965	1966	1967	1968	1969	1970	1971	1972	[2]1973
All machine tools	3.5	4.2	7.1	9.6	9.6	9.4	9.1	9.4	10.3	10.1
Metal cutting types	4.1	5.0	8.7	11.1	10.7	10.7	10.3	10.9	10.7	10.6
Metal Forming types	1.9	2.2	2.9	5.2	5.7	5.5	6.3	6.3	9.3	8.7
Gear cutting and hobbing types	4.5	8.2	5.5	9.4	9.2	7.0	14.6	21.3	18.7	18.6
Drilling types	2.3	2.8	4.8	6.2	13.8	8.8	6.2	7.0	7.7	7.9
Lathes (excluding vertical turret lathes)	5.0	6.2	12.2	13.1	11.2	12.3	11.7	10.6	11.1	11.5
Grinding and polishing machines	3.4	3.4	5.8	6.8	7.6	8.0	8.2	9.3	9.5	10.5
Milling machines	2.9	4.3	8.3	12.6	12.1	12.9	12.0	15.7	12.1	12.1
Boring machines (including vertical turret lathes)	5.5	6.5	10.8	15.7	17.8	22.1	29.7	26.6	24.7	18.9

[1] Dollar values based on total machine tool shipments.
[2] Estimate.

Sources: U.S. Department of Commerce: Shipments—Current industrial reports, metalworking machinery (M35W); Exports—M35W, Bureau of the Census; Imports—FT 135, Bureau of the Census.

TABLE 8.—WORLD MACHINE TOOL CONSUMPTION (EXCLUDING U.S. CONSUMPTION); U.S. MACHINE TOOL EXPORTS

[Dollars in millions]

Year	World consumption excluding U.S. consumption	U.S. exports	U.S. exports as percent of world consumption excluding U.S. consumption
1962	$3,750.1	$216.1	5.8
1963	3,576.3	144.4	4.0
1964	3,707.4	198.6	5.4
1965	3,736.9	171.2	4.6
1966	3,932.6	173.2	4.4
1967	4,286.2	194.1	4.5
1968	4,448.7	174.5	3.9
1969	5,329.8	181.5	3.4
1970	6,352.9	238.8	3.8
1971	6,786.1	191.0	2.8
1972	7,290.8	171.1	2.3
1973	[1]8,945.0	[1]247.0	[1]2.8

[1] Estimate.

Source: U.S. Department of Commerce, Bureau of the Census; McGraw-Hill.

TABLE 9.—ALL MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS), IMPORTS INTO THE UNITED STATES, BY COUNTRY OF ORIGIN, 1964–73

[In millions of dollars]

Country of origin	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1973 increase over 1964, percent
West Germany	$12.6	$19.4	$35.3	$50.6	$51.6	$47.1	$48.7	$30.8	$39.2	$51.6	309.5
United Kingdom	6.1	7.8	17.2	32.9	29.1	24.4	20.5	11.4	15.0	21.9	258.8
Japan	2.0	4.8	17.3	26.2	19.6	17.9	14.7	9.8	14.7	22.0	1000.0
Italy	2.2	5.3	11.8	22.2	17.2	20.5	10.3	7.7	7.6	10.1	359.1
Canada	1.2	2.6	4.4	6.8	6.4	8.2	6.0	7.0	7.0	8.5	608.3
All others	12.2	16.4	31.8	39.4	39.7	38.0	33.6	23.4	30.5	52.0	326.2
Total	36.3	56.3	117.8	178.1	163.6	156.1	131.8	90.1	114.0	167.1	360.3

Source: Bureau of the Census, U.S. Department of Commerce, imports FT 135.

Senator TALMADGE. The next witness is Mr. Robert M. Woletz; co-chairman, legislative committee, National Office Machine Dealers Association. Your entire statement will be inserted in the record, Mr. Woletz, and you may summarize.

STATEMENT OF ROBERT M. WOLETZ, CHAIRMAN, LEGISLATIVE COMMITTEE, THE NATIONAL OFFICE MACHINE DEALERS ASSOCIATION, PRESENTED BY DAVID PALMETER

Mr. PALMETER. I am sorry, Mr. Chairman. My name is David Palmeter. And Mr. Woletz was called away because of a death in his family, and asks that I be permitted to present his statement in summary form.

The National Office Machine Dealers Association is a national organization of independent businessmen and is the recognized spokesman for over 10,000 office machine dealers and distributors. We are small businesses, selling and servicing a wide variety of business machines including typewriters, adding machines, calculators, bookkeeping machines, dictating machines, photocopy machines, duplicating machines, cash registers and data products.

The industry estimates that over 80 percent of the products sold by independent dealers are manufactured abroad. Over 100,000 workers are employed by independent dealers. We, therefore, have a vital stake in the legislative proposals under consideration by this committee.

It is no exaggeration to state that the independent office machine dealer owes his very existence to imports. Typically, the large office machine manufacturers in the United States are vertically integrated monopolies with their own sales and distribution outlets. Over the years most have refused to sell through independent office machine dealers. In the years past, the independent office machine dealer was forced to sell only used machinery, and to make a substantial part of his living in repairing and servicing machines.

To give the committee a few examples of the dominant position occupied by the giants, NOMDA estimates that National Cash Register accounts for approximately 70 percent of the U.S. cash register market, and International Business Machines has over 80 percent of the heavy-duty office electric typewriter market. Another example is Xerox, which totally dominates the commercial copying market.

IBM, NCR and Xerox have over the years flatly refused to market new cash registers, new electric typewriters and new copies through independent dealers. One hundred percent of NCR's new cash registers, IBM's new typewriters, and Xerox products are sold through their wholly owned branches. It has only been in the last 5 years that the dealer has had a nonprinting calculator to sell to his customers as a new machine.

The availability of imports allowed the independent dealer to some extent to market new office machinery. This introduced a needed but still inadequate element of competition into the marketplace. Imports have allowed our dealers to grow from establishments employing an average of 4 people and doing an average of about $100,000 annually

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to a present average of about 10 employees doing in excess of $400,000 per year. In other words, through imports the average dealer has been able to quadruple his size.

Not only have imports allowed this kind of growth among our member firms, but we would like to emphasize that the real beneficiaries have been the consumers of our products, no longer completely dependent on the few dominant American suppliers.

It is for these reasons that we are concerned with any measure which would unjustifiably impose restrictions on imports of business machinery.

We note that the House, in section 202(c)(4), "Presidential Action After Investigation," accepted the recommendation of the administration that in determining whether to provide import relief, after a finding of injury in an escape clause proceeding, the President shall take into account—and I quote:

> The effect of import relief on consumers, including the price and availability of the imported article and the like or directly competitive article produced in the United States, and on competition in the domestic markets for such articles.

We urge the Finance Committee to retain this provision. In our opinion, however, it does not go far enough. We would strongly urge the committee to adopt a provision which would require the Tariff Commission, in an escape clause proceeding, to conduct its own investigation of the elements included within section 202(c)(4), to hear testimony, to make findings thereon, and include such findings, together with supporting data, in its report to the President in any escape clause investigation.

We further believe that the bill should be amended in a manner forbidding the President to impose import restrictions when the Commission finds that such restrictions will materially reduce competition in the U.S. market for the product under investigation.

We further believe that the elements set forth in section 202(c)(4) should be taken into account in the prenegotiation procedures set forth in chapter 3 of the bill.

Turning to the excape clause itself, we believe that the Ways and Means Committee's version has gone too far in the protective direction. We specifically refer to the substitution of the words "substantial cause" for the administration's proposed "primary cause" in describing the necessary causal relationship between increased imports and serious injury. Import relief is a drastic remedy and one which in our view should be used sparingly. The committee should insure that such relief is not accorded except in those cases where increased imports are at least a more important cause than any other cause of serious injury to the domestic industry concerned.

Other witnesses have dealt at length with the difficult question of countervailing duties. We recognize the importance of international rules governing governmental assistance to export industries. Since the United States maintains a number of export assistance measures such as the DISC, regional assistance programs, concessionary export financing, and others, we believe it important to work out an internationally accepted standard for Government subsidization.

Until this is done, we do believe that the present discretion on the part of the Secretary of the Treasury should remain without the 1-year or 4-year termination provided in the bill.

We think that the committee will find the business equipment field a perfect illustration of the advantages to the United States in an expanded, unfettered world trading order. The market for business machinery is rapidly expanding, with new products and new technology dominating sales. The United States clearly has the technological lead in many of the developments.

In electronic computers produced in the United States by the American companies manufacturing office machines but not marketed through office machine dealers, the United States overwhelmingly dominates the world market. Altogether, including computers, the United States exported $2.1 billion in the business machine field in 1973. Imports of about $900 million resulted in a favorable trade balance of the United States in business machines of over $1.2 billion.

There are particular areas and particular types of machines where there was an import imbalance against the United States, but we believe that isolating particular segments of the business machine industry distorts the overall picture. The United States has specialized in high technology big ticket items, which maximizes our competitive advantages. Imports are meeting other needs in the marketplace.

Even in these areas, however, we feel that the situation is changing. Substantial adjustments in the dollar's parity with other currencies, coupled with the development of new technology and new products, has slowed the rate of import growth and clearly enhanced the export potential for U.S. manufacturers.

Moreover, the Department of Commerce projects a substantial growth in U.S. production of business machines for the future.

It is not only our concern that increased protectionism will make it impossible for our dealers to conduct their business, but that this will result in an intolerable aggravation of concentration and monopoly in the business machine industry. In the end, our consumers would pay a heavy price.

We wish to express our general satisfaction with the bill as passed by the House of Representatives. We do believe that it generally balances competing interests and objectives of the United States, and will allow our negotiators to grapple with the serious problems which they will encounter in international trade negotiations.

I wish to thank you on behalf of myself and the National Office Machine Dealers Association for the opportunity to appear before you and to present our views.

Senator TALMADGE. Thank you, Mr. Palmeter, for your contribution.

Are there any questions?

[No response.]

Mr. PALMETER. Thank you very much, sir.

Senator TALMADGE. The next witness is Mr. Bernard H. Falk, president of the National Electrical Manufacturers Association.

STATEMENT OF BERNARD H. FALK, PRESIDENT, THE NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION, ACCOMPANIED BY THEODORE CROLIUS

Mr. FALK. Good morning, Mr. Chairman.

Senator TALMADGE. Good morning, sir. Your entire statement will be inserted in the record, Mr. Falk, and you may summarize it.

Mr. FALK. I would like to introducee Mr. Theodore Crolius.

Mr. CROLIUS. C-r-o-l-i-u-s.

Mr. FALK. Mr. Chairman, my oral statement will deal with unfairness of worldwide trading in certain electrical products, and how this proposed legislation can help in resolving this problem.

The National Electrical Manufacturers Association, NEMA, has historically supported U.S. trade policy aimed at expanded, liberalized international trade. That remains our position today, and, therefore, we endorse those provisions of H.R. 10710 which will carry U.S. policy forward toward realization of free, fair trade in world commerce.

For NEMA members, this issue of free, fair trade is critical. Electrical manufacturing is a worldwide industry with worldwide markets. Virtually every nation has some electrical manufacturing, and the major industrial nations, without exception, have broadly diversified production capability and ever-increasing technological sophistication.

Every nation of the world regards its electrical manufacturing capability as an essential national resource which underpins its economic strength and measures its potential for growth. Consequently, every industrialized nation, to one degree or another, and with the United States as a notable exception, has historically adopted policies to protect and encourage its own electrical equipment capability, in terms of research and development assistance, strict buy-national procurement policies, discriminatory standards regulations, and export aids and incentives.

The buy-national procurement policies of electrical utilities owned or controlled by the governments of Western Europe, for example, have effectively foreclosed U.S. producers of heavy electrical equipment from competing in those foreign markets. At the same time, however, electrical machinery producers in those foreign countries, often supported by government export aids and incentives, have enjoyed relatively open access to the large U.S. market, subject only to a low tariff, and a 6-percent buy-American differential in the case of Federal procurement.

As a result of this one-way flow of trade, U.S. electrical manufacturers have sold very little equipment in the other producer countries of the world, while hundreds of millions of dollars of foreign-made equipment are now in place throughout most major U.S. electric systems—investor-owned utilities as well as Federal and municipal power authorities.

NEMA is gratified that the U.S. Government has tried to do something about the anticompetitive behavior of foreign governments and their government-owned or controlled electric utilities. In 1968,

approximately 1 year after the Kennedy Round negotiations were concluded, U.S. trade authorities became convinced that restrictive nationalistic procurement in heavy electrical equipment had created clear conditions of unfairness in international trade. NEMA had made this point in many statements over the years, to the Congress and the executive branch. Seeking correction, U.S. officials initiated working party discussions within the Organization for Economic Cooperation and Development, the OECD, to try to develop an international code on government procurement.

At the request of the Treasury Department and the Office of the Special Representative for Trade Negotiations, NEMA submitted a draft of a proposed international code for electrical equipment procurement, modeled on applicable U.S. Federal procurement regulations. We believe that since 1968, U.S. officials have worked diligently toward adoption of an international procurement code based, at least in part, on the NEMA draft. But now, in 1974, little tangible progress has been made, and we must conclude that there is scant interest among the other OECD members in facilitating broadened access for U.S. manufacturers to these members' own home markets.

NEMA strongly endorses Section 102: Nontariff Barriers to and Other Distortions of Trade. This section, taken in conjunction with section 2 of the bill, provides the statutory basis for negotiating away the deeply rooted anticompetitive practices that inhibit world trade today.

In particular, we endorse section 102(c)—the so-called sector amendment—which mandates utilization of a sector negotiation where that is the most likely means of achieving equality of access to markets and elimination of discriminatory restrictions affecting the entry into markets of a product line, whether such restrictions are tariffs or nontariff practices, or both.

We further believe that the bill should clearly spell out the intent of the Congress in cases where the utilization of its broad new authorities does not result in achieving equivalent competitive opportunities for American industry. Where trade barriers are common to most, if not all countries, a mutual reduction of similar barriers may achieve equal access. However, where entry to some countries' markets is restricted more than entry to others, or restricted by dissimilar devices, competitive opportunities obviously cannot be equalized merely by mutual reductions of similar impediments.

Where there are major restrictions to imports into some markets, whether by tariffs or nationalistic procurement or other impediments, but not into others, equality can be achieved either by all countries adopting similar restrictions or by each adopting similar rules of open competition applicable to all. Section 101(c)(1) in our opinion provides all of the authority necessary to achieve equality.

We urge, therefore, that the provisions of the bill be clarified to reflect the intent of Congress that in the case of persistent barriers to U.S. exports which have a long history of unsuccessful negotiations, and which cannot be removed during the forthcoming negotiations, U.S. negotiators shall be instructed to equalize competitive opportunities by employing the authority of section 101(c)(1). This, to

NEMA, is the only solution to years of no progress over the issue of discriminatory Government procurement practices because these practices are a prime example of flagrantly unfair practices not yet resolved through negotiations.

Recognizing that U.S. negotiators need discretion as to how U.S. negotiating objectives and techniques will be structured and implemented, the foregoing considerations should constitute the criteria of the special representative in determining whether to negotiate by product sector in a relevant case. His procedure would be to define product sectors which may be appropriate for sector negotiations. He must assess all the trade barriers and distortions affecting any given product sector. And after he has determined that a product sector negotiation (a) will best achieve the objective of equivalent competitive opportunity, and (b) is feasible, he should then seek to negotiate by product sector. We think that this process will afford the special representative adequate flexibility to negotiate in the national interest and it will effectively serve the purposes set forth in section 2 of the bill.

NEMA does not believe the sector amendment is intended to achieve only mutually beneficial sector agreements. To the contrary, it also and properly aims at equalizing competitive opportunity in sectors which are presently unequal and which, by definition, are not susceptible to mutually beneficial concessions. Among other things, this obviously sensible interpretation means that U.S. negotiators must certainly be prepared not to offer concessions in a product area where U.S. commerce is at a persistent, fundamental, and apparently nonnegotiable disadvantage. This instruction should apply to any U.S. concession whether it be for the sake of concessions in another product area, or as part of a broader offer of reciprocity. If the competitive disadvantage is acute, unreasonable and nonnegotiable, a different solution is the only answer.

A successful negotiation, moreover, need not always be measured in terms of aggregate concessions. It can also be successful if the United States refrains from granting concessions which will widen the existing disadvantage in a given product sector. And it can be successful in a very real economic sense if, under the authority of section 101(c)(1), it finally has to involve increasing duties to offset the disadvantage and equalize market access.

Thus, section 102(c) should be clearly interpreted as an exception to the general proposition stated for the record by STR that, "tradeoffs of concessions between product sectors, including between agriculture and industry, are necessary to maximize negotiating results for all industries." We urge the committee to make it crystal clear that section 102(c) should be interpreted as a congressional directive that certain product sectors unilaterally burdened by persistent and significant foreign nontariff barriers should not be further burdened in the name of maximizing overall results. We believe the high technology electrical equipment situation of now many years standing is a major example of this problem. We pledge every assistance to our negotiators in seeking a fair solution. But, if other countries in the end prove unwilling to make trade a meaningful two-way street, then

we believe recourse to section 101(c)(1) is the only reasonable solution.

2. NEMA endorses the proposed STR amendment to section 121 of title I, "Steps to be Taken Toward GATT Revision"—discussed at pages 44–47 of the Testimony for the Record. While certain of the GATT articles themselves are undoubtedly in need of reform and amplification we agree with the Special Representative that, "methods other than formal amendments to the GATT articles, such as supplementary agreements, protocols, or accords, either in conjunction with or separate from the GATT, may be a more practical and acceptable means of change internationally and would accomplish the same objectives. Amending the GATT is often difficult and requires concurrence by many nations, which do not have an interest in the particular measure."

NEMA believes that the principal foreign nontariff barriers and distortions affecting our members—buy-national procurement policies, standards regulations, and export aids and incentives—are best resolved through international codes and guidelines adopted by the trading nations. Sometimes the GATT articles themselves may be the appropriate vehicle for such agreement; more often, however, the industrial nations should consult and negotiate among themselves—in the OECD, for example—to develop ground rules for the elimination of harmonization of trade barriers and distortions. Thus, in the case of restrictive buy-national procurement policies we think agreement on uniform public purchasing procedures is more readily achievable among the European nations, Canada, Japan, and the United States in an independent agreement than by attempted amendments of the GATT.[1]

NEMA also recommends that section 121, as STR would amend it, be further amended to cite development of international fair public procurement procedures as an eighth specific objective toward which the President shall seek international agreement.

3. NEMA endorses the Special Representative's proposed amendments to title I of the bill relating to problems of short supply and export restraints. See attachment B to STR's Testimony for the Record. The electrical manufacturing industries we represent are particularly vulnerable to export restrictions by foreign countries of essential raw materials, copper being a notable example. We believe, therefore, that the United States should take the initiative for consultation on and negotiation of international agreement on procedures for fair and equitable access to supply. Furthermore, we believe the President should have the authority to take unilateral action against discriminatory export restrictions imposed by foreign countries. Attachment B to STR's Testimony for the Record cites section 301 of the bill as giving the President that retaliatory authority, and we agree that it does. We think, however, that the act should show explicit congressional intent on this point and recommend that the

[1] See Study No. 5, "Discriminatory Government Procurement Practices," Executive Branch GATT Studies, Committee Print, Committee on Finance, March 1974. This study analyzes the problems associated with reaching international agreement on procurement guidelines and restates U.S. objectives in participating in the OECD consultations on this issue.

words "including export restrictions" be added to section 301(a)(2) after the word "policies" at line 15 of the bill print.

4. NEMA endorses Section 135, "Advice from Private Sector," together with two amendments proposed by the Special Representative regarding (a) authorization of general policy advisory committees and (b) exemption of advisory committees from section 11 of the Federal Advisory Committee Act. In endorsing the establishment of a general policy advisory for industry, however, we do not want the role of industry product sector advisory committees, as contemplated in the House-passed bill and Ways and Means Committee report, to be diminished in any way. In order for the United States to negotiate effectively pursuant to sections 101 and 102 of the bill, product sector advisory committees must be able to develop and transmit both policy and technical advice directly to the U.S. negotiators on a timely, continuing basis. The two-way flow of information and advice between product sectors and government negotiators contemplated by section 135(h) must not be diverted or otherwise inhibited by an intervening presence. We think STR's Testimony for the Record is somewhat ambiguous on this point. At pages 79 and-80 it states that the recommended Industry Policy Advisory Committee will be, "linked with the work of the product sector committees. For example, it will have the opportunity to review the substance of the reports of those sector committees, which will also be submitted directly to the U.S. negotiators. The administration believes this approach will more fully integrate the private sector into the negotiations and will provide a mechanism for reviewing the mass of work produced by the sector committees."

We do not understand what the committee's review function is. No doubt the Industry Policy Advisory Committee can serve a useful function in monitoring the progress of the advice and consultation mechanism established in section 135 and, perhaps, participating substantively in certain consultations that cut across sector lines. But, speaking for our members at least, product sector advisory committees should deal directly with the U.S. negotiators, uninhibited by any third-party review requirements. We recommend that the legislative intent be made clear in this regard.

NEMA also recommends that section 135 be further amended to provide the Office of the Special Representative with additional staff. Since all interested groups from the private sector have the right to participate in the advisory process, the U.S. negotiating team must be adequately staffed with a sufficient number of experienced persons to achieve effective liaison. An inadequate staff will simply be unable to assimilate and utilize effectively the mass of information involved. Unless STR staff is adequate, we must expect to repeat the insufficiencies and omissions in the preparation for and conduct of past trade negotiations.

The additional staff should be under the direct control of the Special Representative, because the past practice of staffing the negotiations largely with persons detailed from other agencies cannot be expected to provide an independent, fully competent staff. We note, in this connection that the recommended additional positions probably could

be authorized outside normal civil service requirements, because they would be established only to carry out the purposes of H.R. 10710 and only for the limited duration of the trade negotiation.

TITLE II—RELIEF FROM INJURY CAUSED BY IMPORT COMPETITION

NEMA urges the deletion of section 203(f)(1) which would treat suspension of TSUS Items 806.30 and 807.00—American goods returned—as constituting an increase in U.S. duty, pursuant to section 203(a) of title II.

STR's testimony for the record, at pages 97–98, says:

> Before these special rates (Items 806.30 and 807.00) may be suspended, however, the Tariff Commission must have determined in its section 201 investigation that the serious injury to the domestic industry resulted from the application of these (TSUS) provisions.

We assume STR's reference is to either section 201(b)(1) or section 201(b)(6), or both. Neither subsection, however, explicitly supports the STR interpretation, and, we believe, there is real ambiguity as to the test of serious injury that must be applied by the Commission where these items are in issue. For example, the Tariff Commission could determine that existence of the items is causing serious injury to certain products or components within a larger industry. Yet duty-exempt treatment of these products or components may be essential to the international competitiveness of the overall industry of which the particular products are only a part. Has the overall industry sustained serious injury? In terms of U.S. competitiveness in world markets probably it has not. In fact, the converse probably is true—U.S. competitiveness has been enhanced.

We submit that treatment of American goods returned in a statute aimed at the injurious effects of import of foreign goods mixes two quite different concepts of U.S. tariff policy, to the confusion of both concepts.

Beyond this procedural point, moreover, the case has been made for retention of items 806.30 and 807.00, as found by the Tariff Commission in its report of 1969 after comprehensive study. In view of the Commission report, the Congress should not modify existing law with respect to duty treatment of American goods returned until it has had an opportunity for separate and full consideration of this complex issue which bears so importantly on U.S. competitiveness in world markets.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

1. NEMA endorses section 301 as interpreted by STR's Testimony for the Record and with inclusion of STR's recommended amendments of (a) section 301(b)—eliminating the distinction between foreign justifiable and unreasonable trade practices—and (b) section 301(d)—authorizing the President to act without prior public hearing. NEMA believes that section 301 as proposed by STR is the necessary obverse of sections 101 and 102 of title I, if the United States is to bargain effectively both before and after the conclusion of international trade agreements.

2. NEMA endorses section 321—the proposed amendments of the Antidumping Act of 1921.

3. NEMA endorses section 331—the proposed amendments of section 303 of the Tariff Act of 1930.

And we endorse the amendment on those grounds, Mr. Chairman.

Senator TALMADGE. Thank you for an excellent statement, Mr. Falk.

Do you have the figures on the import versus the exports of electrical equipment?

Mr. FALK. I have the overall figures, sir. We can give you the figures broken down by major product categories. For the year 1973, the exports amounted to $5.1 billion; and imports amounted to $4.6 billion.

Senator TALMADGE. $4.6?

Mr. FALK. Giving a positive balance of $0.5 billion.

Senator TALMADGE. Is there a certain category in which American manufacturers are unable to compete because of labor costs?

I notice virtually all the radios you see now come from Japan or abroad somewhere, and many of the TV sets and many of their parts. Is that because of a labor cost factor?

Mr. FALK. Mr. Chairman, in today's testimony I am representing the electrical manufacturing industry. I believe that that would best be directed to the Electronics Industries Association which will appear here on Wednesday.

Senator TALMADGE. What does your firm manufacture?

Mr. FALK. Materials used in generation, transmission, distribution, and some utilization of electrical equipment.

Senator TALMADGE. Heavy electrical equipment for utilities?

Mr. FALK. That is one of our major markets.

Senator TALMADGE. Thank you, sir.

Any questions, Senator Packwood?

Senator PACKWOOD. I have one question, Mr. Chairman.

Mr. Falk, this is the best testimony I have seen. It holds the most comprehensive discussion of the sector-by-sector negotiation issue. I want to make sure I understand your position.

You would be opposed to a situation where negotiators could agree to leave a buy-European preference in existence in exchange for their removing restrictive agricultural regulations?

Mr. FALK. That is correct, sir.

Senator PACKWOOD. What then is the basis for negotiation beyond the sector-by-sector breakdown, as you envision it? How far can we go in bartering one sector against the other without going beyond the pale, as you would envision it?

Mr. FALK. I am not certain that we would encourage bargaining one sector for another. Our basic position is that the rules in the electrical sector are unfair and inequitable, and unless we can force a sector discussion which will result in some uniform rules, then we would suggest that the SDR use some other remedies which are available in law, such as 102(c)(1) and, for example, raise tariffs.

Senator PACKWOOD. You refer to sector equivalence, not sector reciprocity. Let us say we get down to eyeball-to-eyeball bargaining on heavy electrical manufacturing, and we suddenly find that France or Germany or the Common Market in general will not budge; but they

would budge on agriculture. If that is the case, you would say no, we cannot make that kind of agreement?

Mr. FALK. Let me make sure I understand your question.

Are you suggesting, as I understand it, that they will budge on electrical if we will budge on agriculture?

Senator PACKWOOD. Yes, or vice versa.

Mr. FALK. Then I think you may have a situation where in that particular instance you may be able to include another sector in the negotiations if you end up with the objectives that we have sought.

Senator PACKWOOD. All right, thank you.

Do I understand the answer? The answer is yes, given that circumstance, if Europe says, we are not going to budge on electrical manufacturing because we want to protect it. As much as we would like to protect agriculture, we will budge on that; and we could bargain on that kind of an inclusive sector basis?

Mr. FALK. Yes, but subject to the objection of making the rules equivalent in each sector, i.e., in both instances, aimed at some fair rules of competition.

Now, if it takes bringing another sector to get such fair rules of competition, I think that is a possibility.

Senator PACKWOOD. But by fair rules of competition, you mean to say rules here and abroad?

Mr. FALK. That is right.

Senator PACKWOOD. So you could not use the two sectors, then, if you ended up with different rules here and abroad; or the two sectors, where one is favorable to agricultural exporting and the other favorable to foreign electrical manufacturing protection?

Mr. FALK. I think you might end up in a situation with the result of establishing fair rules to one party, who would suddenly be in a better economic position than the other. Our basic suggestion is that the rules, to begin with, be fair.

Senator PACKWOOD. You see what I am worried about. If you leave the sector by sector section in, I am not sure that even under what you call sector equivalence we are going to achieve in all of the sectors a satisfactory agreement within each one, or satisfaction in two or three; and that there may have to be some quid pro quo among sectors which does not leave everybody in each sector totally satisfied.

Mr. FALK. I think if you had some quid pro quo, you would certainly be moving in the right direction. And it also strikes me that there will be many areas of American industry where a product is subject to negotiation that will not lend itself to a sector negotiation.

Senator PACKWOOD. Thank you.

Senator TALMADGE. Any further questions?

Thank you very much for your contribution, Mr. Falk.

The next witness is Mr. Sture G. Olsson, chairman of the board, Chesapeake Corp. of Virginia; accompanied by Mr. Judson Hannigan, president of the International Paper Co.; Mr. Edwin A. Locke, Jr., president of the American Paper Institute; and Dr. Irene Meister, director of international business and special projects, American Paper Institute.

We are delighted to have you before this committee. You may insert your full statement in the record, and proceed, sir.

The senator from Virginia.

Senator BYRD. Thank you, Mr. Chairman. I just wanted to welcome my friend Mr. Olsson to the committee this morning, and to tell the committee that he is not only a Virginian, but we are very proud of him in Virginia, and we are delighted he is one of the Nation's foremost businessmen.

We are pleased to see you this morning, Mr. Olsson.

STATEMENT OF STURE G. OLSSON, CHAIRMAN OF THE BOARD, THE CHESAPEAKE CORP. OF VIRGINIA, ON BEHALF OF THE AMERICAN PAPER INSTITUTE, ACCOMPANIED BY: JUDSON HANNIGAN, PRESIDENT, INTERNATIONAL PAPER CO. AND CHAIRMAN, CONTAINERBOARD DIVISION OF THE AMERICAN PAPER INSTITUTE; EDWIN A. LOCKE, JR., PRESIDENT OF THE AMERICAN PAPER INSTITUTE; AND DR. IRENE W. MEISTER, DIRECTOR OF INTERNATIONAL BUSINESS AND SPECIAL PROJECTS, AMERICAN PAPER INSTITUTE

Mr. OLSSON. Senator, I thank you very much for those highly flattering remarks.

Unfortunately, Mr. McSwiney, listed as the industry's principal witness, is out of the country and could not be with us today.

My name is Sture G. Olsson and I am chairman of the board of the Chesapeake Corp. of Virginia. I am here today on behalf of the American Paper Institute, of which my company has long been a member. I have with me Mr. Judson Hannigan, president of International Paper Co.; Mr. Edwin A. Locke, Jr., president of the American Paper Institute; and Dr. Irene W. Meister, also of API.

We appreciate the opportunity to testify before you on the Trade Reform Act of 1973, which we believe to be vital to the U.S. economy in general and to the U.S. paper industry in particular.

Given the complexity of the issues surrounding international trade and the tight time constraints, Mr. Hannigan and I will briefly summarize the major points of our written testimony, which we have already submitted for the record.

Senator TALMADGE. Your full statements will be inserted in the record.

Mr. OLSSON. Thank you.

The American Paper Institute is comprised of companies which produce 90 percent of the Nation's pulp, paper and paperboard. In 1973, the American paper industry produced 62 million tons of paper and paperboard. It operates in all but one State in the Union, and employs over 700,000 people. In the South, it is among the largest employers. Nationwide, it pays nearly $8 billion in wages, salaries, and benefits and close to $1.8 billion in Federal, State and local taxes.

International trade is of major importance to us. Over one-half of API's members export, and over one-third have imports. In 1973, the American paper industry exported $1.4 billion of pulp, paper and paperboard. Furthermore, our domestic production and hence our domestic employment are substantially dependent on domestic sales

that are tied to other industries' exports. Packaging materials are a good example of such indirect exports which are estimated to exceed $2 billion. At the same time, the paper industry's imports in 1973, mainly pulp and newsprint from Canada, were $2.2 billion. These imports are essential for the U.S. publishing industry and for a certain segment of the U.S. paper and board producers. Sixty-five percent of the U.S. demand for newsprint is served by Canada. In our case, both imports and exports, whether direct or indirect, contribute to the industry's stability, growth and employment. In fact, our industry is a living example of international interdependence.

It is clear that the United States must continue to expand its exports in order to pay for the rapidly rising costs of various essential materials on which our economy depends—oil is only one of them: there are many others.

The paper industry is based on a renewable resource; namely, the forest. And our products are in great demand around the world. Given proper economic climate at home and fair trading conditions abroad, we can effectively serve both foreign and domestic markets.

The largest export market for the U.S. paper industry is Europe, with nearly 40 percent being sold in the enlarged European Community. Our major competitors are the Scandinavian countries; and, until 1973, we had tariff parity with them. However, under agreements between the EEC and nonapplicant EFTA countries, including Sweden and Finland, all tariffs on industrial goods, including paper and paperboard, will be gradually eliminated—leaving us, however, behind the current 12-percent barrier. We cannot compete effectively against such disadvantage.

Mr. Chairman, we request the committee's permission to attach for the record the API testimony on May 15, 1973, before the Trade Information Committee on this matter.

Senator TALMADGE. Without objection, let it be so inserted.[1]

Mr. OLSSON. We are convinced that the solution to our industry's trade problems lie in the forthcoming multilateral trade negotiations.

I will now ask Mr. Hannigan to comment on the specific titles of the Trade Reform Act.

Mr. Hannigan?

Mr. HANNIGAN. Thank you, Mr. Olsson.

Mr. Chairman, we believe that there is a pressing need for a new round of multilateral negotiations to restructure the international trading system. Therefore, we vigorously support title I which gives the President the authority to raise and lower tariffs; to negotiate on nontariff barriers, as well as to reform the rules of GATT. We believe this is essential for successful trade negotiations.

With regard to section 102(c), which deals with the issue of sectorial and cross-sectorial approaches to the trade negotiations, we welcome the clarification concerning this section that was provided in Ambassador William D. Eberle's testimony for the record. It is essential that our negotiators have the flexibility of cross-sectorial negotiating techniques. In the paper industry for example, a strictly sectorial approach would be of limited use because in terms of both

[1] See p. 1538.

tariff and nontariff barriers, the paper industry has little to offer as a concession because the U.S. tariffs on paper and paperboard are very low, and nontariff barriers, if they exist, are insignificant. Furthermore, EEC countries do not export paper to the United States. The paper industry has a great export potential, but the availability of cross-sectorial negotiating techniques will be essential for solving our trade problems.

Serious and meaningful consultations between Government negotiators and private sector representatives is essential to assure successful and equitable trade agreements.

We believe that section 135 of the bill before you is a major step forward in this respect. We suggest, however, that a few points need clarification. Therefore, we support the amendments proposed by Ambassador Eberle.

I come now to title II. Imports will always create some problems of dislocation and adjustment for certain sectors of U.S. industry, even under equitable competition. We believe that the provisions of title II as passed by the House will substantially facilitate the adjustment process of both firms and workers to import dislocations. Therefore, we support this title.

Title III, which deals with relief from unfair trade practices, recognizes the need for the United States to maintain a tough, fair trade policy within the framework of U.S. treaty obligations. Therefore, the API supports this title in general. However, we do believe that section 331(b) needs clarification in order to prevent incorrect application of the provisions of this title that might, in turn, trigger retaliation by foreign countries. We therefore support technical amendments offered in Ambassador Eberle's testimony on this section.

Concerning title IV, we hope that appropriate language can be found to express congressional sentiments concerning human rights in the USSR without jeopardizing an improvement of economic relations with nonmarket economies. If this does not prove to be possible, we strongly urge the removal of title IV from the trade bill altogether. Because the Trade Reform Act is of such major importance to the country it would be most unfortunate if its passage were jeopardized over one particular issue which is rooted in political rather than economic considerations.

We recognize that continued U.S. prosperity depends on the growing prosperity of other nations. Therefore, we support title V, which authorizes the establishment of a generalized system of preferences for developing countries, under certain safeguard conditions enumerated in this title.

With the recommendations that we have submitted to you in this testimony, we strongly urge this committee to report favorably the Trade Reform Act of 1973.

My associates and I would be happy to answer any questions that the Senators may have.

Senator TALMADGE. I have looked through the full statement and I want to congratulate you on your contribution. There are one or two items in your statement that I find particularly interesting:

In 1973, the paper industry's exports amounted to $1.4 billion, thus contributing importantly to the U.S. balance of payments; imports amounted to $2.2 billion, predominantly pulp and newsprint from Canada.

Now, I presume that the unfavorable balance of some $800 million was due almost exclusively, if not exclusively, to the import of newsprint. Is that a correct statement?

Mr. HANNIGAN. Yes, sir. Approximately 7 million tons of newsprint come in.

Senator TALMADGE. Do we have the resources to make all of our newsprint in this country?

Mr. HANNIGAN. We probably have the resources but it would be a huge task in the short run to replace that 7 million tons or build up 7 million tons worth of capacity in the United States.

Senator TALMADGE. Is that a very profitable part of the industry, newsprint?

Mr. HANNIGAN. Historically it has been kind of a sick business, Senator. It has been highly competitive; it has been very overproduced. In recent years, it has been less overproduced; in fact, due to some strikes in Canada last year and due to the general tightening of the paper market in the last year or two, newsprint has been very tight. It still has not been as profitable as it should have been, primarily due to U.S. price controls. That situation has had a very depressing effect on the paper industry. We were caught at a low level of prices and profits when price controls came in in 1971, and due to the restrictive nature of the controls, we have not been able to justify capacity increases as we would have liked to have, in order to serve our customers. Thus newsprint, historically, has not been a profitable business. It has been a very marginal business. Hopefully, if we can return to a free marketplace, as indications have it at present, we will be able to price our products in such a way that new capacity will be attractive and make the paper industry the kind of business able to supply the needs of its customers while remaining attractive to shareholders.

Senator TALMADGE. Can newsprint be made from southern pine?

Mr. HANNIGAN. Yes, sir. The growth of newsprint production in the South has been quite dramatic in the last 15 years.

Senator TALMADGE. Another item I notice here, "Certain grades of Canadian pulp are needed to supplement domestic pulp production in the manufacturing of paper and board."

Is it necessary because we do not have the capacity to utilize our own pulp in this country, or because there is a shortage of pulp and you have to import it?

Mr. HANNIGAN. The reference is to a particular grades of wood pulp that come from Canada. There is one type of fiber from the northern species that is particularly suitable for production of certain grades of paper. Coated and uncoated magazine papers are good examples of the grades made from northern pulp. There is some magazine paper made in the South, but very little. Most of the high quality printing is done on northern-type fibers and Canadian pulp lends itself ideally to that.

Senator TALMADGE. Nothing in this country is an adequate substitute for it?

Mr. HANNIGAN. The wood from the northern parts of the country, from the State of Maine and upstate New York and Michigan and so

forth, are the same general types of woods, but Canada has the abundance of the fiber that we are talking about.

Senator TALMADGE. Is that why pulp wood in that area brings a higher price than it does in the South?

Mr. HANNIGAN. That is why it always has in the past brought a higher price. I might say that the way things have been going in the South lately, the South is gaining.

Senator TALMADGE. I might say that that is not an unwelcome statement in my part of the country.

[General laughter.]

Senator TALMADGE. There is currently a trade negotiation going on in Europe dealing with the payment of compensation to the United States for the trade discrimination inherent in enlargement of the European Community.

Does the Paper Institute have an interest in this negotiation?

Mr. HANNIGAN. I wonder if we could ask Dr. Meister.

Dr. MEISTER. Thank you, Senator. We have a very deep interest in the negotiations that are going on right now in Geneva and elsewhere. Under these negotiations certain products which include paper and especially paperboard are under discussion to be compensated for the damage which our trade suffered because of the enlargement of the community.

As you know, this sensitive issue is right now in the process of being discussed. We do not know yet what the outcome of it will be. We are not pessimistic about it yet. We would like to add, also that our negotiators, Ambassador Eberle and his associates are doing, we feel, a very fine job in ascertaining the facts about the problems that discrimination poses to us and keeping in touch with our industry in search for solutions.

We cannot yet be sure whether the compensation will really be forthcoming. Furthermore, only some of our products are included in this round of discussions and this is why we feel that we still will need the multilateral trade negotiations to improve our position on a number of other paper products presently excluded from the discussion.

Senator TALMADGE. Do you think we ought to enter into negotiations with them at the present time, or should we wait until they pay us compensation on the contracts that they broke?

Dr. MEISTER. Well, I do not know if I would classify it as broken contracts, Senator. The EEC and EFTA countries have concluded the intra-European agreements; they certainly had the right to do that. In the process, however, rules of equity which GATT is expected to uphold have been violated and various countries, including the United States, sustained trade damages for which compensation is due. We do not challenge the right of these countries to make those agreements but we are asking to be compensated for the damages resulting from them. And I believe that if the negotiations are handled well, that at least partial compensation will be forthcoming on some of our products. And the remaining issues on paper and board can then be taken up in the context of the multilateral negotiations. Unless we enter into multilateral negotiations, all our problems cannot be solved.

Senator TALMADGE. Any further questions?

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman. I am glad to see Mr. Hannigan——

Mr. HANNIGAN. Thank you, sir.

Senator BYRD—[continuing]. For a number of reasons. One reason, I have been buying newsprint from the International Paper Co. for 39 years, come July 1.

Mr. HANNIGAN. We are delighted, Senator Byrd.

Senator TALMADGE. I hope it is being made in Georgia.

[General laughter.]

Senator BYRD. Mr. Olsson said that 65 percent of the newsprint consumed by the U.S. newspapers comes from Canada—I believe that was the figure.

Mr. OLSSON. Yes, sir: that is correct.

Senator BYRD. How does that compare with 20 years ago?

Mr. HANNIGAN. 20 years ago about 80 percent of the newsprint consumed in the United States was imported from Canada. In 1973 the U.S. consumed about 4.7 million tons more newsprint than in 1953; roughly half of this tonnage increase came from additional imports while the other half of the increase came from expanded U.S. production.

Mr. OLSSON. Senator, I believe—unless my memory is hazy on this—about 20 years ago the Canadians represented roughly 82 percent of our supply of newsprint. And this has been worked down to the present 65 percent by this growth in the United States.

Senator BYRD. Since that time, the Crusha River Plant has been started and others.

Mr. OLSSON. Yes, sir: a number of plants through the South.

Mr. HANNIGAN. We have had two in the South; we have built one in Mobile and one in Pine Bluff, Ark.

Mr. OLSSON. Southland Paper Co. has one in Pasadena, Tex. It is very substantial.

Senator BYRD. The British are great newspaper readers. Is much newsprint manufactured in England?

Mr. HANNIGAN. Yes, a lot of newsprint is manufactured in England; from primarily Scandanavian pulp and/or wastepaper. The United Kingdom industry is rather substantial.

Senator BYRD. Is England dependent for a pretty high percentage of her newsprint on Canada?

Mr. OLSSON. Yes sir.

Senator BYRD. What percent would you say?

Mr. HANNIGAN. Senator, this figure would be about 30 percent.

Senator BYRD. How about Australia and New Zealand? Where do they get newsprint?

Mr. HANNIGAN. They make their own, and they get a little bit from Canada. But they both have their own newsprint industries.

Senator BYRD. Newsprint last September, as I recall, was $163 a ton. It is now what—$213?

Mr. HANNIGAN. It is $200 for 32 pound weight and $213 for 30 pound weight, yes sir.

Senator BYRD. How do you see the newsprint price from here on out?

Mr. HANNIGAN. I think it has to go up, Senator; it has to increase. Again, if we are going to make the newsprint business profitable—and the same thing applies to the paper industry as a whole—if we are going to make it the kind of viable industry that will attract investment, we have to price our products to offset these escalating capital costs and operating costs. Our fuel costs tripled in the last year, and our wood costs are up, depending on the part of the country, anywhere from 25 to 50 percent; our chemical costs are on the same order of magnitude. And we simply have to price our product to get the kind of materials that are going to generate investment.

Senator BYRD. Of course as a consumer, it seems to me that the price has been very substantially escalating.

Mr. HANNIGAN. Well, sir, it has escalated, but not enough yet.

Senator BYRD. How does the demand now compare with the supply?

Mr. HANNIGAN. Actually, demand in the first two months of 1974 is off about 4 percent; linage is off a little bit, and some of the consumers, during the shortness of the supply last year, learned how to be a little bit more efficient, so that actually demand is off.

Senator BYRD. Do you find that newspapers generally are tightening up a bit on their use of newsprint?

Mr. HANNIGAN. Yes, they are, absolutely.

Senator BYRD. At one point—I guess that was last fall, or last summer—was there not a worldwide shortage of newsprint?

Mr. HANNIGAN. Very much so. We had three big contributing factors to that. One was demand, which was at peak levels. The economy was up. There were also substantial labor strikes in Canada. Our company alone lost 400,000 tons of newsprint in a strike last year. And there were other strikes in Canada. And of course, other factors which affected supply quite a bit were wood shortage, weather and transportation problems that existed in the South last year.

Senator BYRD. Is there still a shortage, or has it broken up?

Mr. HANNIGAN. Newsprint is pretty near in balance right now. There may be some isolated areas where inventories have not been built up the way they eventually want to build them up; but newsprint is coming into rather close balance.

Senator BYRD. Thank you.

Thank you, Mr. Chairman.

Senator TALMADGE. Thank you very much. We appreciate your contribution to the committee's deliberations.

[The prepared statement of Messrs. Olsson and Hannigan with attachment follows. Hearing continues on p. 1544.]

PREPARED STATEMENT OF STURE G. OLSSON, CHAIRMAN OF THE BOARD, THE CHESAPEAKE CORP. OF VIRGINIA, AND JUDSON HANNIGAN, PRESIDENT, INTERNATIONAL PAPER CO. ON BEHALF OF THE AMERICAN PAPER INSTITUTE

My name is Sture G. Olsson and I am Chairman of the Board of the Chesapeake Corporation of Virginia. I'm testifying here today on behalf of the American Paper Institute (API) of which my company has long been a member. The Headquarters of my company and my home are in West Point, Virginia. I have with me Mr. Judson Hanningan, President of International Paper Company and Chairman of the Containerboard Division of the API; Mr.

Edwin A. Locke, Jr., President of API, and Dr. Irene W. Meister, Director of International Business for API.

We appreciate the opportunity to testify before you today and would like to divide our testimony between myself and Mr. Hannigan. Our group will then be prepared to answer the Committee's questions.

We are here to support, in principle, the Trade Reform Act of 1973 (H.R. 10710) which is designed to expand world trade by reducing tariff and non-tariff barriers, to strengthen our ability to deal with unfair competitive practices and to reform certain rules of GATT to meet changed international conditions.

The American paper industry has a big stake in the success of forthcoming trade negotiations as well as in the establishment of equitable rules for future economic relations among nations.

We believe that our country and our industry have benefited significantly from the trade expansion of the past decade thanks to the wise policies adopted by this Committee and passed by Congress in 1962. However, many things have changed since 1962. The U.S. went through several years of substantial balance of payments deficits and our foreign competitors grew immeasurably stronger than they were in the early sixties. The emergence of trade blocs and free trade zones has to a considerable degree supplanted the basic principle of the most-favored-nation (MFN) treatment on which world trade has been based. Furthermore, the recent oil crisis has demonstrated the dangers to Western unity stemming from each country's desire to better its own energy position at the expense, or at least without consideration, of its close allies and trading partners. We need new GATT rules to adjust world trade to the changed framework of international economic relations, and the U.S. must provide leadership in developing these rules. Without them, the world risks a return to unilateralism and the danger of "beggar they neighbor policy". We believe that the proposed Trade Bill provides the appropriate authority for U.S. participation in this all important endeavor.

WHAT IS THE AMERICAN PAPER INSTITUTE AND WHOM DO WE REPRESENT?

The American Paper Institute is comprised of manufacturers who produce more than 90 percent of the nation's pulp, paper and paperboard. Their products indlude wood plup, tissue, newsprint, containers, wrapping materials, printing and writing papers, and many other papers. In 1973, this industry produced 62 million tons of paper and paperboard and the net sales of the paper and allied products companies amounted to $26 billion. The U.S. paper industry operates in all but one state of the Union. It employs over 700,000 people. In the South it is among the largest employers. It pays nearly $8 billion in wages, salaries and benefits and nearly $1.8 billion in federal, state and local taxes. It is a basic industry and among the 10 largest in the country.

We are also a world-wide industry. Over 50% of our members have exports and 35% have imports. In 1973, the paper industry's exports amounted to $1.4 billion, thus contributing importantly to the U.S. balance of payments, and over the long term, to the stability of our domestic production. Imports amounted to $2.2 billion, predominately pulp and newsprint from Canada. Furthermore, our domestic production and hence our domestic employment are substantially dependent on domestic sales that are tied to other industries' exports. Packaging materials for products shipped overseas, and paper for exported printed matter, such as books, magazines, etc., are examples of such *indirect* exports. We estimate that in 1973 more than $2 billion worth of the domestic sales of our industry went into indirect exports. Thus, continued export growth by U.S. industries *other* thatn our own is also of major importance to us.

IS TRADE EXPANSION NEEDED?

Some observers ask in this period of general economic uncertainty whether export expansion is beneficial to the U.S. economy. It has even been suggested that in order to conserve all our resources, the country should level off or even decrease its exports. In this way, they argue, the U.S. can also decrease its imports and conserve its resources. The two don't go together, however and we believe that such a program will be detrimental to the interests of the United States.

The 1973 International Economic Report to the President brings vividly into focus the interdependence between the U.S. and the rest of the world. To name just a few vital import items besides oil—we depend on imports for 100% of chromium, 92% of our cobalt, 95% of our manganese, 100% of our tin and so on—the list is quite long. Furthermore, a certain level of consumer type imports, if traded fairly, deters the growth of inflationary pressures and keeps us on our toes competitively.

The paper industry, which I know best, is in itself an example of international interdependence. 65% of the U.S. demand for newsprint is served by Canada. Certain grades of Canadian pulp are needed to supplement domestic pulp production in the manufacturing of paper and board. Imports of fuel oil are of crucial importance especially to the paper mills on the East Coast. We also depend on imports of a number of important minerals and chemicals.

How many industries can be fully independent of foreign materials and maintain their competitiveness and high domestic levels of employment? Few if any.

How then can the U.S. pay for its imports?

It is not realistic to assume that this can be accomplished at the expense of diminishing exports, but rather through an increase in those exports where we are strongly competitive. The American businessman must know that his government is behind him in this objective.

Agriculture and forest-based industries use renewable resources, and their output, together with the output of high-technology industries, represents products which are strongly competitive in world markets and hence high on the order of desirable exports.

Since we must export, we should strive for fair treatment in foreign markets. Other countries have the right to expect the same from us. This is why reform of the international trading rules must be approached with a sense of urgency and why the passage of the Trade Reform Act is needed this year.

For many countries, foreign trade is a matter of top priority. These countries have developed national policies that favor industries engaged in export and foreign investment. The prosperity in the European Community today is to a large degree the result of the expansion of their trade in the sixties. In 1972 the European Community accounted for 37% of the world's exports. Germany exported about 42 percent of her domestic production of goods: the United Kingdom, 46 percent; Canada, 71 percent and Japan, 32 percent.

The United States in 1972 exported about 14½ percent of its domestic production of goods—an important component of national output but far below the figures of our trading partners. Last year, U.S. exports of goods and services advanced by $28½ billion while the GNP increased by $134 billion. Thus, the increase in exports accounts for 21 percent of the increase in GNP, a very significant component. If U.S. foreign economic policy is to gain in importance as a means of overcoming our trade and balance of payments problems, active cooperation between the private and public sectors is essential. This is where we lag behind Europe, Japan and other countries.

WHY EXPORTS OF THE PAPER INDUSTRY ARE IMPORTANT TO THE NATION AS WELL AS TO THE INDUSTRY ITSELF

The paper industry is based on a renewable resource, the forest. We are also blessed with abundance of water—essential to the production of pulp and paper.

Our products are basic to the economy of every country and in great demand around the world. In the last 13 years our exports increased by 225%. During that period our industry suffered from excess capacity and sharp increases in pollution and other costs. Steady growth in exports allowed us to operate at higher rates of capacity than would have been possible otherwise. Without these exports our employment during that period would have sharply decreased.

Present shortages in paper are fundamentally not caused by exports. They are caused by a slow-down in capacity growth because of abnormally low return on new investments. The government's policy of price control contributed much to this unfortunate situation.

With proper incentives to invest in new capacity, this industry can and will remain competitive and productive at home and abroad.

However, unless some recently developed trade inequities in Europe are removed, we won't be able to compete effectively in that important market. Here's why:

Europe is the largest market for the paper industry's exports, with nearly 40 percent being sold to the Enlarged European Community. Our major competitors are the Scandinavian countries and Canada. Until 1973 we exported to the six Common Market countries on equal tariff terms with all our competitors. Under conditions of tariff parity the U.S. paper industry is highly competitive in spite of the fact that, compared to Sweden and Finland, we have a considerable transportation disadvantage because of distance from the European market. Between 1960 and 1972 the paper industry's exports to the six EEC countries increased by 340 percent and for such products as paperboard by 738 percent.

Starting with 1973, we no longer have parity with our Scandinavian competitors. Under agreements concluded in July 1972 between the Enlarge EEC and the "non-applicant" EFTA countries including Sweden and Finland, all tariffs on industrial goods, including paper and paperboard, will be gradually eliminated. The U.S. paper industry will then face a 12 percent tariff disadvantage.

Such discrimination poses a serious threat. The loss of exports will have an adverse effect on the U.S. balance of trade and payments. For example, in 1972, of the $396 million of the paper industry's exports to the Enlarged European Community over $230 million were dutiable items which would face tariff discrimination. The past growth record of our exports must be projected forward to get a true picture of the potential damage to our exports. (Attached is a table showing the paper industry's exports for 1972 by major product categories). We request the Committee's permission to attach for the record the API testimony on May 15, 1973 before the Trade Information Committee of the Office of the Special Trade Representative for Trade Negotiations on the adverse effects of the EEC-EFTA Trade Agreements on the American paper industry.

The U.S. paper industry must regain parity of tariff treatment with our competitors, and we are convinced that the only solution to our emerging problems in trading with Europe lies in the forthcoming trade negotiations. This is why the President's ability to negotiate effectively in the coming round of discussions is of such importance to us.

In this connection we would like to mention the continued efforts of the U.S. Government, especially the U.S. Department of State and the Office of the Special Trade Representative, to obtain compensation under GATT's Article 24.6 for the damages to various U.S. industries resulting from the enlargement of the EEC. Paper is among these industries. We feel that the Special Trade Representative in particular should be commended for his efforts to resolve this difficult issue. He has shown great willingness to cooperate with our industry in understanding its problems and seeking an equitable international solution.

Numerous non-tariff barriers such as quotas, distribution restrictions, etc., as well as very high tariffs on certain individual products also handicap us in our trade with Japan and other nations. We hope that through negotiations these barriers can be substantially reduced.

I will now ask Mr. Hannigan to comment on specific Titles of the Trade Reform Act. Most of our comments center on Title I of the Bill.

COMMENTS ON SPECIFIC TITLES OF THE TRADE REFORM ACT

Title I: Authority for New Negotiations

We vigorously support Title I as an essential and realistic means for successful trade negotiations. We believe that the authority to raise as well as lower tariffs should be granted to the President because other countries with whom the U.S. will be negotiating will have similar authority and will use it as a bargaining tool. We further support granting the President authority to negotiate the removal of nontariff barriers subject to Congressional review as provided in Section 102. We believe that Congressional oversight, as provided under Title I, will be most beneficial in further U.S. negotiations and removing uncertainities regarding the implementation of agreements that existed under the previous laws.

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Section 102(c)

Section 102(c) deals with the issue of sectorial and cross-Sectorial approaches to the trade negotiations. We welcome the clarification concerning this Section that was provided in the Testimony for the Record by Ambassador William D. Eberle.[1] It is inevitable that the forthcoming negotiations will be tougher than ever before. In order to achieve the overall goals of the Trade Reform Act, the U.S. negotiators will need a measure of flexibility that is equal to that possessed by their foreign counterparts. Our trading partners are equipped with the authority to use both the sectorial and cross-sectorial negotiating techniques to achieve their goals. The U.S. negotiators must be able to have the same flexibility if we are not to come out second best. A strictly sectorial approach cannot help the U.S. paper industry in solving a lack of parity in Europe and improving its access to markets elsewhere. In terms of both tariff and nontariff barriers, the paper sector has relatively little to offer as a concession because the U.S. tariffs on paper are very low and non-tariff barriers, if they exist, are insignificant. Furthermore, EEC countries do not export paper to the United States. The paper industry has a great export potential but the availability of cross-sectorial negotiating techniques will be essential for solving our trade problem.

We urge the Committee that Ambassador Eberle's clarification on Section 102(c) be adopted as a part of legislative history.

Section 135

We strongly believe that the success of the forthcoming trade negotiations can be greatly enhanced by fruitful cooperation between the Government, industry, agriculture and labor. Other countries in the past have had an advantage over the U.S. by being able to negotiate in closest cooperation with their industry representatives, while the U.S.'s industry-government liaison has been grossly inadequate. We believe that the Trade Reform Act as it has emerged from the House is a major step forward in this respect. We also believe, however, that a few points need further clarification.

In his testimony before this Committee Ambassador Eberle stated that "the purpose of the sector advisory committee is to provide policy (emphasis ours) and technical advice and information with respect to particular domestic and foreign products, and advice to the Executive Branch on other issues relevant to U.S. positions prior to and during trade negotiations". The reference to the "policy advice" is most significant and welcome, because the present language of the Act is ambiguous as to whether sectorial committees have this responsibility. We recommend that this interpretation be adopted by your committee. We further support the clarifying amendment concerning Section 135(c) submitted by Ambassador Eberle in his testimony before this committee giving the overall industry, agriculture and labor committees—as contrasted with sectorial committees—a firm statutory basis and exemptions from Section 10 (a and b) and Section 11 of the Federal Advisory Committee Act. Without this exemption, foreign countries would be privy to all the recommendations made by the Advisory Committees.[2]

It has been obvious for some time that the rules of GATT require extensive revisions to accommodate changes in world conditions. The oil crisis created a sense of urgency in establishing international rules dealing with access to supplies, but there are several other issues also requiring adjustments and changes. Some of these changes may be agreed to outside of GATT through special protocals. We believe that the national interests will best be served if the U.S. negotiators are given a measure of flexibility in dealing with reform of the international trading system. Because of this belief we support the amendment proposed by Ambassador Eberle in his testimony before this committee.[3]

Title II: Relief from Injury Caused by Import Competition

Imports will always be a problem for certain segments of U.S. industry, even under equitable competition. But industries and workers obviously need assist-

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[1] Testimony for the Record by Ambassador William D. Eberle, U. S. Special Representative for Trade Negotiations, United States Senate Committee on Finance, Hearings on Trade Reform Act of 1973, Pages 37–43.

[2] Testimony for the Record by Ambassador Eberle, Attachment A, Pages 19–20.

[3] Testimony for the Record, Attachment A, Pages 8–10.

ance in adjusting to changes in competitive situations. If we insist, however, that other nations remove their barriers to allow the U.S. to export—and we should expect to find many fields for export where we have a competitive advantage—we cannot expect to impede permanently the flow of competitive imports into the United States. We believe that the provisions of Title II as passed by the House offer substantial improvements over the previous legislation and we, therefore, support this Title.

Title III: Relief from Unfair Trade Practices

With regard to Title III, "Relief from Unfair Trade Practices", API supports in general the provisions of this title since they would give the President more adequate power to act against unfair trade practices of other nations.

Under Section 331(b) of Title III, the countervailing duties would now apply to duty-free products—such as pulp and newsprint. We support the clarifying amendments offered by Ambassador Eberle[1] in the belief that this will prevent incorrect application of the provision that might in turn trigger retaliation by foreign countries.

Title IV

Because of our belief that expansion of trade with all nations is in the U.S. national interest and, therefore, in the interests of the American paper industry, we supported, during the hearings before the Ways & Means Committee, the Administration's original request for granting a most-favored-nation status to the non-market economies including the U.S.S.R. Since then, however, Title IV of the Bill has been substantially changed by the modifications and amendments adopted by the House. We hope that the very commendable objectives of the House in seeking to further human rights in the U.S.S.R. can be obtained without jeopardizing the normalization of our trade relations with that country.

We agree with the statement made by Secretary Kissinger before this Committee when he said:

"I do not oppose the objective of those who wish to use trade policy to affect the evolution of Soviet society; it does seem to me, however, that they have chosen the wrong vehicle and the wrong context. We cannot accept the principle that our entire foreign policy—or even an essential component of that policy such as a normalization of our trade relations—should be made dependent on the transformation of the Soviet domestic structure."

We hope that appropriate language can be found to express Congressional sentiments concerning human rights in the U.S.S.R. without jeopardizing an improvement in economic relations with the non-Market economies. If this does not prove to be possible, we strongly urge the removal of Title IV from the Trade Bill altogether. Because the Trade Reform Act is of such major importance to the country it would be most unfortunate if its passage were jeopardized over one particular issue which is rooted in political rather than economic considerations.

Title V: Generalized System of Preferences

Because we believe that U.S. prosperity depends on the growing prosperity of other nations, we support Title V which authorizes the establishment of a generalized system of preferences for developing nations. Several other developed nations already extend such preferences to the less developed nations. Some of the European countries, however, receive reverse preferences for their trade. This distorts the principle of preferences for developing nations. We strongly support a provision of this title under which the developing countries will no longer receive generalized preferences after January 1, 1976 unless they have eliminated "reverse" preferences to other developed nations.

With the recommendations that we have submitted to you in this testimony, we strongly urge this Committee to report favorably the Trade Reform Act of 1973.

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[1] Testimony for the Record, Attachment A, Page 31.

EXPORTS OF THE U.S. PAPER INDUSTRY, 1972

[Dollars in thousands]

	Worldwide	Enlarged EEC	Enlarged EEC as percent of total exports
Total exports	$1,118,619	$395,985	35
Pulp[1]	392,250	164,350	42
Paper	242,686	60,054	25
Paperboard	327,852	147,694	45
Construction, paper and board	20,449	3,418	17
Converted paper and board products	135,382	20,469	15

[1] Includes cotton pulp and wastepaper.

TESTIMONY ON THE EFFECTS OF THE EEC-EFTA TRADE AGREEMENTS ON THE AMERICAN PAPER INDUSTRY, BY DR. IRENE W. MEISTER, DIRECTOR, INTERNATIONAL BUSINESS AND SPECIAL PROJECTS

This brief is submitted on behalf of the American Paper Institute, an association which represents over 90 percent of the United States' manufacturing capacity of pulp, paper and paperboard. In 1972 the American paper industry produced 59 million tons of paper and paperboard, employed nearly 700,000 people, and operated in 49 states.

Two of the paper industry's bulk products, pulp and kraft paperboard, are basic commodities traded in all parts of the world. It also exports a variety of specialty grades of paper competing on the basis of quality and fair price. The U.S. paper industry's business is worldwide, and about 10 percent of the total U.S. production is exported. This represents a significant percentage for an industry for which the fullest utilization of capacity is essential because of its extremely high capital intensiveness.

We are submitting this testimony in order to inform the U.S. Government that the agreements concluded between the EEC and EFTA countries in June 1972 will cause serious injury to the exports of the U.S. paper industry. This in turn will have an adverse effect on the U.S. balance of trade and payments.

EEC-EFTA AGREEMENTS

The formation of the enlarged EEC has divided the European Free Trade Association (EFTA) into two categories of countries: those joining the original European Community of Six, namely the United Kingdom, Denmark and Ireland, and the rest of the EFTA countries, commonly referred to as the "Non-Applicant EFTA Countries." This latter group of countries includes such major exporters of pulp, paper and board as Sweden, Finland and Norway, and such lesser exporters as Austria and Portugal.

In July 1972, the "non-applicant" members of EFTA signed agreements with the enlarged European Community forming a free trade zone. By 1971 standards, the 16 nations' free trade zone would account for nearly 40 percent of world trade. The purpose of the free trade zone is the elimination of tariffs on trade in all industrial goods. Under the agreements between the enlarged EEC and the non-applicant EFTA members, the tariffs and quantitative restrictions on most products will be eliminated by 1977. The transitional period for the paper industry is, however, longer, and zero tariff will not be reached until 1984. The reduction of tariffs on paper and board resulting in discrimination against all outside suppliers not party to the agreement, such as the U.S. and Canada, starts in April 1973. The level of discrimination accelerates after 1976. (See Table 1.)

TARIFF REDUCTIONS BY THE SIX ORIGINAL MEMBERS OF THE EEC

The current list of the present EEC tariffs on paper products is quite long, but it can be divided into two broad categories. The first category comprises those paper and paperboard products on which the current applicable rate of

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Tariff Nomenclature) numbers: 48.01C II; 48.01E; 48.07B; 48.13 and 48.15B.[5] duty is uniformly 12 percent. This group includes the following BTN (Brussels Under the terms of the agreement with the non-applicant EFTA countries, a specified and declining tariff on all these products has been set for each year between 1973 and 1984, when it will reach zero. For those remaining paper and board products which at present carry other than a 12 percent duty, a specified *percentage* reduction will apply for each year between 1973 and 1984. (Tissue and parchment paper, for example, have a duty of 13 percent; corrugated board and miscellaneous converted articles have a 14 percent duty.)

TABLE 1.—SCHEDULE OF TARIFF REDUCTIONS BY 6 EEC COUNTRIES ON PAPER IMPORTS FROM EFTA NON-APPLICANTS

[In percent]

Time schedule	Tariffs for categories 48.01C II, 48.01E, 48.07B, 48.13, 48.15B	Applicable base duty on all other paper products	Examples of duty changes on other products	
			Miscellaneous converted articles	Parchment paper
Present	12.0	100	14.0	13.0
Apr. 1, 1973	11.5	95	13.3	12.4
Jan. 1, 1974	11.0	90	12.6	11.7
Jan. 1, 1975	10.5	85	11.9	11.1
Jan. 1, 1976	10.0	80	11.2	10.4
Jan. 7, 1977	8.0	65	9.1	8.5
Jan. 1, 1979	6.0	50	7.0	6.5
Jan. 1, 1980	6.0	50	7.0	6.5
Jan 1, 1981	4.0	35	4.9	4.6
Jan. 1, 1982	4.0	35	4.9	4.6
Jan. 1, 1983	2.0	20	2.8	2.6
Jan. 1, 1984	0	0	0	0

Source: "Accord entre la Communauté Economique Européenne et le Royaume de Suéde et documents annexes," Protocol No. 1.

HISTORIC PERSPECTIVE OF U.S. EXPORTS TO THE EEC

The U.S. has been a steadily growing supplier of pulp, paper and paperboard to the six original EEC countries as well as to the United Kingdom. The European Community is a fibre deficit area dependent on imports of pulp, paperboard and a number of paper products. Since the conclusion of the Kennedy Round in 1967, the applicable EEC common external tariff on most of the imported paper and paperboard has been 12 percent.

TABLE 2.—U.S. EXPORTS OF PULP, PAPER AND BOARD 1960-70

[Dollars in millions]

Product	1960			1970			Percent growth: 1960-70		
	World-wide	EEC (6)	United Kingdom	World-wide	EEC (6)	United Kingdom	World-wide	EEC (6)	United Kingdom
Paper stocks[1]	$174	$37.6	$27.9	$501	$160.2	$64.2	188	326	130
Paper	101	8.3	2.3	213	42.4	13.5	111	411	487
Paperboard	75	13.3	22.2	290	92.7	35.8	287	597	61
Construction, paper and board	6	.5	.1	13	2.7	.8	117	440	700
Paper and board products	75	7.2	1.7	91	11.2	3.6	21	56	112
Total	431	66.9	54.2	1,108	309.2	117.9	157	362	118

[1] In addition to woodpulp, paper stocks include waste paper and cotton and other pulps.

Source: U.S. Department of Commerce, Bureau of the Census FT 410 for appropriate years and API compilations.

[5] *BTN (Brussels Tariff Nomenclature)*
48.01C II—Kraft liner, kraft sack, other kraft paper and board.
48.01E—Uncoated woodfree printing and writing, uncoated mechanical printing and writing, semi-chemical fluting, sulfite wrapping paper, all other uncoated paper and board.
48.07B—All coated printing and writing paper, all other coated, impregnated, etc. paper and board.
48.13—Stencils and carbon paper.
48.15B—Paper and board cut to size (excluding strips coated with rubber adhesive).

Prior to the EEC–EFTA agreements of 1972, the U.S. competed with the EFTA nations in the six EEC countries on equal terms. In the U.K., however, the U.S. has for some time been at a disadvantage because the Scandinavian countries entered their paper products duty free as members of EFTA, while Canada enjoyed duty free treatment in the U.K. as a member of the Commonwealth. As a result of the EEC-EFTA agreements, the U.S. will now suffer tariff discrimination in *all* countries of the enlarged Community. This discrimination will eventually reach 12 percent in favor of our two major competitors, Finland and Sweden. In addition, by July 1977 the U.K. in the process of tariff harmonization will have raised its duty on such major U.S. exports as kraft linerboard from 10 percent to 12 percent. Furthermore, U.S. producers selling in the European Community will also face stiffer competition in certain non-bulk paper grades due to an anticipated increase in the intra-European trade resulting from the removal of tariffs between the old and new members of the Community. For example, prior to the enlargement of the Community, the U.K. exporters of paper to France or Germany competed there on equal tariff terms with the U.S., Canada and the Scandinavian countries. Now, however, the U.S. and Canada are put at a disadvantage, while the U.K. exporters and the Scandinavian countries acquire a privileged status—the U.K. because of its full membership in the Community and the Scandinavians because of the EEC–EFTA agreements.

EFFECTS OF PAST DISCRIMINATION ON U.S. EXPORTS TO THE UNITED KINGDOM

Prior to the formation of the EFTA in 1960, Canada enjoyed long standing tariff free treatment in the U.K. and was a dominant supplier of paper and paperboard to that market exporting more than Sweden and Finland combined.

TABLE 3.—IMPORTS OF PAPER AND PAPERBOARD INTO THE UNITED KINGDOM

[In metric tons]

	1960	1970	Growth or decrease (percent)
Canada	526,476	684,024	30
Norway	82,324	188,294	129
Finland	210,086	656,222	212
Sweden	253,188	563,522	123
United States	164,017	270,354	65
All other countries	190,284	143,242	−25
Total	1,426,375	2,505,658	76

Source: Reference tables 1970. The British Paper and Board Makers' Association.

As Table 3 above illustrates, the growth of paper and paperboard exports from Finland, Sweden and Norway to the U.K. market exceeded the growth in all other countries after 1960 when these EFTA countries first received a tariff advantage. The magnitude of growth depends, of course, on an absolute increase in demand within the market as well as on the *relative* share of the market. The U.S. share of the U.K. market for paper and paperboard between 1959 (pre-EFTA) and 1970 decreased from 13.4 percent to 10.8 percent, while the market share of Finland increased from 15.4 percent to 26.2 percent, and that of Sweden from 15.1 percent to 22.5 percent. The United States' major export to the U.K. is kraft linerboard. Between 1963 (the first year for which comparative data is available) and 1970, the U.S. share of the U.K. market decreased from 51.5 percent to 46.5 percent. Some U.S. companies, in fact, withdrew from the U.K. market altogether following the effective date of the EFTA agreements early in the 1960's, but others for whom this market had for a long time been particularly important remained in the hope that the U.K.'s entry into the Community would end the tariff disadvantage for U.S. exporters. At the same time, the United States' share of the market in the six EEC countries, where the U.S. traded on equal tariff terms, rose from 25.6 percent in 1963 to 60.5 percent in 1970. We believe, therefore, that the damages to the U.S. paper industry resulting from the EEC–EFTA agreements should be viewed in relationship to the total market of the enlarged European Community rather than to the market of the six original members.

IMPORTANCE OF THE EUROPEAN MARKET TO U.S. EXPORTERS OF PULP, PAPER AND PAPERBOARD

In 1960, the U.S. paper industry's exports to the six EEC countries plus the U.K. represented 28 percent of the total value of the U.S. paper industry's exports. In 1970, this proportion rose to 39 percent for the total, and 45 percent and 44 percent respectively for pulp and paperboard. Table 4 below shows the importance of the European market to the U.S. paper industry.

TABLE 4.—THE U.S. PAPER INDUSTRY'S EXPORTS TO THE EUROPEAN COMMUNITY COMPARED TO TOTAL EXPORTS, 1970

[Dollars in thousands]

Product	Worldwide	EEC of 6	Enlarged EEC	As percent of total	
				EEC of 6	Enlarged EEC
Total	$1,108,325	$309,174	$437,628	28	39
Paper stocks	500,556	160,185	226,360	32	45
Paper	213,469	42,446	57,839	20	27
Paperboard	289,565	92,696	133,843	32	46
Construction, paper and board	13,477	2,654	3,487	20	26
Converted, paper and board products	91,258	11,193	16,099	12	18

Source: Ibid. table 2.

EXPORTS OF KRAFT LINERBOARD

The U.S. paper industry's largest single export item among the dutiable paper products is kraft linerboard. Kraft linerboard, defined as a paperboard used as the facing material in both corrugated and solid fibre shipping containers, is a key product in the manufacturing of economic paperboard packaging. The increase in the industrial activity of the Community of Six was reflected in the growth of its packaging needs and extensive studies indicate that the demand for kraft linerboard will, throughout the 1970's, show the largest volume of growth of any paper and paperboard packaging material.

The U.S. paper industry is highly efficient and competitive. In the ten-year period of 1960–70, competing on equal tariff terms with other major suppliers such as Sweden, Finland and Canada, the U.S. exports of kraft linerboard to the six EEC countries increased sixfold and in 1970 accounted for 37 percent of the worldwide U.S. kraft linerboard exports. In 1970 the exports to the enlarged Community accounted for 54 percent of the total U.S. kraft linerboard exports, or $123,000,000.

TABLE 5.—U.S. EXPORTS OF KRAFT LINERBOARD TO THE 6 EEC COUNTRIES AND THE UNITED KINGDOM

[In metric tons]

	1960	1970	Percent	
			Increase	Annual growth
6EEC	85,732	597,072	597	21.4
United Kingdom	154,267	238,743	55	4.4

Source: Ibid table 2.

TABLE 6.—1970 EXPORTS OF KRAFT LINERBOARD BY THE 5 MAJOR SUPPLIERS

(In metric tons)

	United States	Canada	Sweden	Finland	Norway	United States as percent of total imports
6 EEC countries	597,972	54,402	196,826	131,592	7,986	60
United Kingdom, Denmark, Ireland	272,406	127,361	105,541	48,490	8,887	48
Total enlarged EEC	870,378	181,763	302,367	180,082	16,873	56

Source: Exports of Kraft linerboard and corrugating materials to world markets—American Paper Institute, 1971 edition.

As Table 6 indicates, the U.S. is the dominant supplier of kraft linerboard to both the six original members of the EEC and the enlarged Community. In 1970, the U.S. exports of kraft linerboard to Europe amounted to nearly 10 percent of the domestic U.S. production, a percentage significantly important for the effective utilization of productive capacity, margin of profits and employment. As the demand for linerboard rose in Europe, the U.S. increased its exports to serve this market. The U.S. capacity has been increased partly to serve the European market, and certain of our mills have been built with this as their primary purpose on the assumption that they would continue to have equal access to the EEC.

The loss of exports by American companies that have patiently built up substantial European business over a long period would cause serious injury to those firms. It is neither relevant nor valid to compare, as some, do, the exports with the domestic sales of the U.S. paper industry and then to suggest that the U.S. industry is so large that it can easily absorb any loss of exports. While it is true that some U.S. firms never export and that a few do so only occasionally when there is a temporary oversupply at home and foreign demand is strong, those firms that do export on a regular basis are among the largest in the industry and contribute substantially and favorably to the U.S. balance of trade and payments.

The majority of the U.S. exporting companies are long-term suppliers to the European market, some dating back to the 1930's. They have served the needs of their European customers both responsibly and efficiently, even during such periods of intense shortage as the Korean War. Moreover, many of them also have affiliations with European containerboard mills and corrugated box plants. We estimate that in 1970 over 15 percent of the European corrugated capacity was affiliated with U.S. firms. These relationships imply a long-term obligation to provide the affiliated companies with U.S. linerboard when these firms need it. Thus linerboard exports have become an integral part of the U.S. paper industry.

Independent consultants have estimated that the new import requirements for kraft linerboard of the enlarged Community will rise from nearly 1,600,000 metric tons in 1970 to over 2,800,000 metric tons in 1980. Thus there is no doubt that the European Community will need American kraft linerboard.

The U.S. paper industry wants to participate in the growth of the European market. Such participation would require additional capacity and the U.S. companies' planning for future capacity is conditioned by their estimates of both foreign and domestic demand and the opportunity of obtaining a reasonable and steady return on their investments whether in the U.S. or abroad.

In such commodity grades as kraft linerboard, competition centers on price since quality for the most part is standardized. In deciding on the allocation of production between exports and domestic sales, the key managerial decision centers on return on investment which in turn is based on mill profits. Unless our exporting mills can count on a profit level that would not be less than that which they obtain domestically, they will not allocate production to export sales.

During periods of high demand in an up-swing cycle when prices are normally higher, our competitors would reap benefits by having an additional 12% advantage and thus boosting considerably their return on investment compared to that of U.S. producers. On the other hand, during the periods of low

demand in a down-swing cycle, the Scandinavian countries could offer their products at a discount equivalent to their tariff advantage, forcing down the U.S. mills' profit and thereby reducing the return on investment for the U.S. producers. For our competitors it becomes a "heads we win, tails you lose" situation.

Thus, an inequality of tariff treatment among the major suppliers provides the favored few, in this case Sweden, Finland and Norway, with a flexibility in making marketing and investment decisions not shared by their disadvantaged competitors. Correspondingly, a tariff discrimination of 12 percent would act as a strong deterrent for U.S. companies in exporting to the European market. As indicated earlier, the amounts of U.S. exports of kraft linerboard to the European Community are large ($123,000,000 for 1970), and in accessing the damage to U.S. trade, these should be projected to take into account the potential U.S. exports to 1985.

PAPERBOARD OTHER THAN LINERBOARD

The U.S. has also been competing in the EEC with paperboard exports other than linerboard. In the past ten years these particular exports to the six EEC countries have increased from 15,604 metric tons in 1960, or $2,159,000, to 33,586 metric tons in 1970, or nearly $8,000,000. In 1971, they rose to over $11,000,000.

Most of these exports were the bleached paperboard used for folding cartons, milk cartons, paper plates and cups. With a growth in prosperity in the enlarged Community and an already obvious move to supermarket distribution and to the use of disposable paper products, there is a rising demand for bleached paperboard. The twelve percent discrimination will be an effective deterrent against U.S. participation in the growth of this important market.

EXPORTS OF PAPER

The U.S. exports of paper are much smaller in tonnage than our exports of pulp and paperboard. This, however, does not diminish the importance of these paper exports and the desire and need on the part of our exporting companies to have fair and equitable treatment. In 1970, the U.S. exports of various paper grades to the enlarged EEC were slightly over 84,000 metric tons of generally high value items totalling almost $58,000,000. Of this tonnage, 39,000 metric tons were printing and writing papers (this excludes some 12,000 metric tons of newsprint).

Forecasts made by the FAO in 1971 project that the European demand for printing and writing papers will increase by some 130 percent between 1970 and 1985, with continued dependence on outside imports. The United States paper industry wants to participate in the growth of this market with those products where it is competitive.

In the European market our country faces a natural disadvantage in transportation and pollution abatement costs as compared to such major competitors as Sweden and Finland. Nevertheless, the high efficiency of the U.S. paper industry and the quality of the U.S. products permits successful competition in specialty grades, provided it faces no such artificial hindrances as inequality of tariff treatment. As Table 2 shows, between 1960 and 1970 the U.S. exports of paper products to the six EEC countries increased more than fourfold, amounting to $42,400,000. In 1971 this amount rose to $47,429,000. The corresponding figures for the enlarged Community are $57,839,000 and $63,139,000. Many U.S. firms have developed special processes to supply the European needs for specialty grades. A 12 percent tariff discrimination will preclude the U.S. companies from competing effectively in the EEC market, thus causing damage to those U.S. firms exporting these products and at the same time damaging the U.S. balance of trade.

EFFECTS OF THE EEC-EFTA AGREEMENTS ON PULP EXPORTS

In 1970, the U.S. exported nearly 1,400,000 metric tons of paperboard stock, predominantly wood pulp, worth over $226,300,000 to the enlarged Community. This represents 43 percent of the tonnage and 45 percent of the value of the U.S.'s world wide pulp exports.

The EEC of six countries has a three percent duty on pulp, but this duty generally does not apply because of the tariff free quotas which cover the import requirements of these six countries. This duty could, however, be applied at any time at the discretion of the European Commission. The United Kingdom, until its entry into the Common Market, had no duty on pulp but will now be a party to the same arrangements as the original EEC.

Sweden and Finland have publicly stated on numerous occasions that their paper industry will move toward greater integration and will then strive to export more products with value added. This will increase Sweden and Finland's competition with the mills and converters in the EEC and may result in a decrease of European production, or at best it may diminish the growth of the local European paper industry. This, in turn, might bring about a decrease in the consumption of North American pulp.

For 1970, the figure of dutiable paper products subject to tariff discrimination in the enlarged EEC amounts to $210,000,000 ($230,000,000 for 1971). This figure can be projected forward on the basis of forecasts for future consumption and import requirements, thus determining the potential damage. It is much more difficult to project a figure for the potential loss of pulp sales, but it can be considerable.

IN SUMMARY

Exports are an integral part of the U.S. paper industry. Because of its efficiency, high level of productivity, managerial skills and sufficient raw material resources, the U.S. paper industry's exports between 1960 and 1970 grew at an annual rate of 10%. For a basic industry this is an impressive rate of growth during a period when the exports of many other industries have declined.

In the postwar period, the American paper industry has a clear and consistent record of supporting freer trade. As a large, basic industry, it has consistently advocated and maintained an anti-protectionist position. Furthermore, the U.S. paper industry has developed its international business without curtailing imports into the United States. U.S. duty applies to only some seven percent of paper industry imports and the weighted average tariff on dutiable products in the primary sector of the paper industry averages less than five percent.

The U.S. paper industry has supported the American Government's participation in GATT. It has testified before Congress in favor of the legislation that made the Kennedy Round possible and it will testify again on the currently proposed Trade Reform Act. Now we are seeking a fair deal in Europe. We are not looking for favors. We ask no advantages. Our goal is simply one of being in a position to compete in the enlarged EEC on a fair and equitable basis with our competitors outside the Community.

Senator TALMADGE. The next witness is Mr. Edward M. Rhodes, president of the American Chain Association; accompanied by Wyatt Dawson, chairman of the board of directors.

Mr. Rhodes, your entire statement will be inserted in the record and you may summarize it.

STATEMENT OF EDWARD M. RHODES, PRESIDENT, AMERICAN CHAIN ASSOCIATION, ACCOMPANIED BY: WYATT DAWSON, CHAIRMAN OF THE BOARD; AND JOHN HOCH, COUNSEL

Mr. RHODES. Thank you very much.

My name is Edward M. Rhodes. I am president of the American Chain Association, which is a voluntary, nonprofit trade association, comprised of 11 United States companies engaged in the manufacture of sprocket chains for the mechanical transmission of power and for conveying and elevating.

I am accompanied by not only Mr. Dawson, but our Counsel, John Koch.

The 11 member companies listed in appendix A account for substantially all of the domestic production of sprocket chain. Our Association is not concerned with anchor chain or tire chains. But our chains run over sprockets like this, and they transmit power from one shaft to other shafts or they convey or elevate materials. Our total shipments last year were $240 million.

Our problems, we believe, are very typical of those of other medium-sized manufacturing industries. It is not secret that many industries of our size have encountered and, despite devaluation, will continue to encounter serious troubles and disruptions caused by imports.

Four years ago, of the total pounds of roller chain used in the United States, imported chain grew to 25 percent, and we were concerned about further growth. Two years ago, imported roller chain amounted to 35 percent of the pounds of roller chain used in the United States. And last year, in 1973, it was still at that level.

We are not, though, urging any return to protectionist legislation. What we are asking for is legislation that will help insure fair international trade. In general, the American Chain Association supports the provisions of the Trade Reform bill, but we urge that certain portions be strengthened along the lines of S. 323, introduced by Senator Schweiker.

In March, a year ago, the Tariff Commission, by a 5 to 0 vote, found injury under the Antidumping Act of 1921, as a result of unfair pricing on the part of Japanese roller chain manufacturers. Because of this firsthand experience with the Antidumping Act, we think we are in a position to make some suggestions on how this 50-year-old legislation can be improved.

We are particularly concerned about the length of time required for a dumping case. Appendix B in our statement outlines the dates of the various steps in our dumping investigations and the work of Treasury and the Tariff Commission. We began our studies in February, 1970. The formal findings of Treasury and the Tariff Commission were published in April, 1973, three years later. And in these 3 years of escalating imports, another 10 percent of our workers lost their jobs to imports.

In retrospect, we of course wish we had moved sooner and more quickly. But there are inherent difficulties, practical and legal, in any group of U.S. companies quickly and efficiently organizing themselves to collect the information necessary to file an antidumping complaint. But what about Treasury? We do not suggest that Treasury dragged its feet. However, we do suggest that it would be perfectly feasible for Treasury to make a tentative dumping determination within 6 months of a complaint's being filed if directed by the Congress to do so.

The Trade Reform Act passed by the House provides that a withholding of appraisement order would normally be issued by Treasury within 6 months from the date of publication in the Federal Register of a notice that a complaint has been received. There is no limitation on the time that Treasury may take to publish such a notice after receiving the complaint. We urge you to consider the concept of

S.323, which calls for a maximum of 6 months from the filing of a complaint to a notice of withholding of appraisement.

Further, in connection with the Antidumping Act of 1921, we believe it would be highly desirable to codify some of the Tariff Commission's more recent and realistic interpretations of the statute's injury requirements.

Specifically, we believe the law should require the Commission to make an affirmative determination of injury when less than fair value sales of foreign merchandise have caused or are likely to cause more than immaterial injury in any line of commerce in any section of the country. S.323 would so provide.

Finally, we believe that judicial review of determinations by both the Treasury and the Tariff Commission should be explicitly authorized on petition of domestic as well as foreign industries, as provided in S.323. The right of review for domestic injury is subject to serious doubt. We urge the Committee to clarify the Act to remove any doubt of the right of judicial review for all parties to an antidumping proceeding.

We generally support the trade reform bill's countervailing duty amendments. Here also we believe that judicial review should be provided upon petition of any interested party, as provided in S.323.

We support the trade reform bills provisions to liberalize the escape clause. However, we question the desirability of conferring upon the President total discretion to decline to act upon a recommendation for relief by the Tariff Commission. Under S.323, a procedure is provided by which the Congress can in appropriate circumstances override a Presidential determination not to follow a Tariff Commission determination.

We also support S.323's amendments to the Revenue Act of 1916. If a domestic manufacturer unjustifiably sells his product at one price in New York and at another in Chicago and thereby causes injury to competition, he can be held liable for treble damages. But if a foreign manufacturer illegally dumps merchandise in the United States, takes away business by unfair pricing, drives American men and women out of work and damages the industry—even if all this can be proved—he is not required to make any compensations. He does not even have his wrist slapped. Meanwhile, he has prospered while our people are out of work. We think such a foreign manufacturer should be subject to the same kind of obligation to redress the injury he has caused that domestic manufacturers face.

Specifically, we think that the Revenue Act of 1916 should be amended to make it a more realistic vehicle for the recovery of treble damages for injurious international price discrimination. The act currently makes it possible for an injured U.S. businessman to secure damages only where he can show that dumping was committed "with the intent of destroying or injuring an industry in the United States" —that takes a little mind reading to discover a man's intent. S.323 would eliminate this onerous intent requirement and permit recovery where the effect of a known price discrimination was to injure competition. That is the same standard that exists in domestic price discrimination cases.

Despite the Antidumping Act, there is today little incentive for foreign manufacturers to avoid dumping in the United States when it suits their own interests. Indeed, it is frequently very much to their advantage to dump. Dumping gives them an opportunity to invade our domestic market. Why not dump? They are not held accountable for the damage that they cause. So we especially urge you to consider title IV of S.323 which will provide at least the possibility of treble damage suits for dumping.

In concluding, I would like to convey to the committee our members' views on title IV of the trade reform bill.

We strongly urge that the committee report to the Senate a trade bill that confines itself to trade issues. We are convinced that in the long run, the cause of world prosperity, stability and understanding is served by promoting free, fair and nondiscriminatory international trade.

We types of industry and our workers need the trade reform bill now, this year. We want to add jobs by selling more of our products overseas.

Thank you.

Senator TALMADGE. Thank you, Mr. Rhodes, for your contribution. You have made an excellent statement. The recommendations seem to me to be both reasonable and necessary.

Mr. RHODES. We hope so.

Senator TALMADGE. Thank you very much.

The committee will stand in recess until 10:00 a.m. tomorrow morning.

[The prepared statement of Mr. Rhodes follows:]

PREPARED STATEMENT OF EDWARD M. RHODES, PRESIDENT, AMERICAN CHAIN ASSOCIATION

My name is Edward M. Rhodes. I am President of the American Chain Association, a voluntary, non-profit trade association, comprised of United States companies engaged in the design, manufacture and sale of sprocket chains for the mechanical transmission of power and for conveying and elevating. The eleven member companies, listed in Appendix A, account for substantially all of the domestic production of sprocket chain. The ACA speaks on behalf of its members on matters of general concern to the sprocket chain industry.

Our Association is not concerned with anchor chain or tire chains. Our chains run over sprockets, and they transmit power from one shaft to other shafts or they convey or elevate material of one kind or another.

We can be classified as a medium sized industry. Our total shipments last year were $240 million. Our problems, we believe, are typical of those of scores of other medium sized industries.

It is no secret that many industries of our size have encountered and, despite devaluation, will continue to encounter, serious troubles and disruptions caused by imports. We are not, however, urging a return to protectionist legislation—for example, legislation that would impose import quotas or increase tariffs, or prevent the further reduction of tariffs in accordance with international agreements.

What we are asking for is legislation that will help insure fair international trade.

In general our Association supports the provisions of the Trade Reform bill, but we urge that certain portions be strengthened along the lines of S. 323, introduced by Senator Schweiker.

Four years ago, of the total pounds of roller chain used in the United States, imported chain accounted for 25 percent. We were concerned about fur-

ther growth of imports. In 1972, imported roller chain amounted to 35 percent of the pounds of roller chain used in the United States. And, last year, 1973, it was still at that level.

In March 1971, we began a thorough investigation of Japanese pricing of roller chain in the United States and in Japan. A year ago, in March 1973, the 1921 as a result of unfair pricing on the part of Japanese roller chain manufacturers. Because of this first-hand experience with the Antidumping Act we think we are in a position to make some suggestions on how this 50-year old legislation can be improved.

We are particularly concerned about the length of time required for a dumping case. In February 1970, we began our studies. The formal findings of both Treasury and the Tariff Commission were published in April 1978. Where did all this time go? As indicated in Appendix B, it took us a year—from February 1970 to March 1971—to gather the pricing information necessary to confirm our suspicions of dumping and to satisfy ourselves that we would be able to demonstrate the necessary causal connection between that dumping and the injury our industry was experiencing.

In March of 1971 we initiated the necessary investigation to document the actual price levels of Japanese chains in Japan and the United States. This project was finished in October. We assembled the data and filed a formal complaint with Treasury on December 20, 1971.

On November 30, 1972, Treasury issued a determination of dumping and notified the Tariff Commission. The actual elapsed time between filing the complaint and the issue of determination of dumping was a little over 11 months. As you know, the Tariff Commission has 90 days to determine whehter or not the complaining domestic industry has been injured. On March 1 of last year the Tariff Commission made that determination by finding injury in our case. That was more than 14 months after the complaint had been filed. In April 1973 Treasury published the formal findings of both Treasury and the Tariff Commission—more than three years after we began our study. A great deal of damage can be done to an industry in three years!

ANTIDUMPING ACT

In retrospect, we of course wish we had moved sooner and more quickly to make our study and conduct the necessary pre-complaint investigation. But there are inherent difficulties, both practical and legal, in any group of U.S. companies quickly and efficiently organizing themselves to collect the information necessary to file an antidumping complaint. Viewed realistically, I do not think we could have moved much more quickly.

But what about Treasury? We do not suggest that Treasury dragged its feet. The antidumping staff has been significantly increased but so has its workload. However, we suggest that, while it might require some budget and staff increases, it would be perfectly feasible for Treasury to make a tentative dumping determination within six months of a complaint's being filed if directed by Congress to do so.

The trade bill passed by the House provides that a withholding of appraisement order would normally be issued by Treasury within six months from the date of publication in the Federal Register of a notice that a complaint has been received. However, it would permit Treasury to extend the period to nine months in more complicated cases. Also, there is no limitation on the time that Treasury could take to publish such a notice after receiving a complaint. We urge you to consider S. 328, which calls for a maximum of six months from the filing of a complaint to a notice of withholding of appraisement.

Further, in connection with the Antidumping Act of 1921, we believe it would be highly desirable to codify some of the Tariff Commission's more recent and realistic interpretations of the statute's injury requirements. Specifically, we believe the law should require the Commission to make an affirmative determination of injury when less than fair value sales of foreign merchandise has caused or are likely to cause more than immaterial injury in any line of commerce in any section of the country. S. 328 would so provide.

Finally, we believe that judicial review of determinations by both the Treasury and the Tariff Commission should be explicitly authorized on petition of domestic as well as foreign industries, as provided in S. 328. Under current law only an aggrieved importer has a recognized right of appeal. While the Ways and Means Committee Report expresses agreement with the Treasury

Department that there clearly exists a right of review for domestic industry, this has never been established and is subject to serious doubt. Under these circumstances, the Committee should clarify the Act to remove any doubt of the right of judicial review for all parties to an antidumping proceeding.

CONTERVAILING DUTIES; RETALIATION FOR DISCRIMINATION AGAINST U.S. EXPORTS

We generally support the Trade Reform bill's countervailing duty amendments, including the establishment of mandatory time tables and extension of the law to cover duty-free merchandise. Here also we believe that judicial review should be provided upon petition of any interested party, as provided in S. 323.

We also support the Trade Reform bill's provisions authorizing the President to take unilateral action against imports from those countries that maintain unjustifiable or unreasonable barriers to U.S. exports or that otherwise engage in discriminatory acts against U.S. commerce.

THE "ESCAPE CLAUSE"

We support in general the Trade Reform bill's proposal to liberalize the "escape clause." However, we question the desirability of conferring upon the President total discretion to decline to act upon a recommendation for relief by the Tariff Commission. Under S. 323 a procedure is provided by which the Congress can in appropriate circumstances override a Presidential determination not to follow a Tariff Commission recommendation for relief.

PRIVATE DAMAGE REMEDY

We also support S. 323's amendments to the Revenue Act of 1916. If a domestic manufacturer unjustifiably sells his product at one price in New York and at another in Chicago and thereby causes injury to competition, he can be held liable for treble damages. But if a foreign manufacturer illegally dumps merchandise in the United States, takes away business by unfair pricing, successfully drives American men and women out of work and damages the prosperity of an industry—even if all this is proved—he is not required to make compensation.

He doesn't even have his wrist slapped. Meanwhile, he has prospered while our people were on short hours or out of work.

We think such a foreign manufacturer should be subject to the same kind of obligation to redress the injury he has caused that domestic manufacturers face. Specifically, we think that the Revenue Act of 1916 should be amended to make it a more realistic vehicle for the recovery of treble damages for injurious international price discrimination. The Act currently makes it possible for an injured U.S. businessman to secure damages only where he can show that dumping was committed "with the intent of destroying or injuring an industry in the United States, or of preventing the establishment of an industry in the United States, or of restraining or monopolizing any part of trade and commerce in such articles in the United States." Apparently no U.S. company has ever succeeded in shouldering this strict burden and establishing this proof.

S. 323 would eliminate this onerous intent requirement and permit recovery where the effect of the price discrimination was to injure competition, the same standard that exists in domestic price discrimination cases.

The members of our Association believe, as do most American manufacturers, that we can compete with overseas manufacturers in a fair ball game. But, despite the Antidumping Act, there is today little incentive for foreign manufacturers to avoid dumping in the United States when it suits their own interests to do so. Indeed, it is frequently very much to their advantage to dump. Dumping gives them an opportunity to invade our domestic market.

One of the responses of the Japanese manufacturers to our antidumping case, we are told, was to form a cartel in Japan. This cartel includes all Japanese roller chain manufacturers and is headed up by the largest chain manufacturer in Japan. The purpose of this new cartel is to establish minimum price levels for their products in the United States which, in their opinion, will avoid dumping. It seems rather obvious that previously they were knowingly and deliberately dumping here in the United States. Why not? They are not held accountable for the damage they have caused.

So we especially urge you to consider Title IV of S. 828 which will provide at least the possibility of treble damage suits for dumping.

MFN AND EXIMBANK FINANCING

In concluding I would like to convey to the Committee our members' views on Title IV of the Trade Reform bill. We strongly urge that the Committee report to the Senate a trade bill that confines itself to trade issues and does not attempt to use trade as a lever to reform the domestic policies of other nations of the world, however much we may disapprove of them. We are persuaded that in the long run the cause of both prosperity and stability is served by promoting free, fair and non-discriminatory international trade.

Thank you very much for this opportunity to give you our views on international trade legislation.

APPENDIX A—MEMBERS OF AMERICAN CHAIN ASSOCIATION

Acme Chain Division, Rockwell International, Holyoke, Mass.
Atlas Chain & Precision Products Co., Inc., West Pittston, Penn.
Diamond Chain Co., Indianapolis, Ind.
FMC Corp. Chain Division, Indianapolis, Ind.
Jeffrey Manufacturing Co., Columbus, Ohio
Moline Corp., St. Charles, Ill.
Morse Chain, Division of Borg-Warner Corp., Ithaca, N.Y.
Ramsey Products Corp., Charlotte, N.C.
Rexnord, Inc., Milwaukee, Wis.
Union Chain Co., Sandusky, Ohio.
Webster Industries, Inc., Tiffin, Ohio.

APPENDIX B

Date	ACA	Treasury Department	Tariff Commission
February 1970	Began study of available Japanese pricing information.	22 months.	
March 1971	Initiated search for actual price levels in United States and Japan.		
October 1971	Received final price reports.		
Dec. 20, 1971	Filed formal complaint with Treasury		
Feb. 19, 1972	15½ months	Completed summary investigation. Published notice. Instituted inquiry.	
Aug. 31, 1972	do	Withheld appraisement.	
Sept. 29, 1972	do	Held hearing.	
Nov. 30, 1972	do	Issued determination of Dumping, and notified Tariff Commission	
Jan. 23, 1973	do		Held hearing.
Mar. 1, 1973	do		Found injury.
Apr. 12, 1973	do	Published findings.	

[Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 10 a.m., Tuesday, April 2, 1974.]

TRADE REFORM ACT OF 1973

TUESDAY, APRIL 2, 1074

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

The committee met at 10 A.M., in room 2221, Dirksen Senate Office Building, Hon. Herman E. Talmadge presiding.

Present: Senators Talmadge, Mondale, Bentsen, Fannin, and Dole.

Senator TALMADGE. This morning we resume our hearing on H.R. 10710, the Trade Reform Act.

Our first witness today will be James J. Reynolds, president, American Institute of Merchant Shipping. We have a long list of witnesses today and we must complete this hearing this morning as the committee has scheduled an important hearing on emergency unemployment compensation for 2 P.M. today.

Each witness has been asked to confine his remarks to no longer than a 10-minute summary of his written statement. The 5-minute rule will be in effect for the questioning period.

Mr. REYNOLDS, welcome to the hearings and please proceed with a summary of your statement.

STATEMENT OF JAMES J. REYNOLDS, PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING, ACCOMPANIED BY BARBARA BURKE, LEGISLATIVE ASSISTANT

Mr. REYNOLDS. I am James J. Reynolds and I am the president of the American Institute of Merchant Shipping (AIMS), a trade association representing over 60 percent of the U.S. flag fleet of this country.

I am appearing today on behalf of our Liner Council, that is the segment of our membership that own and operate the great fleet of dry cargo vessel under the American flag.

I have taken the liberty of bringing with me to the witness stand, Mr. Chairman, my legislative assistant, Ms. Barbara Burke, as a representative for AIMS.

The purpose of our statement is to propose an amendment to the legislation under consideration, the Trade Reform Act, which will assure adequate participation of the U.S. liner fleet in our international commerce.

I think in the interest of clarity, it would be well if I read the attached amendment, and then we can focus on it a little more intelligently.

The language of the proposed amendment is this:

In order to further the purposes and policies of this Act and of Section 101 of the Merchant Marine Act, 1936, as amended, it is hereby declared to be the

policy of the United States that, where appropriate and beneficial to our national interest and to U.S. cargo carriers, cargo sharing agreements in U.S. trades shall be made which provide opportunity for the carriage of substantial and relatively equal shares of the liner trade between nations involved by their respective national flag liner vessels.

Such cargo sharing agreements may be made either by governmental or private action or agreement.

The Secretary of Commerce with such assistance as he may request of appropriate agencies of the government shall foster the development, accomplishment and implementation of such cargo sharing agreements.

Upon application by any operator of U.S. liner vessels, the Secretary of Commerce shall determine what, if any, form of cargo sharing agreement is in the national interest for any essential trade route as defined in Sec. 211(a) of the Merchant Marine Act. 1936; and prior to final adoption of such determination shall cause it to be published and shall permit interested parties 30 days to comment thereon in writing.

Any such determination by the Secretary shall be prima facie evidence of the national interest in any proceeding relating to the approval or modification of such cargo sharing agreements.

The Secretary of Commerce shall report annually to the Congress regarding the effectiveness of such cargo sharing agreements.

This concludes the language of the proposed amendment.

The national policy of the United States is to foster the development and encourage the maintenance of a merchant marine sufficient to carry a substantial portion of the waterborne export and import foreign trade of this country.

This policy, originally adopted in 1936, was grounded in the economic and military necessities that faced the United States as a major world power. These same considerations underlay the resounding reaffirmation of this national policy in October of 1970 when the Congress passed legislation to modernize the 1936 Act.

The U.S. operator who builds vessels in the United States and employs citizen seamen, is at a substantial cost disadvantage vis-a-vis foreign flag liner operators who build ships abroad and employ low-cost foreign labor.

In recognition of this, the Congress has adopted a number of programs to put our operators on a general cost parity with their foreign competitors so that they can charge similar rates for liner services.

The words liner services mean services on the essential trade routes of the Nation, carrying the general dry cargo of our country.

This parity based subsidy system has worked well and generally accomplished its purposes. However, parity with regard to costs is meaningless unless there is also parity of opportunity to compete equally for commercial cargoes.

U.S. flag liner operators are denied this right in many of our trades and new legislation must be adopted to correct the unfair situation. This can be done by adopting a national policy that would authorize our liner operators or our Government, where necessary, to enter into cargo-sharing arrangements.

The U.S. liner fleet is the most modern and efficient in the world and its vessels operate to every corner of the globe. The laws, practices, and problems in these myriad trades are as diverse as the more than 100 countries involved. Thus, there is no one single cargo-sharing proposal that is appropriate for all of these trades.

The amendment to H.R. 10710 which we propose, you will note, would require the Secretary of Commerce to determine what, if any, form of cargo-sharing arrangement is in the national interest and the interest of our liner fleet. Prior to the final adoption of any such determination by the Secretary, he shall cause it to be published and thereafter give interested parties 30 days in which to comment thereon in writing. The Secretary will give careful consideration to any comments but a hearing shall not be required prior to his final determination. Hearings may, of course, be held by other interested agencies as required by law. Such determination by the Secretary shall be prima facie evidence of the national interest of the United States in any proceeding seeking approval of a cargo-sharing agreement. Where the Secretary of Commerce determines that an agreement is necessary, the Secretary would be required, in cooperation with other appropriate Government agencies, to seek the prompt adoption and implementation of such an arrangement.

The activities of the Secretary under this necessarily broad authority would be subject to annual review by the Congress.

There are those who will argue that the United States should not adopt a national policy of encouraging cargo-sharing arrangements where necessary because such agreements are contrary to the principles of a free market system, to our antitrust laws, and to the wishes of our trading partners.

The facts are, Mr. Chairman, that the laws of free enterprise economics so fundamental to our own industrial system simply do not work or operate when a private U.S. liner company has as its competitor a State-owned fleet of the Soviet Union or some other nation.

The attempt to export our antitrust concepts beyond the 3-mile limit cannot succeed because they cannot be effectively enforced against foreign shipowners whose governments endorse and support contrary concepts for regulation of shipping.

We have listed a number of the problems that arise and are created by policies of a number of our trading partners who have specific decrees and laws requiring the carriage of cargo on vessels flying their flags.

The less developed countries of the world (LDC's) have continually enunciated in the United Nations Committee for Trade and Development that they desire and indeed demand cargo sharing.

These nations are all actively supporting a proposed new Code of Conduct for Liner Conferences this very minute in Geneva, which would provide that trade be divided between vessels of the trading partners on a 50-50 or 40-40-20 basis.

Different forms of cargo sharing are supported in practice by many of the Communist nations and some of the Western nations, with whom we have a very large number of trading regulations. The last portion of this statement is a discussion of the background and current status of the Code negotiations.

Let us now examine some of the problems that require the adoption of cargo-sharing legislation:

1. CARGO CONTROLLED BY GOVERNMENTS

In the Communist and to a lesser extent, the Socialist countries, all imports and exports are bought and sold by government agencies.

These agencies have the power to control every aspect of the transaction, including the selection of the ocean carrier. Cargo can be routed to the ships of the government concerned or to those of friendly nations.

There is no U.S. steamship company or group of companies that has the economic power to bargain on an even basis with the Soviet or any other government. This basic fact of life was recognized in the shipping agreement which our Government negotiated recently with the Soviets.

Under this agreement, at least one-third of the grain shipments must be made available to U.S. ships, one-third to Soviet ships, with other flags being permitted to carry the final third. We should adopt a national cargo-sharing policy that would encourage future such agreements where necessary.

2. CHRONIC OVERTONNAGE OF ROUTES

Virtually all developed nations have long recognized the economic advantages of a national flag merchant fleet. The LDC's are presently encouraging development of their fleets so as to protect their trades, reduce unemployment and improve their balance of payments. The result has been a proliferation of laws and policies to aid national flag fleets.

In England, until last year, a shipowner could build a vessel in a low-cost world center, say Japan, and then when the vessel was registered under the United Kingdom flag, receive a cash grant equivalent to 25 percent of the purchase price of the vessel. In addition, the shipowner was and is accorded the right of free depreciation, which meant that he could depreciate from zero to 100 percent of his ship in any year he so desired. This latter benefit is still in effect.

The Soviets, and other Communist and Socialist countries, of course, have fleets that are State-owned enterprises.

The less developed countries are increasingly passing laws reserving up to 50 percent of their foreign trade to vessels of their own flag.

These aids and various economic factors have led to the construction of surplus world liner capacity. The burden of this surplus is not uniformly borne by all trades but falls most heavily on U.S. liner trades. The reason for this is that virtually all steamship conferences outside of the U.S. trades are "closed conferences". The steamship company members of these conferences themselves decide whether new operators should be admitted to the conference.

They generally have pooling agreements and sailing agreements under which they can limit the number of ships and the number of sailings on any route served by the conference. If a nonconference line tries to enter the trade outside the conference, they often can employ a "fighting ship" to drive it out. In addition, the closed conferences use deferred rebates to insure shipper loyalty to the conference lines.

In contrast, U.S. law requires that all conferences serving our trades be open. This means that any shipping line which makes application and agrees to observe the conference rules approved by our Federal Maritime Commission must be admitted to the conference.

Open conferences are prohibited by law from employing fighting ships or using deferred rebates to keep out competition and insure shipper loyalty. Thus, excess liner capacity, having nowhere else to go, gravitates to the U.S. trades.

At the present time, 41 steamship companies have rates on file with the Federal Maritime Commission to serve the United States-Japan trade. This vast overtonnaging has led to rate cutting of up to 40 percent, rebating, and other unfair and illegal practices to the point where the future of U.S. flag service in the transpacific is seriously jeopardized.

One of the new competitors in this trade is the Soviet-owned Far Eastern Shipping Co. which operates 15 modern vessels. As the president of one U.S. flag company recently put it, "Unless the situation in the Pacific is rapidly corrected, some owners will go bankrupt and you can bet that the Soviet Government won't be one of them."

Under a national cargo-sharing policy, this trade could be rationalized through an agreement with the Japanese. We have long recognized the necessity of such agreements in international air transport and the time has come to do likewise in some liner trades under appropriate government supervision.

Overtonnaging can also be caused by the introduction of highly efficient and productive new technology such as container and barge ships. This situation occurred 3 or 4 years ago in our transatlantic trade when traditional operators replaced conventional break bulk ships with container vessels.

The resultant overtonnaging was so great that rate cutting, rebates, and other malpractices proliferated to the point that many carriers in the trade were on the verge of bankruptcy. To resolve the problem, the privately owned carriers involved negotiated, on a commercial basis, a proposed pooling arrangement.

Such arrangements are automatically acceptable to European governments but in the United States they must be approved by the FMC. Application for approval was made to that agency on November 24, 1971, but because of opposition from the Department of Justice and others, a final decision will not be rendered for some time.

Under a national cargo sharing policy, it would be clear that the Secretary of Commerce, in cooperation with the FMC and not the Department of Justice, would determine what is in the best interest of the U.S. maritime industry. As I noted before, it is fruitless to attempt to export our antitrust concepts beyond the 3-mile limit, particularly when it is in our economic disadvantage to do so.

3. FOREIGN CARGO RESERVATION LAWS AND REGULATIONS

A large number of LDC's have adopted discriminatory legislation designed to route cargo to their own flag vessels. This trend is understandable and will increase because of the legitimate aspiration of these nations to better their economic lot.

The Code of Conduct for Liner Conferences being considered by the United Nations would, at the insistence of the LDC's, require that all conference agreements specify that national-flag liners have the right to carry a share, 40 or 50 percent, of their nation's ocean trade.

While the specifics differ slightly, the effect of most of the new decrees and laws is to reserve to vessels of the national-flag line 100 percent of the cargo which is purchased or controlled by the LDC governments and 50 percent of all other cargo.

Once the decree or law is in force, the governments cause consular invoices and/or commercial invoices to be stamped with notification of the requirement to favor the LDC national-flag carrier with all, or a minimum of 50 percent of cargo, depending on the category of the shipment. Penalities on merchants for failure to comply are severe.

Audits to insure compliance with these laws are usually made on a quarterly basis. The merchant who might prefer to support U.S.-flag vessels is frequently unable or finds it completely impractical to split shipments and, therefore, if he wishes to support the U.S. vessel, he faces a dilemma: The first shipment must go to the LDC carrier; the second, if larger, must also go to the LDC carrier; and, if he ships only twice in one quarter, then the first shipment in the next quarter must again go to the LDC carrier. Under such restrictions, he could rarely, if ever, give half of his cargo to a U.S.-flag ship.

The decree of law usually provides that merchants may also ship with an "associated carrier," of the national-flag line. To qualify as an "associated carrier," a steamship company must fly the flag of the other nation with whom the LDC is trading.

In order to attain even the subordinate status of associate of a transportation company whose government has enacted such legislation, the U.S.-flag operator must negotiate an equal access agreement of some sort—usually a cargo sharing pool.

Needless to say, the advantage at the negotiating table lies entirely on the side of the company who will have preferential rights to as much as 80 percent of the cargo moving in the trade if no agreement is reached.

The situation for the American steamship line, pending the negotiation and approval of such agreements, can be devastating. In a number of cases, our member lines were carrying a substantial part of the trade—as contemplated by the 1936 act—between the U.S.A. and particular LDC countries prior to the issuance of discriminatory laws or decrees.

After the issuance of decrees, the fleet of an LDC nation has abruptly appropriated up to 75 percent of the cargo, eliminating the benefit of shipper support which had been developed through years of dedicated U.S. flag service.

During the protracted process of State Department protest, of carrier negotiation, of conclusion of the cargo agreement, and, finally, of approval by the Federal Maritime Commission of the agreement, the American-flag carrier experiences irreparable financial loss, and ultimately, if fortunate, arrives through substantial concessions at a tolerated, often inferior, position in the trade.

Under a national policy of cargo sharing, the Secretary of Commerce could encourage, in cooperation with the FMC, the approval of fair and effective cargo sharing with less developed countries.

Our proposed language to amend the Trade Reform Act would be a first step toward resolving the problems described above by authoriz-

ing the Secretary of Commerce to implement where necessary a variety of trade sharing agreements.

These agreements are the only possible means in many trades of insuring achievement of our national maritime goals and the consequent protection of our foreign trade and balance of payments.

We turn now to a more detailed discussion of the differences between U.S. shipping policies and the policies of other countries and how they led to the development of a Code of Conduct for Liner Conferences, which has a direct bearing on our proposed amendment.

The distinction between our open conferences, which set rates and terms of service in accordance with the Shipping Act of 1916, and the closed conferences which exist in the liner trades of the rest of the world with deferred rebates and revenue pools, has already been made.

The existence of these closed conferences means that a de facto system of cargo sharing is now in effect in most world liner trades. The cargo is generally shared among the conference members who are primarily from the European maritime nations.

The less developed countries have long resented this de facto cargo sharing which often operates to exclude them from carrying any portion of their own trade. About 5 years ago several of the more advanced LDC's, particularly the South American countries, enacted unilateral legislation which directed 50 percent or even more of their liner cargo to their own ships.

European shipowners moved immediately to accommodate to this new problem, and today for instance, Brazil and Argentina have agreements with virtually all European nations calling for cargo sharing on a 40–40 to 50–50 basis for their national-flag vessels.

Because of our antitrust and maritime laws, the United States was slow to react and a number of our liner carriers almost went bankrupt during the years which it took to secure approval of equal access agreements between the United States, Brazil, Argentina and other Latin nations.

The less advanced DC's who did not have the economic or political power to unilaterally reserve a portion of their trade for themselves banded together in the United Nations Committee on Trade and Development to seek a Code of Conduct for Liner Conferences which would regulate conferences and insure them a share of their own liner trades.

Their original Code called for national-flag lines to each receive 50 percent of the trade, or where third flags were in the trade 40 percent for each national flag, and up to 20 percent for third flags. For over 3 years the developed maritime nations with the exception of the United States have attempted to frustrate the adoption of this Code.

The United States has generally supported the Code since much of it is patterned after our own laws, but opposed the inclusion of cargo sharing in the Code. The United States did recognize that cargo sharing was a serious problem and necessary in some trades.

It, therefore, recommended that the subject receive immediate attention in some place other than the Code. The United States and the Europeans prepared a variety of alternatives to cargo sharing. These were all rejected by the less developed countries who have absolute voting control in UNCTAD.

At an UNCTAD meeting in Geneva in November/December 1978 several European nations switched their position and voted for cargo sharing—probably in order to protect their trade and political relationships with the LDC's. The Soviet bloc also supports cargo sharing. Today, a majority of the nations in Europe plus Japan, Australia, and New Zealand support cargo sharing.

One thing is crystal clear, the world by a 90 percent or larger margin has voted for cargo sharing and it will be included in the Code, which may very well be concluded by Thursday night, 2 days from now, and if it isn't, it will be concluded later this summer with a reactivation of the UNCTAD body.

The negotiations for a final version of the Code should be completed by the beginning of April. As this statement was being prepared, the U.S. Government's position was not to sign the Code if it contains a cargo-sharing provision.

Needless to say, if this position is adhered to, U.S.-flag liner vessels will be placed at a serious disadvantage as the rest of the world goes one way and we lose cargo while making inappropriate arguments about free enterprise.

At this point it is appropriate to note that the U.S. Government has not had a problem with the cargo-sharing policy which is inherent in international air transport agreements. One should definitely ask our Government why it finds cargo sharing for our liner vessels in international trade so repugnant but sees no antitrust problems for similarly situated airlines.

We ask this committee's permission to file a supplemental statement for the record describing the outcome of the Code negotiations. In view of the importance of a new international agreement on the subject of cargo sharing, the amendment which we propose today to the Trade Reform Act might be modified to reflect specific provisions in the Code. To this end, we will be available to contribute information on the results of the meeting and suggest further amendatory language.

How is that, right on the bell.

Senator TALMADGE. Good timing.

Why do so many American owned shipping lines register under foreign flag, such as Liberia or Panama?

Mr. REYNOLDS. The operators of the Liberian and Panamanian flags are predominantly, almost exclusively operators of tanker vessels. Many of those vessels are owned by major petroleum companies which, themselves, are an international operation in character and they need the flexibility of being able to send those vessels wherever the action is.

Sometimes from Kuwait to Bantry Bay Island; another time from the Persian Gulf to Japan. By registry under the Liberian and Panamanian flags, in addition to the advantages of the tax climate, and so forth, they have the flexibility which they need and do not get under the Merchant Marine Act.

Senator TALMADGE. What percent of exports and imports come on merchant vessels?

Mr. REYNOLDS. It depends on what we are talking about. The total volume by weight carried in American vessels is probably only 5 or 6 percent.

Senator TALMADGE. Is that imports or exports or both?

Mr. REYNOLDS. Both. Now, if we are talking about what we generally regard as the dry cargo trade, I am speaking of machine tools, automobiles, durable consumer goods, food, and so forth, which are carried largely by our liner vessels, our position would be much different and we would be carrying, on a revenue basis, as much as 25 to 30 percent in our great new liner fleets.

Senator TALMADGE. Do you think the retaliatory provisions in section 301 of the bill, as well as the title dealing with East-West trade ought to be expanded and insist on reciprocity in services, including shipping as well as trade?

Mr. REYNOLDS. Services should be included, yes, that I think is the fundamental and direct response to your question, I believe, Mr. Chairman.

Senator TALMADGE. I suspect the committee would be sympathetic to such an idea.

Mr. REYNOLDS. I would trust so. I think, Mr. Chairman, it is important that we recognize that shipping services are a product of a country. Of course, as we well know shipping to the Scandinavian nations, is one of the most essential means of developing GNP currency for those nations.

And so in our own country, it is important too. Just as we export machine tools and automobiles, the product of the great American genius, so we should export the services of our vessels, the Seabees, and the lash and the containerships.

Senator TALMADGE. Senator Long and many other members of this committee have pointed out on many, many occasions the CIF valuation on imports is completely distorted because it does not include cost of delivery of those commodities to this country.

Thank you very much for your great contribution, Mr. Reynolds.

Any questions, Senator Bentsen?

Senator BENTSEN. No, not since I came in late.

Senator TALMADGE. We appreciate your contribution to our deliberations.

[The following letters were subsequently submitted for the record. Hearing continues on p. 1564.]

AMERICAN INSTITUTE OF AMERICAN SHIPPING,
Washington, D.C., 20006 April 16, 1974.

HON. RUSSELL B. LONG,
Chairman, Finance Committee,
U.S. Senate

Re: H.R. 10710—Trade Reform Act of 1973.

DEAR MR. CHAIRMAN: I suggested an amendment which would declare it to be the policy of the United States that ". . . where appropriate and beneficial to our national interest and U.S. cargo carriers, cargo sharing agreements in U.S. trades shall be made which provide opportunity for the carriage of substantial and relatively equal shares of the liner trade between nations involved by their respective nation flag liner vessels".

One of the reasons which I presented in support of this amendment was the fact that the United Nations Committee on Trade and Development (UNCTAD)

was meeting in Geneva for final consideration of an international convention on a Code of Conduct for Liner Conferences which would probably include a cargo sharing provision. Since eighty-eight nations were participating in the UNCTAD deliberations, its decision with regard to cargo sharing would set the future pattern for most international liner trades. Accordingly, I requested an opportunity to file this supplemental statement for the record when the Geneva negotiations were completed.

A convention was approved in Geneva on April 6th and is being sent to the Secretary General of the United Nations for distribution to all member states for ratification. This Code, as predicted, does include provisions that will permit any nation to reserve forty percent or more of its liner cargo for its national flag ships. The vote on the Code is most revealing with regard to world opinion on cargo sharing. Seventy-two nations voted yes (France, Japan, Germany, Australia, Spain, Turkey, Belgium and all of the Socialist countries of Eastern Europe and all less developed countries who were present); voting no were the United States, United Kingdom, Finland, Norway, Sweden, Denmark and Switzerland; abstaining were the Netherlands, Italy, New Zealand, Canada and Greece. It is noteworthy that the two largest trading nations after the United States, Germany and Japan, voted for the Code and cargo sharing.

In practice, cargo sharing has long been a reality invirtually all non-U.S. trades because of a worldwide system of "closed" conferences which include revenue pools and sailing agreements. The members of these "closed" conferences can and do exclude new operators from their trades through a variety of practices, most importantly deferred rebates which tie shippers to the conference lines. The members of these closed conferences have traditionally been from the maritime nations of Western Europe. An effect of the Code will be to give the merchant marines of less developed nations a larger share of liner cargo than they could achieve in the past.

As I testified, overtonnaging is endemic in world liner trades and in many areas will remain so for at least the next ten years. Much of this excess tonnage is dumped into U.S. trades because our law requires "open" conferences which any operator can join at any time. Today some forty-nine operators have rates on file with the Federal Maritime Commission to service the U.S. trans-Pacific trade. This excessive competition, particularly from government-owned fleets, imperils the future of many U.S. flag liner operators. The Code does nothing to correct the "open" versus "closed" conference situation and indeed, may exacerbate the problem for it approves either open or closed conferences. It is clear from the discussions in Geneva, that foreign nations uniformly intend to continue the operation of closed conferences in their trades. They included the open conference option so that their ships would continue to have free access to the U.S. trades. The vote on the issue of "open" versus "closed" conferences in Geneva is extremely illuminating. The United States, after several years of intensive lobbying, proposed an amendment on April 6th requiring that all conferences be open. Only Switzerland, of all the nations present, voted with the U.S. on this amendment.

The new Code imposes a variety of obligations on liner conferences, specifically: (1) mandatory international conciliation with governments and shippers regarding general freight rate increases and other matters; (2) a period of fifteen months between general freight rate increases—an intolerable burden in a time of worldwide inflation; and (3) provision of promotional freight rates for the non-traditional exports of less developed countries. These burdens will be onerous even for foreign closed conferences where operations can be rationalized and tonnage availability stabilized through cargo sharing arrangements, but they will be intolerable if imposed on open U.S. conferences without cargo sharing arrangements.

Even after three years of lengthy international deliberations, the Code adopted in Geneva is a flawed document and many of its provisions, particularly in the implementation section, will prove costly and perhaps unworkable. Thus, we do not now propose that any of the provisions of the Code be incorporated in domestic legislation. However, we do believe that voting on the Code completely supports the statement in my testimony that attempts "* * * to export our anti-trust concepts beyond the three-mile limit cannot succeed because they cannot be effectively enforced against shipowners whose governments endorse and support contrary concepts for regulation of shipping". AIMS liner companies continue to urge the adoption of the flexible cargo

sharing amendment which I suggested to you in order to protect our national economic interests and our liner shipping fleet.

We stand ready at any time to discuss this matter further if you or members of your staff should so desire.

Sincerely,

JAMES J. REYNOLDS,
President.

AMERICAN INSTITUTE OF MARINE UNDERWRITERS,
New York, N.Y., April 5, 1974.

Mr. ROBERT A. BEST,
Senate Finance Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. BEST: First I would like to thank you for taking the time to talk with our group on April 2. As we stated at that time, we would very much like to testify in behalf of the Trade Bill (H.R. 10710) but we recognize the time frame under which the Senate Finance Committee is operating. Therefore, we are taking this opportunity to suggest some few changes in the Bill that we believe will make it a more effective instrument for international trade.

As you may know, the American Institute of Marine Underwrites was founded in 1898 and is an association of some 110 insurance companies writing marine insurance in one or more of the states of the United States. In 1916, the U.S. Congress, faced with a whole new concept of the position of the United States in world commerce and world affairs directed the United States Shipping Board to ascertain "what steps may be necessary to develop an ample marine insurance system as an aid to the development of an American Merchant Marine." (Section 12 of the Shipping Act of 1916). Our Government at that time recognized that a marine insurance industry is a vital component of an industrialized world trading nation. The increasing demand of international commerce for insurance coverage during and after World War I encouraged a marked expansion of the American Marine Insurance Market. The Merchant Marine Act of 1920 (Section 29) views a strong American Marine Insurance Market as an effective instrument for supporting an enlarged Merchant Marine and an increased foreign trade.

I note this background and legislative history because from World War I to date the American insurance industry and, specifically, its specialists in marine insurance have devoted their capital and their skills to furthering the purposes of the action by the U.S. Congress. A strong, viable, competitive market has been built. To remain competitive and aggressive it must grow at least in proportion to the continuing leadership of American commerce in world trade. We must not lose our initiative and leadership, nor bend to nationalistic restrictions of other countries, particularly to those countries who lack the capacity to be competitive.

In recent years, we have seen a growth of restrictive practices by other governments interfering in the competitive international marine insurance market, thereby restricting freedom of insurance. This freedom of choice in placing marine insurance business has been restricted in three ways: (1) by requiring imports to be insured in the country of importation (in at least 18 countries known to us), and in some cases exports must be insured in the country of exportation, e.g., Zambia; (2) by imposing discriminatory taxes on transportation insurance placed with foreign countries (at least three countries known to us); or (3) by restrictive import licensing and exchange control regulations (as in the case of at least eight countries known to us).

The American Institute of Marine Underwriters has advocated freedom of marine insurance so that exporters and importers can be free to purchase, in the market of their choosing, insurance on cargoes moving in international trade. Competition between the various markets then determines which market provides the better service and where the buyer of insurance wishes to purchase it. With respect to the developing trade with the socialist countries, namely those countries with government-controlled economies, the prospect arises that American companies are being denied the opportunity to compete freely to obtain cargo insurance business. For example, we know that the Soviet Union has had contracts drafted in such a way as to effectively close out the American marine insurance market from writing any cargo insurance.

If a U.S. exporter wishes to make a sizable sale to the Soviet Union he is under considerable pressure to sell on Soviet terms. That exporter will be most reluctant to do anything that may cause him to lose the sale in spite of the fact that his own personal preference may be to have his cargo covered by his customary open cargo insurance policy covering his worldwide business. We do know that a number of American exporters would prefer American marine coverage due to low cost, familiarity with conditions insured, confidence in its security, speedy claim services available, and last but not least, his own interest as an American taxpayer in assisting the U.S. Balance of Payments situation.

With the above in mind, we would urge that the Trade Bill be amended to incorporate a complaint procedure similar to that set forth by your Committee in Section 252 of the Trade Act of 1970, H.R. 17550, 92nd Congress, 1st Section; S. Rept. 91-1431. We also suggest that Sections 301, 404 and 601 of the Bill be amended in accordance with the enclosed draft.

The Institute does not wish to see any action taken that inhibits the development of free, competitive international trade; on the contrary, we believe the attached proposed amendments to the "Trade Reform Act of 1973" will further the goal to make freedom of trade and insurance a reality.

Sincerely yours,

ROBERT W. HAHN,
Chairman.

Enclosure.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

CHAPTER 1—FOREIGN IMPORT RESTRICTIONS AND EXPORT SUBSIDIES

SEC. 301. RESPONSES TO CERTAIN TRADE PRACTICES OF FOREIGN GOVERNMENTS

(a) Whenever the President determines that a foreign country or instrumentality—

(1) maintains unjustifiable or unreasonable tariff or other import restrictions *on products and/or commercial services* which impair the value of trade commitments made to the United States or which burden, restrict, or discriminate against the United States commerce,

(2) engages in discriminatory or other acts or policies which are unjustifiable or unreasonable and which burden or restrict United States commerce, or

(3) provides subsidies (or other incentives having the effect of subsidies) on its exports of one or more products to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products *and/or commercial services* in the United States or in those other foreign markets,

the President shall take all appropriate and feasible steps within his power to obtain the elimination of such restrictions or subsidies, and he—

(A) may suspend, withdraw, or prevent the application of, or may refrain from proclaiming, benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality; and

(B) may impose duties or other import restrictions on the products *and/or commercial services* of such foreign country or instrumentality for such time as he deems appropriate.

(b) In determining what action to take under subsection (a), the President shall consider the relationship of such action to the international obligations of the United States and to the purposes stated in section 2. Any action taken under subsection (a) may be on a nondiscriminatory treatment basis or otherwise; except that, in the case of a restriction, act, policy, or practice of any foreign country or instrumentality which is unreasonable but not unjustifiable, the action taken under subsection (a) shall be taken only with respect to such country or instrumentality.

(c) The President in making a determination under this section, may take action under subsection (a) (3) with respect to the exports of a product *and/or commercial services* to the United States by a foreign country or instrumentality if—

(1) the Secretary of the Treasury has found that such country or instrumentality provides subsidies (or other incentives having the effect of subsidies) on such exports *and/or commercial services*;

(2) the Tariff Commission has found that such exports to the United States have the effect of substantially reducing sales of the competitive United States product or products in the United States; and

(3) the President finds that the Antidumping Act, 1921, and section 303 of the Tariff Act of 1930 are inadequate to deter such practices.

(d) The President shall provide an opportunity for the presentation of views concerning the import restrictions, acts, policies, or practices referred to in paragraph (1), (2), or (3) of subsection (a). Upon request by any interested person, the President shall provide for appropriate public hearings with respect to such restrictions, acts, policies, or practices after reasonable notice, and he shall provide for the issuance of regulations concerning the conduct of hearings under this subsection and subsection (e).

(e) Before the President takes any action under subsection (a) with respect to the import treatment of any product *and/or commercial services*

(1) he shall provide an opportunity for the presentation of views concerning the taking of action with respect to such product,

(2) upon request by any interested person, he shall provide for appropriate public hearings with respect to the taking of action with respect to such product *and/or commercial services* and

(3) he may request the Tariff Commission for its views as to the probable impact on the economy of the United States of the taking of action with respect to such product.

SEC. 404. AUTHORITY TO ENTER INTO COMMERCIAL AGREEMENTS

(a) Subject to the provisions of subsections (b) and (d) of this section, the President may authorize the entry into force of bilateral commercial agreements providing nondiscriminatory treatment to the products of countries heretofore denied such treatment whenever he determines that such agreements with such countries will promote the purposes of this Act and are in the national interest.

(b) Any such bilateral commercial agreement shall—

(1) be limited to an initial period specified in the agreement which shall be no more than 3 years from the date the agreement enters into force; except that it may be renewable for additional periods, each not to exceed 3 years; if—

(A) a satisfactory balance of trade concessions *and commercial services which shall be deemed to include an equitable sharing of marine insurance* has been maintained during the life of each agreement, and

(B) the President determines that actual or foreseeable reductions in United States tariffs and nontariff barriers to trade resulting from multilateral negotiations are satisfactorily reciprocated by the other party to the bilateral agreement;

(2) provide that it is subject to suspension or termination at any time for national security reasons, or that the other provisions of such agreement shall not limit the rights of any party to take any action for the protection of its security interests;

(3) provide safeguard arrangements necessary to prevent disruption of domestic markets;

(4) if the other party to the bilateral agreement is not a party to the Paris Convention for the Protection of Industrial Property, provide rights for United States nationals with respect to patents in such country not less than the rights specified in such convention;

(5) provide arrangements for the settlement of commercial differences and disputes; and

(6) provide for consultations for the purpose of reviewing the operation of the agreement and relevant aspects of relations between the United States and the other party.

(c) Bilateral commercial agreements referred to in subsection (a) may, in addition, include provisions concerning—

(1) arrangements for the protection of industrial rights and processes, trademarks, and copyrights;

(2) arrangements for the promotion of trade, including those for the establishment or expansion of trade and tourist promotion offices, for facilitation of activities of governmental commercial officers, participation in trade fairs and exhibits and the sending of trade missions, and for facilitation of entry, establishment, and travel of commercial representatives; and

(3) such other arrangements of a commercial nature as will promote the purposes stated in section 2.

(d) An agreement referred to in subsection (a), and a proclamation referred to in section 403(a), shall take effect only if, during the 90-day period referred to in section 406 (c), a disapproval resolution referred to in section 151 is not adopted.

TITLE IV—GENERAL PROVISIONS

SEC. 601. DEFINITIONS

(10) *The term "commerce" shall include commercial services, such as transportation, tourism and insurance, as well as goods, except where the specific section is clearly applicable to goods or products only.*

Senator TALMADGE. Mr. Harry Heltzer, chairman of the board of directors and chief executive officer of the 3M Co.

STATEMENT OF HARRY HELTZER, CHAIRMAN, BOARD OF DIRECTORS, AND CHIEF EXECUTIVE OFFICER OF THE 3M CO.

Mr. HELTZER. My name is Harry Heltzer, and I am chairman of the board of directors and chief executive officer of the 3M Co.

My purpose in being here today is to argue as strenuously and persuasively as I can in favor of positive action by the Senate on the Trade Reform Act.

The time for passage of a trade bill is now—this year—because, at this point in international economic affairs, it is essential that we maintain the momentum of our liberal trade policy.

This is a policy which has been endorsed by six consecutive American Presidents of both major political parties. It is a policy that to date has brought us unprecedented economic progress and has been instrumental in raising our standards of living.

It also is a policy that addresses itself to the needs of the future—a world in which people and nations will become even more dependent upon each other for the things they make, buy, sell, and consume.

At these hearings, other witnesses have pointed out how the six titles of this legislation, together with some amendments which you also have under consideration, relate to broader problems, such as energy and our relations with our European allies and the developing countries as well as with the so-called nonmarket-oriented countries.

Today, I will address my remarks primarily to titles I and V—the main trade liberalization sections. These titles raise a fundamental question: Why is increased trade so important to the United States?

Quite obviously, this is a question that cannot be answered completely by merely analyzing the statistics which we traditionally have compiled on a national and international basis. Rather, in order to assess the desirability of increased trade, it is necessary to reach into thousands of communities and assess the impact of trade on millions of individual people—real people who hold jobs, buy consumer goods, pay taxes, bring up families, and eventually retire.

For that reason, I think it would be useful to this committee if I presented a brief history of 3M's involvement in trade and relate this experience in human terms, divulging some facts and figures which normally are not reported routinely but which do indicate the effects of world trade in terms of our employees, customers, suppliers, and the communities in which 3M operates.

Minnesota Mining & Manufacturing Co., a multinational corporation with sales now over $2.5 billion, began early in the century as a tiny mining company on the north shore of Lake Superior. Frankly, as miners, we were something less than successful and we got out of the mining business early.

However, our company was heavily committed to research, so we were able to develop an improved sandpaper, masking tape, and eventually, of course, the famous Scotch brand tape and 30,000 or so other products.

When I joined the company as a graduate of the University of Minnesota in 1933, it was during the depression and I guess I was pretty happy to be paid 35 cents an hour to shovel roofing granules out of boxcars. At that time, 3M's business outside the United States amounted to practically nothing.

Not until 1951, in fact, did 3M get actively involved in world trade. After that, our expansion into other countries took on a familiar pattern. Typically, we would assign a salesman to a specific country and he would show up on the scene with little more than a briefcase containing product information and order blanks.

For a time, we would serve that country wholly by exports from the United States. But eventually, as markets grew, we would find tariff and nontariff barriers standing in our way.

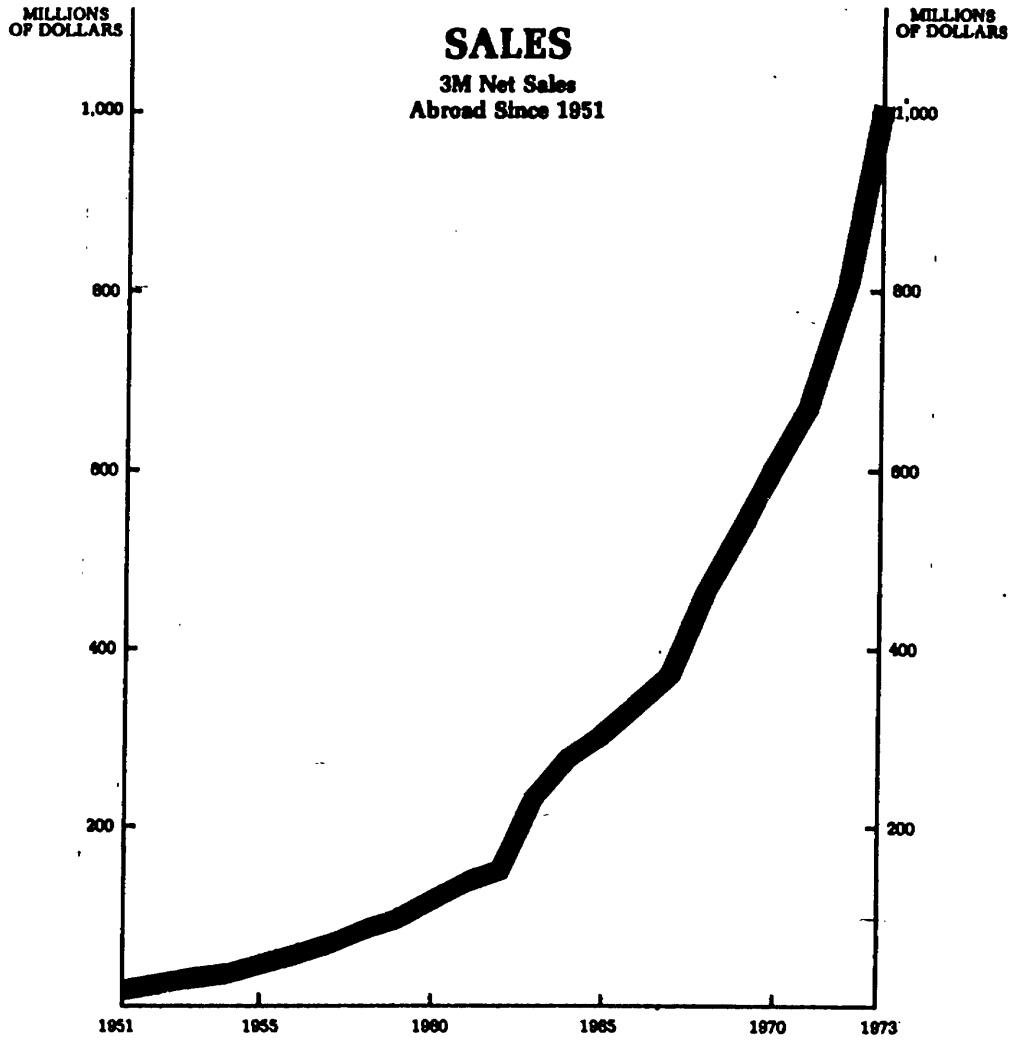
We would also discover that we had competitors from other countries on the scene who were manufacturing and serving customers more completely and quickly than we could from the other side of an ocean. Consequently, we, too, would have to set up manufacturing facilities in that country.

The fact that we built factories abroad, however, did not cut down on our exports from the United States. To the contrary, this opened the way for other 3M products made in the United States. To the various countries, 3M continued to export finished and semifinished goods to fill out the various product lines, because in no country outside the United States is a complete line of 3M products manufactured.

In those 23 years since 1951 when the company became actively involved in world trade, 3M has been able to achieve considerable growth in world markets. In this connection, Mr. Chairman, I would like to submit some data for the record and then make some comments about them.

[The charts referred to follow:]

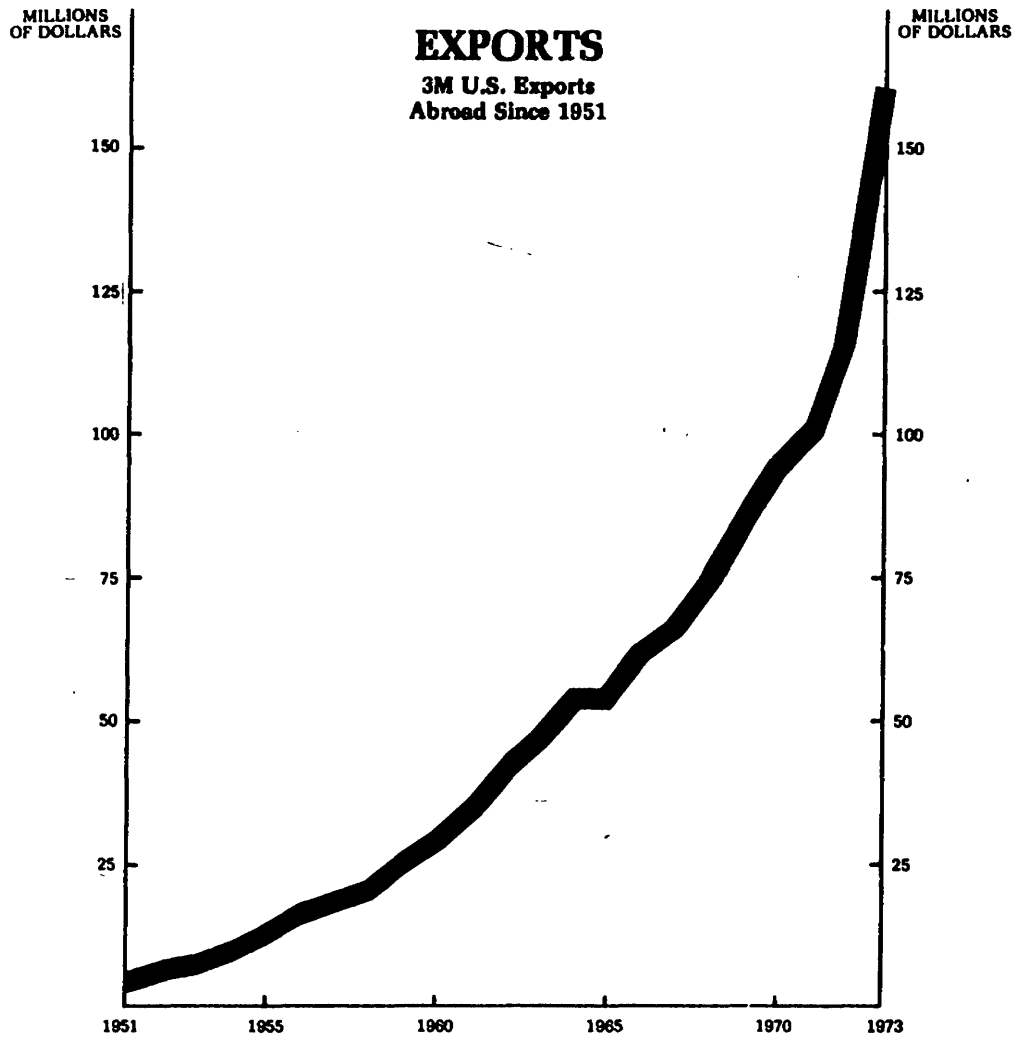
CHART 1



(Millions of Dollars)

Year	Sales	Year	Sales
1951	$ 18	1962	$ 153
1952	20	1963	230
1953	23	1964	275
1954	30	1965	300
1955	41	1966	335
1956	54	1967	375
1957	66	1968	465
1958	80	1969	535
1959	95	1970	605
1960	117	1971	675
1961	136	1972	800
		1973	1,005

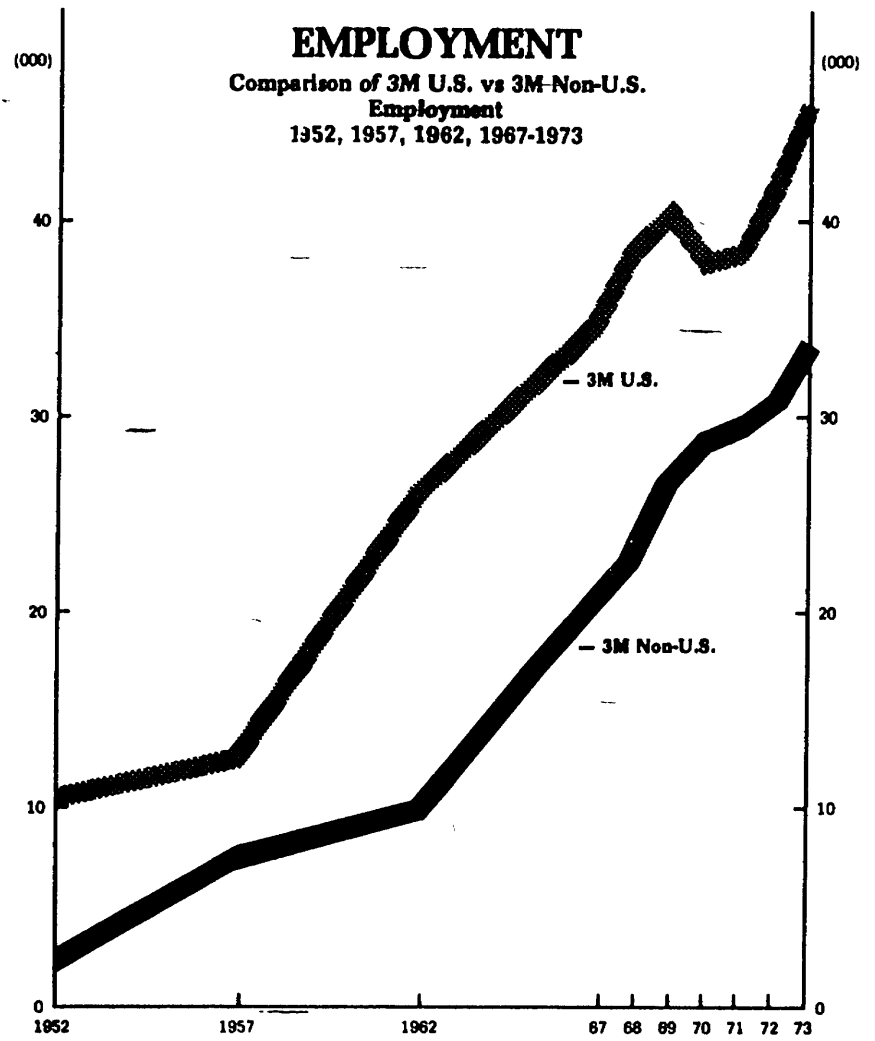
CHART 2



(Millions of Dollars)

Year	Exports	Year	Exports
1951	$ 4	1962	$ 41
1952	6	1963	47
1953	7	1964	54
1954	9	1965	54
1955	12	1966	62
1956	16	1967	66
1957	18	1968	75
1958	20	1969	85
1959	25	1970	94
1960	29	1971	100
1961	34	1972	116
		1973	160

CHART 3



Year	3M U.S. Employment	Year	3M Non-U.S. Employment
1952	10,368	1952	2,060
1957	12,371	1957	7,284
1962	25,688	1962	9,727
1967	34,543	1967	20,505
1968	38,063	1968	22,682
1969	39,919	1969	26,341
1970	37,385	1970	28,388
1971	37,928	1971	29,247
1972	41,300	1972	30,398
1973	46,009	1973	32,923

CHART 4

COMPARISON OF TAX EXPENSE AS A PER CENT TO SALES

FIVE-YEAR PERIOD 1969-1973

	Net Sales (In millions of dollars)	Tax Expense	% Tax Expense to Sales
3M FRANCE	$513	$72.3	14.1%
3M WEST GERMANY	$638	$65.2	10.2%
3M BRAZIL	$106	$13.3	12.5%
3M AUSTRALIA	$159	$19.2	12.1%
3M UNITED STATES	$6,716	$856	12.7%

3M COMPANY

Exhibit A

ACCESS TO SUPPLY

The following are some of the materials used by 3M that are imported:

Material	Source Countries
Natural Rubber	Malaysia, Indonesia, Singapore
Silver	Canada, Mexico, Peru
Asbestos	Canada
Castor Oil	Brazil
Cashew Nut Oil	Brazil, India
Mica	India
Garnet	Malagasy Republic
Flax	France
Titanium Dioxide	Canada
Sodium Sulphate	Canada
Diamonds, Industrial	Republic of South Africa
Terpene Resin	France
Casein	New Zealand, Argentina
Hide Glue	Brazil, Italy, China
SBR-Syn. Rubber	Canada

April 2, 1974

Addenda

A BRIEF OVERVIEW OF 3M'S GROWTH IN WORLD MARKETS

Although Minnesota Mining and Manufacturing Company was founded early in the century, the company did not become directly involved in markets outside the United States until 1951 when an international division was organized.

Since then, 3M has grown rapidly in the U.S. as well as abroad. In 1973, the company's sales were $2.5 billion. About $1 billion of those sales related to the company's operations abroad. And, while only a handful of 3M's employees in the United States had jobs derived from international operations in 1951, more than 6,500 of the company's U.S. employees — or one in seven — now have jobs directly related to the company's participation in markets outside the 50 states. 3M has facilities in 37 countries; manufacturing is carried on in 20 countries.

It is worth noting that 3M is organized into eight product groups with no single group dominating the company's business. A common denominator of 3M's 45 major product lines is "coating technology."

Other characteristics of 3M:

— Although the company does manufacture and market consumer goods, its prime customers are industrial and commercial.

— 3M companies abroad are wholly owned by the parent company, except for Japan.

— The company's growth historically has been linked closely to research. In 1973, the company spent more than $114.8 million in its R&D effort.

— Historically, 3M has generated its growth from within. The company has reinvested earnings to finance its growth rather than borrowing money from others.

The following charts give an overview of 3M's growth since 1951. These show 3M net sales abroad, 3M exports from the U.S., and 3M employment inside and outside the U.S.

Mr. HELTZER. You will please note that chart 1 documents the growth of 3M sales abroad; chart 2 shows the growth of 3M exports from the United States; chart 3 outlines the increase of 3M employment both inside and outside the United States.

What effect has this multinational economic activity had on the U.S. economy?

First, because of the company's operations abroad, 3M has made a steadily increasing contribution to the U.S. balance of payments. In the last 5 years this has amounted to about $690 million. In 1973 alone, 3M had a net favorable contribution to the payments balance of about $155 million.

Second, because 3M has increased its participation in world trade, our U.S. employment which is derived from operations outside the United States also has increased significantly. Now, one in seven 3M jobs in the United States—some 6,500 in all—are related to the company's operations abroad. These are 6,500 people we otherwise could not employ.

Chart 3 makes an important point about the relationship between 3M employment in the United States and outside the United States: Both developed in parallel. The growth of 3M employment outside the United States has not been made at the expense of U.S. employment. 3M imports into the United States only about 1 percent of the output of its non-U.S. subsidiaries.

Third, while it is not possible to calculate precisely how many other jobs outside the 3M Co. have been created in the U.S. communities where we do business, a rule-of-thumb guideline is that for every dollar generated by manufacturing activity in a community, eight other dollars are circulated to other businesses.

These, of course, are the dollars that are spent on food, clothing, transportation, and a variety of other services. In this connection, I should point out that these indirect but very real benefits from 3M's participation in world trade have been realized in all the communities in the United States—230 locations—where 3M does business.

Fourth, although the trade bill is now the matter being considered primarily in these hearings, I appreciate the fact that trade is a subject that is linked closely with taxes. Last year, during House Ways and Means Committee hearings on tax reform, 3M presented the results of a study which outlined "How and Why 3M Company Puts People and Money to Work in World Markets."

In this study we did an indepth analysis of four representative 3M subsidiaries outside the United States. We pointed out that, historically, tax considerations have played a minor role in reaching decisions on whether or not to invest abroad.

For the purposes of this hearing, we have updated a chart which shows a comparison of tax expense as a percent of sales for the four representative 3M subsidiaries as well as for the parent company. This is chart 4 which, we believe, is an accurate reflection of the tax situation as it actually exists. The important thing to observe is the closeness of the percentages for the various countries.

At this point, I would like to summarize 3M's position on the Trade Reform Act. We support the need for the negotiations and the

authorities outlined in title I. We believe that the adjustment assistance provisions of title II are long overdue. The safeguard provisions of title III provide an effective means of dealing with major unfair trade practices.

Frankly, we urge that you support this bill.

From the standpoint of 3M's experience in the past, we believe that freer trade policies will continue to foster increased employment at our various locations.

Last year 3M created 4,700 new job opportunities in the 45 States where we have facilities. Many of these jobs were created because we had a 38 percent increase in exports. Many job opportunities would not have been possible if we were not able to obtain the imports which I have listed in exhibit A.

Mr. HELTZER. Thus, we view the Trade Reform Act as a means of encouraging exports and obtaining necessary imports. Generally, this legislation will help provide the American people with greater opportunities to participate in those markets outside the U.S. which serve 94 percent of the world's population.

Thank you very much for inviting me here today.

Senator TALMADGE. I want to congratulate you on the remarkable success of your company and the remarkable success you have made in growing from a 35 cents an hour employee to chairman of a corporation with over $2.5 billion in sales.

Senator MONDALE. It happens every day in Minnesota.

Senator TALMADGE. That is one of the most remarkable stories I have ever heard.

In your sales abroad, what is the principal barrier, non-tariff barriers or tariff barriers?

Mr. HELTZER. I don't know if I can define the problem exactly. Actually, both are significant. One indication is the high tariffs we may have in other countries for a cross section of 3M products.

There are a good many non-tariff barriers as well, and I might say, on both sides of the ocean. Some of our competitors from overseas complain about the non-tariff barriers we have here. We try to compete with whatever the conditions may be.

In most cases, our tariffs abroad are greater than they are in the United States.

Senator TALMADGE. Do you think, realistically, we can ever get our foreign friends to give up these administrative decisions they make day after day?

Mr. HELTZER. Realistically, it is a long drawn-out process. We have had some success on individual product lines. Certainly we have been able to bring down both tariff barriers and some of the non-tariff barriers on those that are related to health, to environmental technologies, and are of obvious benefit to the country involved.

Trade barriers cover a broad spectrum of products. In some areas, it does not seem possible to lower them. However, we don't believe any of it is impossible, but you must make a continuous effort. You can achieve results if you have the opportunity to sit down and negotiate across the broad spectrum.

Senator TALMADGE. Thank you very much. Any contribution, Senator Mondale.

Senator MONDALE. First of all, I am sorry I was late in arriving because I looked forward to introducing you to the committee. The 3M is one of the remarkable corporations of this country, if not the world, and we are very pleased that it is located in Minnesota. We are very impressed by Mr. Heltzer's leadership.

In your addenda, you give what you call a brief overview of 3M's growth in world markets. A few years ago I asked you to supply a balance of payments analysis for 3M: Where is the employment rising? How much capital goes out as distinguished from how much capital comes back? Could you summarize what your answer showed?

Mr. HELTZER. I touched on that a little earlier in the testimony in the fact that we have had a constantly increasing balance of payments coming back in the country, and also in some of the testimony before the House committee, I pointed out the time it took to get the original investment back out of this group that we picked.

I don't have that information at my fingertips, but I can provide it.

Senator MONDALE. How long does it take to get back your investment?

Mr. HELTZER. It varies. Sometimes you got it back in a couple of years, and some countries took as much as 10 years. France took about 4 years, Australia took a little less, and some of the countries took somewhat longer.

Senator MONDALE. Has it been the experience of 3M, even though you might be called a multinational in the sense that you are involved in many countries around the world, that the net effect of your overall corporate growth has been in increase of employment in the United States.

Mr. HELTZER. No question about it.

Senator MONDALE. Could you give us some examples?

Mr. HELTZER. I touched on that a little earlier. I pointed out that in 1973, we grew substantially because of our operations abroad, and the net result of this was that we added 4,700 people to the U.S. payroll. Forty percent of our business is done overseas.

I also pointed out that one out of every seven employees in the United States has a job because we are in the foreign marketplace.

I don't hesitate to point out in Minnesota, and particulary in Ramsey County, it is one out of four.

But virtually every one of our manufacturing facilities employs people whose jobs are related to some degree with goods shipped overseas either in a finished form or semi-finished form.

Senator MONDALE. This is high paid union labor?

Mr. HELTZER. Yes, sir, the bulk of it.

Senator MONDALE. In Minnesota?

Mr. HELTZER. Well, I guess in Hutchinson we are not, but largely it is unionized.

Senator MONDALE. One of the issues that we will face in this bill is —what do you call it—reciprocity of Government purchases, procurement? What do you call the amendments in the House that deal with

or require—sectoral reciprocity; do you know what I am talking about?

Mr. HELTZER. I haven't the faintest idea.

Senator MONDALE. Since you don't, where do you stand on it?

Mr. HELTZER. If I understand the question, I might still not be able to answer it. Unfortunately, I still don't quite understand it.

Senator MONDALE. Thank you for your illumination on that.

Senator TALMADGE. Any further questions?

Senator BENTSEN. I, too, have great admiration for the management of your company. You have a great track record. I can recall in the mutual funds I used to manage, we had very pleasant results on your stock.

Let me ask some questions that concern me. When you talk about the creation of 6,500 more jobs in this country that wouldn't otherwise have been created, I really wonder how you prove a thing like that?

It seems to me that is a subjective judgment. You have a company that has a very progressive and aggressive management. They do a great job on R. & D.

If you had not gone overseas, would you really have been denied all of those markets?

Mr. HELTZER. A great share of them.

Senator BENTSEN. Would you have not had 6,500 and maybe some additional employees that actually become foreign employees?

Mr. HELTZER. Bear in mind the total increase in employment worldwide this past year 1973 was about 7,000 people. Of that, 4,700 of them were in the United States.

We are research-oriented. Last year we spent in excess of $115 million in research, the bulk of which is done in the United States—not all.

We have some research facilities in England and some in Italy. In the development of products, we make an effort to meet the needs worldwide and the needs vary somewhat. If it wasn't for our ability to obtain roughly 40 percent of our sales overseas as was the case in 1973, our opportunity to make that investment in research would be curtailed substantially.

If we hadn't been in the markets abroad, we would be half our present size.

Senator BENTSEN. We are discussing the extent to which you would have been in the overseas market. Let me ask you another question in that regard. About these corporate entities that are held overseas that are fully owned, except for the one in Japan that I noticed in your charts here, have you returned the profits to this country for tax purposes in the years in which they were incurred in the foreign country, or have you deferred them?

Mr. HELTZER. For all practical purposes, there has been no deferral.

Senator BENTSEN. These profits have been subjected to U.S. taxes in the year in which they were made?

Mr. HELTZER. Generally that is the case. I would like to qualify that a little. Originally when you start a manufacturing operation you are reinvesting as rapidly as you can to get up to a minimal position in order to compete.

Deferral really is not a meaningful thing in the industrialized countries where we do most of our business. It has more of an impact in some of the less developed countries.

Senator BENTSEN. You made the point that one of the reasons you went overseas is that you ran into tariff barriers and non-tariff barriers. Does that argue somewhat for our using such mechanisms to bring U.S. companies back to do their manufacturing here?

Mr. HELTZER. I don't believe so.

Senator BENTSEN. What is the difference?

Mr. HELTZER. I don't think they should be there or here.

Senator BENTSEN. But they are doing it to us and they are forcing fine companies like yous to establish plants abroad and hire foreign nationals instead of Americans.

Why shouldn't we be forcing them? Why shouldn't we have a quid pro quo?

Mr. HELTZER. The reason why we go over there is related to the fact that the market is there.

Senator BENTSEN. We have a market for their goods here?

Mr. HELTZER. We have a market for their goods here as well. If you continue to try to build the barriers, non-tariff or tariff barriers, in the long pull you have created a chinese wall and you have eliminated an opportunity to move technology both ways. It is important to move it both ways.

Senator BENTSEN. I couldn't agree with you more. I would like to see the barriers lowered. I get deeply concerned when other countries raise barriers and we don't and we don't have a quid pro quo. We should work more forcefully for a quid pro quo.

Mr. HELTZER. That is correct. This is what you have to have in a negotiation package. It has to be on a fairly broad spectrum. You can't negotiate individual elements by themselves. You have to resolve the trade issues, the monetary issues and the political issues all at the same time.

Senator BENTSEN. They just rang the bell on me.

Senator MONDALE, presiding. Suppose you can't get other countries to bring their non-tariff barriers down and because of that, we are encouraged to set up plants over there. Should we set up reciprocal barriers here to force them to set up plants and create employment here?

Mr. HELTZER. Obviously, Senator, in a negotiating position you use all of this sort of thing. You have got to be careful that you don't narrow the scope down and focus just on one produot, like, for example, scotch tape. You don't let scotch tape become the central issue because there are a multiplicity of products we are involved in and there are a number of raw materials we need to get.

If you handle any individual item in that narrow parameter you are unlikely to be successful in the overall negotiation. You have to have the ability to take all those elements and resolve all the differences the best you can, which means the non-tariff barriers as well as the tariff barriers at the same time. You don't do it all overnight.

Senator BENTSEN. This is a particularly knowledgeable witness and I am not trying to be argumentative. I am trying to develop my own information so may I ask another question?

Senator MONDALE. Yes.

Senator BENTSEN. On the problem of cartels, I notice the number of supplies and materiels that you bring from abroad in the countries involved.

Have you seen any trend on the part of these companies to follow the OPEC nations in the idea of cartels to control the price?

Mr. HELTZER. I haven't, other than what I read in the news media. As far as I know individually, I cannot recall a single instance where there has been a governmental action which has been equivalent to the kind that has gone on with the energy.

Senator BENTSEN. Thank you, I will put you on my Christmas card list.

Senator MONDALE. Senator Dole?

Seantor DOLE. I read your statement and I, too, was late. We had Mr. Meany before our committee last week. He takes a rather dim view of multinational corporations.

Mr. HELTZER. I am aware of that.

Senator DOLE. As I recall, he takes a dim view about everything. He is against imports and against exports, and that may be the proper view. In addition to the deferral mentioned by Senator Bentsen, he also lambasted multinationals for their foreign tax credits.

Do you get involved in that?

Mr. HELTZER. It is not a question of only being involved in it, but suppose I am emotionally involved in it. If you didn't have the foreign tax credit situation which we worked out over the course of years, you would not be able to compete for world markets.

If we operated in say the European market and we did not have a tax credit and a local producer over their paid substantially less taxes than we did, our chances of competing for the market is virtually zero.

Senator DOLE. Mr. Meany referred to that provision as a loophole. Do you see it as a loophole for multinationals?

Mr. HELTZER. No, I certainly do not. I am speaking strictly from my own experience and thinking in terms of my own company.

Senator DOLE. How many countries do you do business in?

Mr. HELTZER. 37, and we manufacture in 20.

Senator DOLE. What are you doing in Russia?

Mr. HELTZER. Nothing.

Senator DOLE. Anything planned?

Mr. HELTZER. We have been examining the possibility. We have been talking to Russians for a period of time, ever since the Department of Commerce set up a meeting some time back. We have selected a given product area, and we are exploring it, but we virtually do no business with Russia.

Senator DOLE. Do you still pay substantial taxes to this country?

Mr. HELTZER. It has been in excess of $100 million for each of the last 5 years and I think last year our tax, thinking strictly of Federal income tax, was $139 million in this country.

Of course, we pay more taxes than Federal income tax alone. The total tax bill was in excess of $226 million last year for Federal, State, and local taxes in the United States.

Senator DOLE. That is all.

Senator MONDALE. Senator Bentsen?

Senator BENTSEN. I can well understand your view on tax offsets. What position would you be in as compared with companies from other countries that might be operating in a third country? Isn't it generally the case that other countries also allow tax offsets?

Mr. HELTZER. Yes, sir, we have tax treaties with the bulk of the European countries and in Japan.

Senator BENTSEN. Is it the general practice of other countries as compared to the United States when they have their companies operating in a foreign country to allow a tax offset? Do other countries generally follow the same practice?

Mr. HELTZER. I believe the other industrialized countries follow the same practice that we do.

Senator BENTSEN. They don't allow the tax to be carried as an expense but as an offset?

Mr. HELTZER. Strictly as an offset. I am not quite a tax expert, but I am pretty sure that is right.

Senator BENTSEN. Then I withdraw the question.

Senator MONDALE. Thank you very much for a most effective and illuminating statement. I am most grateful for your testimony.

Our next panel consists of Clifford B. O'Hara, representing various port authority associations and C. Thomas Burke, chairman of U.S. Section, International Association of Great Lakes Ports.

I would like to take this opportunity to welcome Mr. Burke, an old friend of mine.

STATEMENTS OF CLIFFORD B. O'HARA, DIRECTOR OF PORT COMMERCE, THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY; CHAIRMAN, COMMITTEE XI: FOREIGN COMMERCE, THE AMERICAN ASSOCIATION OF PORT AUTHORITIES, AND CHAIRMAN, FEDERAL LEGISLATION AND GOVERNMENT TRAFFIC COMMITTEE, THE NORTH ATLANTIC PORTS ASSOCIATION; ACCOMPANIED BY MRS. ANU LACIS, SECRETARY, COMMITTEE XI: FOREIGN COMMERCE, AMERICAN ASSOCIATION OF PORT AUTHORITIES, AND STAFF MEMBER, PORT AUTHORITY OF NEW YORK AND NEW JERSEY; AND C. THOMAS BURKE, CHAIRMAN, U.S. SECTION, INTERNATIONAL ASSOCIATION OF GREAT LAKES PORTS, AND EXECUTIVE DIRECTOR, SEAWAY PORT AUTHORITY OF DULUTH

Statement of Clifford B. O'Hara

Mr. O'HARA. Thank you, Mr. Chairman and members of the committee.

I appreciate this opportunity to appear before you on behalf of the U.S. corporate members of the American Association of Port Authorities, representing all the major public port agencies in the United States; the North Atlantic Ports Association, which numbers among its members both private and public port interests along the Atlantic

coastline from Maine to Virginia; and the Port Authority of New York and New Jersey, the Nation's principal port gateway for international commerce.

I have here with me Mrs. Lacis, who is my assistant and staff member, Port Authority of New York and New Jersey and also secretary of the Committee on Foreign Commerce of the American Association of Port Authorities.

With over half of the American people living in counties within 50 miles of coasts fringing the Atlantic, Pacific, Gulf of Mexico, and Great Lakes, ports are major factors in the economic well-being of most of the Nation's population centers.

Specifically, as shown in a 1972 American Association of Port Authorities study of the economic impact of individual port-generated employment on the surrounding communities, nearly 1,200,000 persons residing in U.S. port hinterlands earn their livelihood directly from the handling, documentation, promotion and financing of foreign trade. The range of their jobs is endless—from longshoremen to ship pilots to foreign exchange dealers to marine insurance brokers and international bankers and many more.

Economists view every dollar of incremental income as capable of generating $2 of additional income. Thus, activities attributable to international trade and waterborne transportation in U.S. port regions can be viewed as ultimately responsible for providing employment opportunities for at least 2,500,000 persons.

On the basis of 2.5 dependents per job—the employee and 1.5 family members—a total of 6,253,000 port area residents throughout the United States—men, women and children—rely upon the continued flow of the waterborne commerce of the nation for their livelihood.

Clearly, the ports of the U.S. have a tremendous stake in the trade policies of this nation. The U.S. Corporate Members of the American Association of Port Authorities have accordingly adopted standing resolutions favoring reciprocal international trade liberalization on a fair and equitable basis, and have endorsed negotiations and legislation which implement this goal.

Trade restrictions, which curtail the level of international trade, represent a serious threat to the economic well-being of port regions where a great many people depend on the movement of exports and imports for their jobs and income.

The organizations for which I speak view the Trade Reform Act as fulfilling the objectives of these resolutions. The American ports wholeheartedly endorse the purposes of H.R. 10710 "to promote the development of an open, nondiscriminatory, and fair world economic system" and urge its early enactment, with certain modifications, but without protectionist amendments advocating the imposition of import quotas or other severe restrictions on international commerce.

Before commenting on specific provisions of the Trade Reform Act where we would hope the committee would consider modifications to help attain the overall goals of the bill, I would like to note that the ports of the United States view H.R. 10710, as passed by the House of Representatives, as capable of allowing the United States to partici-

pate in far-reaching international negotiations which can make major advances in improving the equitability of the world trading system and give rise to substantial growth in world commerce.

We are particularly pleased that the comprehensive negotiating authority bestowed upon the President encompasses the reduction of nontariff barriers to trade as well as tariffs. And we applaud the innovative authorities to suspend import barriers to restrain inflation and to modify restrictions on imports temporarily for balance of payments purposes.

We also approve of the imposition of limits on the authorities to raise tariffs in conjunction with trade negotiations and impose import restrictions to remedy balance-of-payments situations, as well as the requirement that the effect of import restrictions on consumers and domestic competition be considered.

And we strongly support the preference expressed by H.R. 10710 for adjustment assistance as a form of import relief and the preferred order of other remedies should import restrictions be deemed necessary.

In all, it is our considered opinion that the bill before your committee represents a considerable improvement over the draft submitted by the administration to the Congress last year, and we hope that the modifications I will now suggest in certain of its provisions, will not obscure our strong support for its basic thrust toward trade liberalization on a fair and equitable basis.

TITLE I.—NEGOTIATING AND OTHER AUTHORITY

The ports of the United States strongly support the comprehensive negotiating authority granted to the President by the Trade Reform Act to dismantle both tariffs and nontariff barriers to trade and the mandate to promote the development of an open, nondiscriminatory and fair world trading system.

In our view it is essential that the United States, as the world's largest trading nation, maintain its leadership role with bold new initiatives aimed at removing the inequities posed by artificial trade barriers and thus establish more equitable trading relationships between members of the international trading community while furthering the expansion of world commerce.

Consequently, we urge the committee to consider broadening the tariff cutting authority provided by H.R. 10710. Certainly the authority provided under section 101 is not particularly extensive in comparison with that granted under the Trade Expansion Act when overall tariff levels were considerably higher than today.

We believe that broader authority to lower tariffs—along the lines of the administration's original request or patterned after the Trade Expansion Act—would provide additional bargaining leverage and increase the potential effectiveness of U.S. negotiators.

We also urge the committee to reconsider the requirement in H.R. 10710 directing trade negotiations to proceed on the basis of reciprocity within product sectors lest it hamper the flexibility of our negotiators in their efforts to dismantle nontariff barriers.

ize the satisfactory completion" of trade negotiations, it limits such waiver authority to only 1 year in cases where the articles in question are produced in government controlled or subsidized facilities.

We recommend that the longer discretionary period be allowed in all cases to facilitate the conclusion of successful negotiations of an agreement on international standards pertaining to export subsidies.

TITLE IV.—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TREATMENT

In testimony before the House Ways and Means Committee last May, the U.S. port industry supported liberalization and normalization of commerce with Communist-controlled countries and extension of most-favored-nation treatment to these countries when in the national interest.

However, title IV, as passed by the House of Representatives, would not only deny any nonmarket economy country eligibility for most-favored-nation tariff treatment, but also preclude its participation in the U.S. Government's export credit, credit guarantee and investment guarantee programs, unless the President can certify that the country does not restrict the emigration rights of its citizens.

We are aware that the impetus for this restrictive provision originated in a most worthy humanitarian concern by the Congress. However, serious questions as to the appropriateness—or even the probable effectiveness—of the Trade Reform Act as a vehicle to attain the intended, though commendable objectives of change in other nations' internal policies have been posed by the eloquent testimony of Secretary Kissinger and others.

We continue to believe that extending nondiscriminatory tariff treatment and competitive export credits to nonmarket economy countries would be in our national economic interest. We derive our views in part from a number of recent actions by the Congress which have, in fact, encouraged the increase of such East-West trade.

Specifically, the Congress had repealed former restrictions on the President's authority to extend Export-Import bank credits for purchases by Communist countries, authorized the removal of unilateral export controls on shipments to such countries—with the exception of strategic goods—and in amending the Export Administration Act declared that it is U.S. policy to encourage trade with all countries except those with which such trade has been determined by the President to be against the national interest.

We hope that a solution can be found that will allow the United States to share equitably in the economic benefits of trading with nonmarket economy countries which our trading competitors, including the Europeans and Japanese and others, have enjoyed for a number of years.

TITLE V.—GENERALIZED SYSTEM OF PREFERENCES

We support the grant of authority under this title which would permit implementation of long standing U.S. commitments to join with other developed countries in extending tariff preferences to imports from developing countries.

However, we are concerned that such duty-free treatment could be withdrawn without the opportunity for those who might be adversely affected to be heard. We recommend that public hearings precede any retraction of such tariff preferences.

CONCLUSION

I hope that the committee will consider the comments we have offered constructive.

It is the considered opinion of the American Association of Port Authorities, the North Atlantic Ports Association, and the Port Authority of New York and New Jersey that the trade Reform Act on balance offers a realistic approach to attaining worldwide, cooperative trade expansion on a fair and equitable basis. We urge its earliest possible enactment.

Thank you.

Senator MONDALE. Thank you very much. If the committee does not object, I would suggest that we hear from the other members of the panel, then we will subject them to questions.

Mr. Burke?

Statement of C. Thomas Burke

Mr. BURKE. Thank you, Mr. Chairman.

I don't know if you know it, but Cliff O'Hara is my old boss.

Senator MONDALE. So this is a syndicate here today.

Mr. BURKE. Mr. Chairman, members of the committee: I appear before you today on behalf of the International Association of Great Lakes Ports representing 22 ports in the Great Lakes-St. Lawrence Seaway System from Buffalo, N.Y. to Duluth, Minn.

Mr. O'Hara has very adequately expressed the viewpoint of the American Association of Port Authorities, which we in the Great Lakes endorse wholeheartedly.

We also commend the efforts of this committee, and especially those of the Subcommittee on International Trade. And we urge you to continue your deliberations, always with the thought in mind that world trade can and does lead to world peace.

The Trade Reform Act as it now is written has many strong points and offers the hope of a viable new trading era not only for the United States, but for the entire world.

Significant new opportunities abound for exporter and importer as well; it is simply for the beneficiary to determine how much he will participate.

Of course, there are areas of concern such as Section 402, Title IV, Freedom of Emigration in East-West Trade, which deals with our continued dedication to the dignity of man and denies most-favored-nation treatment to any country that discriminates against any segment of their citizenry and deprives them the right or opportunity to emigrate.

While this is a matter of vital importance to all mankind, it does seem that this type of provision in a Trade Reform Act is misplaced. It is difficult to believe that this section of the act will have any effect on the trade policy of any foreign country, especially the Soviet Union.

Denying most-favored-nation status over a domestic policy does not appear to place any undue hardship on Russia and, in fact, frustrates one of the goals of detente. Hopefully our State Department will be able to negotiate this matter through the proper channels in the near future. Patience and compassion must prevail.

Additionally, Section 606, title VI, dealing with international drug control, which gives the President authority to embargo trade and investment, public and private, with any nation that fails to take adequate steps to prevent illicit production, smuggling, trafficking in, and abuse of dangerous drugs, is an understandable concern of Congress.

If this additional Presidential authority accomplishes the goals we all hope it will, then so be it. But like the emigration issue, perhaps this matter could best be dealt with if it were not part of the Trade Reform Act. Stronger enforcement of existing regulations may well be in order.

Also. I would like to address myself to your amendments, Senator Mondale, to the Trade Reform Act. You have spoken passionately and articulately regarding the world oil and food crisis and the needs of the developing nations.

Your contention that it is naive to assume our trading partners will give us access to their markets if we do not assure them stability of supplies is absolutely correct. Conversely, we must be assured of access to foreign markets and supplies.

It is unfortunate that nations' raw materials are now becoming weapons of international politics. We, in the United States, must avoid this type of regressive international trade philosophy and exert every effort toward continued openness and dedication to liberal free trade.

The oil crisis, while placing a heavy burden on the United States, has worked the cruelest hardship on the developing nations of the world. We must not compound the tragedy by defaulting on our food commitments.

Therefore, it is imperative that the United States take the initiative in establishing a world food bank to make certain that export commitments to developing nations will be met consistently and that the ebb and tide of market conditions in this country will not adversely affect their—the developing nations—very existence.

The forthcoming United Nations World Food Congress to be held in Rome next November would be an ideal forum for the United States to renew our moral commitment to help feed the starving people of the world.

We cannot turn our backs on the less fortunate after so many years of caring. A country's food policies are just as important as a country's emigration, drug, or oil policies.

Let us hope that the more developed nations of the world accept this premise and are now prepared to share their just responsibility. As President Kennedy once said, "A rising tide lifts all the ships."

Finally, having just returned from a European Trade Mission, it is quite obvious to me that no meaningful negotiations can take place between the United States and any foreign country until such time as we have a congressionally approved trade bill.

Let us hope that this legislation—if passed by Congress—will serve as the catalyst for substantive trade reform throughout the world. The challenge is yours, Senators. We anxiously await your determinations.

Thank you.

Senator MONDALE. Thank you very much.

Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. O'Hara, in your statement you state:

> It is essential that the U.S., as the world's largest trading nation, maintain its leadership role with bold new initiatives aimed at removing the inequities posed by artificial trade barriers and thus establish more equitable trading relationships between members of the international trading community while furthering the expansion of world commerce.

I agree with your goal, but we have some very serious problems on imports. As you know, the imbalance of trade, let us take one example, between our country and Japan.

We now have a large percentage, I won't say large, but an important percentage of the exports from Japan coming to the United States while they are precluded from shipping into the European economic community.

How does this recommendation that you have affect that position?

Mr. O'HARA. I think in the long run, we would do better to stick with a policy aimed at worldwide trade liberalization and these things are going to straighten themselves out. Actually, the trade balance situation has been turning around very substantially since the changes in the currency relationships, Senator.

It is noteworthy that the ships in and out of the Port of New York a year ago were running about 2 to 1 imports versus exports and now they are running just about equal.

I think this is rather an interesting turnaround in that situation.

Senator FANNIN. It would be if those exports were manufactured goods and the imports happened to be coming in on the same basis as our exports are going out.

Now I refer to the automotive industry, and we have had testimony from Mr. Woodcock that he wanted to put quotas on automotive imports, and I don't like quotas, but here we have cars coming in under a 3-percent tariff and we try to ship out competitive equipment, if we could be competitive, and we have two to three times the tariff in most any country you would want to refer to.

They still have their high nontariff barrier. What do you think can be done in that regard?

Mr. O'HARA. I certainly agree with you that there remain many nontariff barriers which impede U.S. exports. That is why we need this negotiating authority—to try to break down some of these unrealistic Japanese and other restrictions.

I might say that my previous statement referred indeed to manufactured goods. I am talking about goods moving on container ships, not bulk freight, such as oil or scrap iron. The fact that I am talking about manufactured goods is what makes this turnaround noteworthy.

Senator FANNIN. Do you have any idea of what is going out in New York that happens to be going to European countries or that there

could be large shipments to certain of the countries that we do have a great imbalance of trade with?

For instance, we are trying now to do what we can to offset the tremendous petroleum imports. Were those countries affected to any great extent in those shipments?

Mr. O'HARA. I would say there has been a turnaround also in trade with Europe where we were importing more than we were exporting. Of course, we have had a substantial growth in the East. There have been unprecedented shipments to the U.S.S.R. and some of the Eastern European countries.

Senator FANNIN. I realize we have the great problem on tariffs and trade and we hope that those negotiations go forward and that we have greater luck in getting the votes than we have had in the past.

You say the Japanese turnaround has been significant, still, I worry about it as just a temporary pattern because there still doesn't seem to be any change in the Japanese attitude regarding their desire for exporting to our country.

There has been a time when we had some advantages through exchange rates, but that hasn't been lasting and probably won't be.

It is your opinion that we can negotiate these differences then?

Mr. O'HARA. Yes, sir, it is.

Senator FANNIN. Thank you.

Senator TALMADGE. Senator Dole?

Senator DOLE. Just briefly, as I understand the testimony of both Mr. Burke and Mr. O'Hara, you are not in accord with title IV of the bill passed by the House with reference to discrimination?

Mr. O'HARA. That is correct.

Senator DOLE. I share the view that you express in your statement that it may be a commendable objective, but this may not be the proper way to approach that. I don't know how we can determine internal policies in a trade bill.

I assume if you look around you can find some internal policies in some of the other countries that might not please the majority of the Members of Congress, but in any event, it is there. It poses a threat to the trade bill.

There was some hint in Dr. Kissinger's testimony that it might all go down the drain. It is very important that we come to grips with that problem.

Mr. O'HARA. We certainly agree. I think that Dr. Kissinger's statements were extremely to the point. I know there are some less developed countries which also have emigration restrictions to prevent people who have been educated at government expense from moving out. This is something that really doesn't belong in this bill.

Senator DOLE. I am cosponsor of the Jackson amendment, but I believe it may not be the proper place to solve that problem.

I want to get into the World Food Bank that I want to commend my colleague for, I think. I am not certain what he has in mind, but we have had hearings recently in the Senate Agriculture Committee about food reserves.

It always frightens farmers in America to talk about reserve in anything because they look upon this as a price depressing mecha-

nism. Somebody is always trotting it out in Congress—Orville Freeman used to do it frequently. Fortunately it never got passed, but in any event they are concerned about this.

Maybe the World Food Bank can be taken away from here and put in another place——

Senator MONDALE. Would you yield?

Senator DOLE. Yes.

Senator MONDALE. I would be against any reserves that didn't have legislative protections against dumping.

Senator DOLE. I agree with that. I have never been able to find anybody to draft such a bill. Sooner or later you have to—I don't know if "dump" is the right word—but you will have to dispose of it and it will have an impact on the market.

I do believe and I share the view expressed by the Senator from Minnesota that we have an obligation not just during times of surplus to unload all of our surpluses in developing countries, but we have an obligation during times of scarcity or at least when we don't have that great surplus.

I think the idea is sound but am not certain how we will get around to doing it. If we look at the history of Public Law 480, which was initiated by, I think, another Senator from Minnesota, Senator Humphrey, and a Senator from Kansas by the name of Andy Schoeppel. We spent several billion dollars on Public Law 480 to help developing countries. Many of those countries felt we were dumping surpluses because it helped foreign market prices.

I share the view that we have that an obligation to help developing countries, but what do you do when it gets to the point of taking it away from this country and supplying it to some other country? How do you make the choice?

Mr. BURKE. I think, Senator, in those years of surplus, that is where the banks will come in. You built the food supplies in those banks so that, hopefully, you will never take it away from the United States when you have a short crop.

Senator DOLE. The objective is commendable. I don't know how it will hold together.

Mr. BURKE. I don't either, but I think the forthcoming conference in Rome would be a very good place to begin.

Senator DOLE. I may go there if I lose. Is it in November?

Mr. BURKE. It is early November.

Senator DOLE. I may go either way.

Senator MONDALE. Is the President going to drop the leaflets for your election?

Senator DOLE. He is going to do a flyover for me.

Senator MONDALE. That may do it.

Mr. Burke, I think we are all terribly concerned on this committee about U.S. jobs. As you know, president Meany of the AFL-CIO and president Abel, of the Steel Workers, strongly urged a concern for U.S. employment and, as Senator Fannin pointed out, Mr. Woodcock, president of the Auto Workers, similarly made a strong plea for recognition that there ought to be adequate concern for U.S. employment.

I think that a poll is a very strong and valid one.

Could you just briefly point out what the impact on employment investment has been from the activity of the Duluth Port, in the Duluth area, just to give one example, where there is employment picked up that way.

Mr. BURKE. About 3 years ago when the U.S. Steel plant in Duluth started to phase out and finally did completely, we lost about 2,800 jobs or 3,000 jobs.

It was just about that time that the port activities started to increase and we picked up quite a few of those people that were laid off at the steel plant.

Now on a day-to-day basis, we have over 2,000 people employed actively in the maritime industry. Last year, as a result of moving the grain cargo, the dollar benefit to the State was about $43 million direct bill and then two and a half times that as the other spinoff—approximately $160 million was the effect that the port had on the State of Minnesota.

So, in answer to your question, Senator, if it weren't for a viable Maritime industry in Duluth, that city would be in very serious trouble.

Senator MONDALE. You say you are employing about 2,000 people at the port?

Mr. BURKE. Maritime related, customhouse brokers, freight forwarders, pilots who bring the ships in and out—you can run down the gamut of anything that has to do with maritime trade.

Senator MONDALE. What about direct employment in shipbuilding or ship repair? Is there any employment there or is there likely to be?

Mr. BURKE. Yes, in Duluth, we have Frazier Shipyards, who employ over a thousand people. As a result of the season extension program, for instance, we are able to cut a channel in the harbor to get two of the U.S. Steel ore vessels into their yard during the winter months and that kept 300 or 400 people working through February and March.

Senator MONDALE. When you are talking about the 2,000 employees, you are not including them?

Mr. BURKE. No.

Senator MONDALE. Would you say the Frazier operation is the result of the Duluth Superior activity?

Mr. BURKE. They are doing quite well, the Frazier people as a result of the rebuilding of the Great Lakes fleet as a result of the Maritime Act of 1970.

Senator MONDALE. Do the amendments we made to the 1970 Act help to build up nontax reserves?

Mr. BURKE. Considerably. It was very beneficial to companies like Frazier who were not doing too well before that.

Senator MONDALE. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman. You place great confidence, Mr. Burke, as to what will result if we do have a trade bill. I hope we have a trade bill. I think you are a little optimistic if you

think you will accomplish several of these objectives that you seem to refer to in your last statement where you say:

> Finally, having just returned from a European trade mission, it is quite obvious to me that no meaningful negotiations can take place between the United States and any foreign country until such time as we have a congressionally approved trade bill.

That is placing us in a position that if we don't have a trade bill, we are in difficulties. Is that your feeling?

Mr. BURKE. Yes, it is, Senator. Especially if you look at what is happening in the GATT talks, there is just no movement at all.

They are waiting for a trade bill.

Senator FANNIN. I don't have your optimism that there will be. Unless we can get some different voting arrangment in GATT. It isn't within our power to pass legislation that would change the voting arrangements in GATT.

Of course, you are aware that we have been negotiating with the EEC relating to compensation for enlargement of the EEC and how is this going to help us as far as that negotiation is concerned?

Here, we have been trying to do something that is basic, but we haven't been successful and it doesn't look very promising.

How would the trade bill change that?

Mr. O'HARA. I would be inclined to think that the trade bill cannot do much for that. That is a rather separate matter.

The purpose of the trade bill as we understand it, is to give U.S. negotiators the opportunity to bargain multilaterally in order to make arrangements on matters such as bringing tariffs down, dismantling nontariff barriers and other such things.

Senator FANNIN. I well understand that. If we cannot negotiate now, how are we going to be able to negotiate on these other matters? I am not disagreeing with you at all regarding the position we are in with EEC with respect to compensation from the community.

It is going to be very difficult for us to go forward to any greater extent than we are today because our negotiations today are very troublesome and certainly not very rewarding.

I think it is necessary for us to apply some standards to a trade bill before we can make the statement that Mr. Burke has given; do you agree?

Mr. BURKE. Perhaps I am too optimistic.

Senator FANNIN. If you would have made that observation with the stipulation that you think it is highly essential for this trade bill, then I think it would be more beneficial to us, more helpful.

What I am trying to arrive at: What do we need in this trade bill that will make it possible for us to accomplish what you are talking about.

You have been discussing these matters with the trading community of Europe. What do you feel is essential to this trade bill that would make that possible?

Could you think about this and give it to us in writing? In other words, there are certain stipulations you want in this trade bill to accomplish the objectives that you see are needed. Could you give us your thoughts?

Mr. BURKE. Yes.

Mr. O'HARA. I'd like to reiterate that we support the bill. We think the bill does give us what is needed in order to have the proper reference for negotiations with these other countries so that we can try to bring down some of their trade barriers. We have made modest suggestions, but on the whole we approve the bill as it was passed by the House.

Senator FANNIN. Do you realize the changes and amendments that have been recommended?

Mr. O'HARA. Yes.

Senator FANNIN. We want to know what you think we should end up with that will accomplish the objectives that you have been talking about.

Mr. O'HARA. Negotiating authority that will give the greatest possible leverage for those representing the U.S. at the GATT bargaining table.

Senator FANNIN. Thank you.

Senator MONDALE. Thank you very much.

Our next panel consists of Thomas N. Stainback, president of World Trade Department, New York Chamber of Commerce and Industry, and Mr. James H. Ingersoll, vice president for World Trade, Chicago Association of Commerce and Industry, also a vice president of Borg-Warner Corporation.

STATEMENT OF THOMAS N. STAINBACK, PRESIDENT, WORLD TRADE DEPARTMENT, NEW YORK CHAMBER OF COMMERCE AND INDUSTRY, ACCOMPANIED BY: CHARLES E. LILIEN, VICE CHAIRMAN OF THE CHAMBER'S WORLD TRADE COMMITTEE AND EXECUTIVE VICE PRESIDENT OF WELLS FARGO BANK INTERNATIONAL AND JAMES H. INGERSOLL, VICE PRESIDENT FOR WORLD TRADE, CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY, ALSO A VICE PRESIDENT OF BORG-WARNER CORP. AND A. ROBERT ABBOUD, VICE CHAIRMAN OF FIRST CHICAGO CORP., CHAIRMAN, WORLD TRADE POLICY COMMITTEE OF THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Statement of Thomas N. Stainback

Mr. STAINBACK. Thank you.

My name is Thomas N. Stainback. I am president of the New York Chamber of Commerce and Industry. I regret the witness list does not indicate that I am accompanied by Mr. Charles E. Lilien, vice chairman of the Chamber's World Trade Committee and executive vice president of Wells Fargo Bank International.

The Chamber that I represent, which is the oldest Chamber in the United States, having been founded in 1768, is composed of over 3,000 member firms broadly representative of the commerce and industry of New York City and this metropolitan area, including finance, banking, import and export trade, insurance, shipping, transportation, construction, and public utilities, and all the ancillary services and

professions which support the operations of the Nation's and the world's leading business community.

We appreciate the opportunity to present our views on behalf of the New York Chamber of Commerce and Industry on the Trade Reform Act of 1973.

As the leading spokesman for New York business, the chamber since its inception has been a staunch supporter of all measures which promote the freer flow of investment funds and merchandise across international borders. At the same time it has vigorously opposed protectionist drives to restrict international trade and investment. This traditional policy of wider nondiscriminatory trade based on the most-favored-nation principle has worked to the economic well-being of America in the past and the continuance of this policy will enable America to meet the challenges and prosper from the opportunities that an everincreasing volume of international trade will present to the United States in the years ahead.

Continuing in this enlightened policy vein, the New York Chamber of Commerce and Industry wholeheartedly endorses the objectives and provisions of the Trade Reform Act of 1973. As the leading industrial nation of the world, the United States has the most to gain from expanding trade and should lead the way to broaden and increase the trade opportunities for both the industrial nations and for the emerging economies. This act is the proper vehicle to accomplish this goal, and the New York Chamber of Commerce and Industry supports the bill, with reservations on some specific provisions as follows:

NEGOTIATING AND OTHER AUTHORITIES

Although the chamber supports the basic authority for the President to enter into multilateral trade agreements aimed at reducing tariffs and removing nontariff barriers, we feel that the section 102(c)(1) concept that a "principal U.S. negotiating objective" shall be to obtain "with respect to each product sector" competitive opportunities for U.S. exports equivalent to the competitive opportunities afforded in U.S. markets, should be modified to make this objective one of the general U.S. negotiating objectives, but not to the exclusion of the others.

Therefore, section 102(c)(2) should be modified. Presently section 102(c)(2) states that "to the maximum extent appropriate to the achievement" of the product sector equivalent competitive opportunities objectives of section 102(c)(1), trade agreements should be negotiated on the basis of each product sector of manufacturing and on the basis of the agricultural sector. We believe section 102(c)(2) should require negotiating trade agreements to achieve objectives set forth in section 2 of the bill—stimulating economic growth of the United States, maintaining and enlarging foreign markets for U.S. products, and strengthening economic relations with foreign countries through the development of fair and equitable market opportunities and through open and nondiscriminatory world trade—primarily, and only thereafter for the purposes of achieving product sector equivalent competitive opportunities.

Access to Supplies

The chamber approves and endorses, as an objective of this legislation, the incorporation of the concept proposed by Senator Mondale to make access to supplies of raw materials one of the major goals of U.S. negotiations. We recognize that in an interdependent world reducing the barriers to access to supplies is extremely important, and we need to develop a worldwide framework to assure such access.

On the other hand, we feel that the President needs broad discretion in these areas and should not be required by legislation automatically to react in a specified manner. We feel the directive to include this problem in the trade negotiations is appropriate, but only as a general objective of the negotiations without requiring a specific response.

Import Relief

The present statute which provides relief to domestic industries and firms and workers will be liberalized by revising the criteria from those provided by the Trade Expansion Act of 1962, in which the increased imports of an article were a major cause of actual or threatened injury.

The chamber restates its position with respect to the standard of cause of serious injury. We feel that standard should be major cause —greater than all others combined—rather than as originally proposed by the House of Representatives primary cause—largest single cause—or as H.R. 10710 was finally adopted, substantial cause—important and not less than any other cause—for purposes of import relief under chapter I. We also feel that the test for the threat of serious injury and actual serious injury should be the same.

We oppose quantitative import restrictions, orderly marketing agreements as unnecessary and counterproductive. Surveys have shown that suspension of 806.30 and 807.00 under which U.S. manufactured parts are sent abroad for assembly or further processing would result in some companies purchasing their materials from foreign sources instead of from the United States. Others indicate they would move some of their production facilities abroad.

The evidence indicates that these tariff items add significantly to this country's exports and provide a significant number of jobs here which otherwise would be lost. For these reasons, the New York Chamber of Commerce and Industry opposes authority for the suspension of items 806.30 and 807.00.

Adjustment Assistance

For the purposes of adjustment assistance, we feel the standard should be more liberal. In other words, we propose a strict standard for import relief in that the cause of injury for import relief should be a major cause, but for adjustment assistance we agree to the substantial cause criteria.

The New York Chamber of Commerce and Industry has long agreed to the need for liberalization of the criteria for determining eligibility under the adjustment assistance provisions of the 1962 act.

The current eligibility requirements are too stringent as evidenced by the fact that since 1962 only 23,000 workers have requested assistance and have qualified for adjustment assistance.

As in the case of workers, the criteria for firms qualifying for adjustment assistance is much too stringent in the current law and hence few firms have been able to take advantage of the financial aid and technical assistance provided. Indeed, there is now more than ever in our opinion a need for adjustment assistance for firms, if the proposed adjustment assistance program for workers is to work effectively. Aid to firms might very well restore the competitiveness of the firm to foreign imports or help the firm to adjust to a new line of endeavor. In either case the ability of assistance to the firm to maintain that firm in business on a competitive basis can maintain and expand the job opportunities available in the specific firm. At the same time it is our view that in assisting those firms injured by import competition a vigorous surveillance must be carried out to guard against the inherent danger of indiscriminate use of this form of relief in a manner which could prolong the adjustment process, encourage inefficient industries or uneconomic production.

In addition to making firms eligible for adjustment assistance, the New York Chamber of Commerce and Industry believes that the Trade Reform Act of 1973 should also make provisions for an adjustment assistance program for communities. If workers and the firms who employ those workers suffer severe dislocations as a result of increased imports, it stands to reason that there is a good possibility that the communities in which they are located will also experience economic problems.

The degree of the problem will of course vary, depending upon the economic impact of the affected industry on the communities total economy. A similar community aid program has been operated successfully by the Office of Economic Adjustment in the Department of Defense. Since 1961 this office has helped over 160 communities whose economy had been dependent upon large defense expenditures, adjust to changes in defense spending which cut or eliminated the communities income. An adjustment assistance for communities could establish the community as the catalytic agent in combining the labor, business and community in developing and/or attracting new industries to take up the business slack resulting from import injury. The New York Chamber of Commerce and Industry strongly urges the insertion of an adjustment assistance program for communities into the current trade legislation.

Relief from Unfair Trade Practices

Under this title are two sections requiring consideration from the viewpoint of the U.S. import community.

In *section 321*, the bill would amend the Antidumping Act by adding provisions to achieve the following: (*a*) Prescribe time limits for the conclusion of fair value determinations; (*b*) hearings in fair value determinations; (*c*) require the deduction of export taxes in determining purchase price; (*d*) make the statute applicable to goods

which are changed by processing or manufacture after importation but prior to resale; and (*e*) equalize tax treatment as between the purchase price method and the exporter's sales price method, and as between the Antidumping Act and the Countervailing Duty law.

We recommend that:

1. Amendments to the Antidumping Act should not be considered as part of the Trade Reform Act of 1973.
2. The investigative phase of the fair value determination should be separated from the hearing or adjudicatory phase.
3. The investigative phase of the fair value procedure should not be subjected to rigid time limitations. Neither domestic nor importing interests desire or benefit from delay.
4. The adjudicatory phase of the fair value procedure should be completed in a specified time. Sixty days is adequate. The statute should provide a mechanism for handling confidential materials in fair value and injury proceedings which is consistent with due process.
5. Taxes applicable to goods sold in domestic commerce in the country of manufacture should be treated in the same way as taxes applicable to exported goods.
6. The "injury" test should be changed to require "material injury."
7. Treatment of "different circumstances of sale" should be codified.
8. The President should have authority to waive the imposition of antidumping duties when the national interest requires.

Section 330, the bill would amend the Countervailing Duty Law by adding provisions to achieve the following: (*a*) Application of the law to duty-free merchandise; (*b*) prescribe a 1-year time limit for the conclusion of a countervailing duty proceeding; and (*c*) vest the Secretary of the Treasury with authority to waive the imposition of countervailing duties where economic circumstances or the existence of quantitative quotas so warrant.

We recommend that:

1. Amendments to the Countervailing Duty Law should not be considered as part of the Trade Reform Act of 1973.
2. The President should retain authority to waive the imposition of countervailing duties when the national interest requires.
3. The test of "material injury" should apply in all cases, not only in connection with duty-free merchandise.
4. A hearing should be afforded.
5. There should be no arbitrary time limits.

Emigration Restrictions

Concerning title IV, we object to section 402. We do not believe a trade reform act is the appropriate place to resolve political problems. This comment would be applicable to emigration problems or other problems of nations with which this country trades. Therefore, we feel the requirement that the President should not grant "nondiscriminatory treatment"—most-favored-nation treatment—to any country which denies its citizens the right or opportunity to emigrate is inappropriate. We would suggest this requirement be omitted. We would suggest that the President be authorized to grant most-

favored-nation treatment to any country where, even if there is some emigration restriction, he believes the country is making bona fide efforts to improve the situation, subject to the same congressional veto procedure on the granting of most-favored-nation treatment that exists with respect to the other areas involved in trade agreements in this bill.

The New York Chamber of Commerce and Industry considers the infringement of human rights as most deplorable. However, we feel that by negotiations, and with the development of further commercial relations, much more will be accomplished than by the inclusion of this amendment in the act.

Economic Assistance to Developing Nations

The longstanding and farsighted policy of the United States in providing economic assistance to developing nations has been beneficial to those nations and to the United States. For a great many years the United States has assumed the major burden of economic assistance to developing nations. The seed of our direct grant program has developed to the stage where the fruition of these investments must have access to world markets. Until the economies of the developing nations are able to compete fully in international markets it is the obligation and duty of the industrialized nations to provide a preferential market for their export products.

Title V of the Trade Reform Act of 1973 provides the authority for the United States to continue its longstanding policy of aiding developing nations to expand the economies while at the same time protecting competitive U.S. industries.

However, we do consider important, the provision which provides that preferential tariff treatment would not be granted to countries that grant reverse preferences to other industrialized countries unless these reversed preferences were eliminated.

Senator Mondale. Mr. Ingersoll?

Statement of James H. Ingersoll

Mr. Ingersoll. Good morning, Mr. Senator.

I am James Ingersoll, representing the Chicago Association of Commerce and Industry as vice president for World Trade. I am also a vice president of Borg-Warner Corp.

I am accompanied by Robert Abboud, vice chairman of First Chicago Corp., who is chairman of the World Trade Policy Committee of the Chicago Association of Commerce and Industry.

Our association represents some 5,000 business and professional organizations in the Chicago area, with a gross annual product of $65.5 billion—or roughly 5 percent of this Nation's gross national product. Within a 400-mile radius of Chicago, more than 30 percent of the Nation's exports originate; and three companies within this area—General Motors, Caterpillar, and Cargill—are the top three exporters in the country.

I would like to speak on several aspects of the pending trade legislation: First, the need for a well-coordinated national trade policy. Mr.

Chairman, our country is currently swept by cross currents that could profoundly affect our status as a world power. At last disentangled from 10 years of war in Southeast Asia, many Americans now feel we should deemphasize our role in international affairs, and concentrate on domestic issues. A variety of other unpleasant experiences abroad supports this attitude: The Mideast War and the ensuing oil embargo; a grain sale that resulted in higher domestic prices, and many others.

Yet in simple fact, a retreat to isolationism in this age is impossible. Strategically, the Atlantic and Pacific no longer protect us against spillovers from the disputes of other nations. There is a global interdependence, and that interdependence means that the United States must look outward.

We are no longer self-sufficient in natural resources. Today we import not only oil, but 100 percent of our chrome and tin requirements; more than 90 percent of our cobalt, nickel, maganese, and platinum; and a large percentage of our total needs for other minerals.

To pay for these imports we must export. But in order to export, we must have a universally accepted trading system, and a well-directed national trade policy. I am concerned that our citizenry seems unaware of this need, and indeed of the consequences of not acting upon it.

Mr. Chairman, we hope soon to be entering into long and trying negotiations with the GATT nations. And I fear that the Office of Special Representative for Trade Negotiations may be sent into this difficult, highly competitive arena inadequately staffed, and lacking sufficient resources and authority to achieve our objectives. If our negotiations fail, we will suffer the consequences for some time to come.

The second point I want to enlarge on is this country's need to obtain equitable access to foreign markets.

World shortages in basic commodities have set in motion trends that the United States must deal with. Today, some industrialized nations are moving to secure critical supplies of food, energy, and other scarce commodities without regard to the cost, or the adverse impact it may have on others. This can obviously lead to dangerous results, and I believe we must act quickly to prevent this movement from accelerating.

During the past decade, the trend toward regional trading blocs has fostered a system of trade preferences and agreements within and among various bloc members. Two of the better known such systems are the common agricultural policy, and common external tariff, of the European Community. Under these, the European Community has been extending preferential treatment to other groups, and to non bloc nations, and getting reverse preferential treatment in return. It is my understanding that if preferences now under consideration are implemented, upwards of 80 countries—other than ours—will be eligible for various types of preferences.

Two examples may help illustrate how these practices can harm American suppliers. The first deals with the common agricultural policy.

In early May of 1973 the CIF Rotterdam price of U.S. wheat was $105.15 per metric ton; but the landed price to the European buyer was $158.96. The difference was the European Community variable import levy of $53.81, under the common agricultural policy. And this levy was just enough to encourage European Community purchasers of wheat to buy primarily from European Community suppliers—leaving U.S. farmers as a secondary source.

The U.S. Department of Agriculture stated in 1972 that in the 10 years since inauguration of the common agricultural policy, variable import levies have caused the United States' share of the European Community agricultural market to decrease from 12 percent to nine percent. With the growth of the European Community, the application of the common agricultural policy could place even further constraints on our agricultural exports.

My second example is in the area of manufactured products. Caterpillar Tractor Co. in our area has stated that trade agreements between the European Community and the five nonacceding EFTA countries will eventually eliminate duties on EFTA and European Community products similar to Caterpillar's. Meanwhile, the duty rates on Caterpillar's products exported to EFTA and European Community countries will remain the same. Caterpillar's projections of the duty disadvantages it will suffer, based on 1972 combined sales of $39 million in these markets—reveal a considerable threat to its future business there. And it seems reasonable to suppose other U.S. manufacturers will suffer similar disadvantages.

The point in both cases, Mr. Chairman, is that we must have a trade law that empowers our negotiators to work toward removing these harmful practices and establishing an equitable trading system.

The next aspect of the bill I would like to comment on is the authority to extent Most Favored Nation status. I firmly support the goal of human rights for all individuals, including the right of freedom of emigration. Moreover, I believe this to be a legitimate goal for the Government of the United States to pursue. But I do not believe that requiring free emigration, as a condition of equal tariff treatment or credits, will in fact ensure that freedom. Such action could, in fact, have quite the opposite effect. It would seem that this very important, but complex issue could be better resolved through a continued broad range of diplomatic efforts.

I also fear that imposing such conditions could adversely affect U.S. exports. It seems unlikely that the governments of nonmarket economies could continue to purchase U.S. goods in significant amounts if they were not assured, at the minimum, equal access to U.S. markets and a reasonable balance of trade. Instead, they will surely turn to the other industrial trading powers—especially the European Community and Japan, which offer quite acceptable alternatives to our products and impose no such constraints. So the end effect of such a policy could be, not to achieve free emigration, but merely to forfeit important international markets to the competition.

My fourth and final concern is the extension of U.S. Export-Import Bank credits to nonmarket economies. Eximbank's enabling legislation emphasizes the need to promote exports, to contribute to the

economic well-being of our Nation. This language is couched in economic and commercial terms, with only occasional references to political considerations.

While I recognize the difficulty of adopting this approach in all situations. I do believe the primary criteria for Eximbank's review of credit applications should be the economic and commercial benefits to the United States—not our foreign policy objectives. Since an Eximbank credit enables the borrower to purchase products from a U.S. supplier, these commercial benefits may be considerable.

Moreover, now that Eximbank's direct lending rate has been increased to over 7 percent, it would be difficult to argue that such credits were being extended on a concessional basis. In the long run, it would appear that the benefit flows to the United States in general, and the U.S. supplier in particular.

The extension of credits to the U.S.S.R. could result in other benefits. For example, if such a credit finances the sale of U.S. goods or services related to the production of energy, it could help assure that some of the output of these Soviet energy reserves would be shipped to the United States. This supplement to our own energy sources could provide some balance in our use of foreign supplies of energy.

In closing, let me stress again that I believe the U.S. Government should actively pursue the goal of freedom of emigration for all people. But I feel that this goal can be best achieved through continued bilateral diplomatic contact with the governments of the nonmarket economies. Indeed, Mr. Chairman, I believe much progress has been made to date in this entire area through diplomatic initiative. And I have no reason to believe that such progress should not continue.

Thank you.

Senator MONDALE. Senator Fannin?

Senator FANNIN. Thank you. We appreciate both of your statements and your coming here to testify.

Mr. Stainback our foreign trading partners are quite shrewd and ingenius. Your recollection as to title III of the bill causes concern. It took a great deal of effort on the part of this committee to encourage the Treasury Department to enforce the Antidumping Act and Countervailing Duty Law. We have had no success. We have tried on both.

I am informed the emphasis of antidumping is on color TV. It was too late to influence the black and white reduction. I have talked to quite a number of our manufacturers in this regard. Why shouldn't we strengthen these statutes instead of giving discretion to the Secretary of Treasury.

Mr. STAINBACK. We did make some recommendations in that regard. On the investigative phase, we felt a fair value determination should be separated from the hearing.

We feel that taxes applicable to goods sold in domestic commerce in the country of manufacture should be treated in the same way as taxes applicable to exported goods.

The "injury" test should be changed to require a "material injury", and the treatment of "different circumstances of sale" should be codified.

All that we have basically said with that is that the President should have the authority to waive it. Was your question as to the U.S. Treasurer?

Mr. STAINBACK. Yes, we don't enforce these laws for a 2 to 4-year period. Many of these industries could be lost.

Senator FANNIN. The bicycle industry is a good example. They have screamed and screamed about what is happening to them and they are practically out of production as I understand. Many of their supplies are brought in from foreign countries. They are almost an assembly production unit instead of being a full production unit, and that is what worries me.

More specifically, one of your companies, the Zenith Corp. to be specific, has been fighting and fighting trying to see what they could do about getting their merchandise into Japan. They can't do that. They were also fighting both because of the dumping and subsidizing by Japan, Inc. They were complaining about the sets coming in and selling for less in Chicago. They were selling for less in Chicago than they were in Tokyo. I think you are probably familiar with that.

Mr. STAINBACK. Yes, and I think, too, one of the things we would regret is that there would not be a time factor and that was pointed out in our report where we referred to the adjudicatory phase of the fair value procedure. We felt it should be completed within a specified time, a feeling that 60 days perhaps would be an appropriate time.

Otherwise, if something of that nature isn't done, it will drag on and there will be other problems and other excuses.

Senator FANNIN. Well, it has been dragging along.

Mr. STAINBACK. Yes.

Senator FANNIN. We have had very serious problems. You could pick one industry after another. Before they get any satisfaction, they are bankrupt, so it is very little gratification to them to say yes, we will give you help, but we don't know when, and we are talking about a 3 or 4-year period.

Mr. LILIEN. I have served on the committee, within the New York Chamber of Commerce on Industry which has considered various provisions of this act in detail. The feeling of the committee members is that the basic concepts, both with regard to countervailing duties and antidumping legislation, are concepts that we all subscribe to, but that as far as the practical cases are concerned, sometimes they involve so much complexity with regard to fact, as to what is really going on in the foreign markets and whether or not the application of these principles really is appropriate, that it was for that reason that our committee felt that legislation in dealing with such highly technical matters might be considered separately, rather than being included in this legislation which perhaps doesn't allow all of the details and all of the subtleties to be considered in appropriate fashion. This was the main thrust of our committee's consideration.

Senator FANNIN. One of the previous persons testifying used similar arguments that I am concerned with because, after all, what we are trying to do is to liberalize trade. I agree that we must do as much as we possibly can to increase our exports, especially with the fantastic magnitude of the imports of foreign products. That is why I

say that we are looking forward to the day when we can balance that to a certain extent by exports of manufactured products that would employ our people. I think that is the greatest problem we have. We have an unemployment problem and a competitive problem, and certainly the answer is not in sight.

Thank you, Mr. Chairman.

Senator MONDALE. Thank you.

Do you favor the Jackson amendment?

Mr. INGERSOLL. In my testimony I indicated I favor and support the goal of human rights and human freedoms. But as I also stated, I believe trying to solve political questions in a trade bill is perhaps an incorrect vehicle to accomplish this goal. The objective of the amendment I do favor, but the actual application I do not.

Senator MONDALE. There are other interests protected in that subdivision four, one is patent rights. Would you favor the elimination of the protection of patent rights as well?

Mr. INGERSOLL. No, sir, I would not.

Senator FANNIN. What is the difference between human rights and patent rights?

Mr. INGERSOLL. One is economic and one is the human consideration.

Senator MONDALE. You think human rights are less important than property rights?

Mr. INGERSOLL. No.

Senator FANNIN. Then why do you have one position for one and another one for the other?

Mr. INGERSOLL. Both are desirable. The vehicles by which they should be accomplished are perhaps different. The human rights are goals we all strive for.

Senator MONDALE. But you leave those theoretical and the property rights we will put teeth in, right?

Mr. INGERSOLL. This is A. Robert Abboud.

Mr. ABBOUD. The question is one of reciprocity. You can retaliate back and forth. You can retaliate back and forth.

The question on human rights, which is very laudable and very desirable, is one that concerns the internal application of policies in that country.

Senator MONDALE. Aren't patent rights internal?

Mr. ABBOUD. Patent rights should be regarded in a manner similar to that in which U.S.-manufactured television sets are not allowed into Japanese markets. Senator Fannin talked about Zenith's inability to land American produced televisions in Tokyo. We could land U.S.-manufactured televisions more cheaply than they were selling in the domestic Japanese market. If the Japanese were to continue to maintain trade barriers, we could retaliate by saying to the Japanese: "If you don't let us get our television sets in your market, we are not going to allow you to put your television sets in our market."

On the Jackson-Vanik amendment, the basic issue is what is going to be our share of market in the world marketplace. If we have a pencil that we can sell for a dollar, and because we don't grant MFN status to Communist countries, they put a duty on the pencil, while the Japanese, Germans, or French can make the same pencil, and

their goods can get into that marketplace without the duty imposed by the Communist countries not receiving MFN, then our manufacturers are at a disadvantage. Our workers who are manufacturing that pencil will be out of a job. So really, the issue, whether you are talking about Eximbank credits or MFN is are we going to be able to get our fair share of the marketplace, assuming we can manufacture the product as efficiently and as well as other countries.

Senator MONDALE. I gather what your argument is that when it comes to market and property rights, the only salvation is Adam's invisible hand, that you have to have a free market and somehow it will come out all right, and we should do nothing to hold that hand in its place.

When it comes to human rights, we all extoll the importance of personal liberty, but we are not going to use the economic power of this country to try to nudge societies to be more respectful of personal liberties.

Mr. ABBOUD. The position is, if we had the power, then it would be appropriate to use it. But I don't believe we have the power, sir.

Senator MONDALE. Would you be against using trade to try to influence patent rights on the grounds that we don't have the power there either?

Mr. ABBOUD. I believe that we ought to use reciprocity in all aspects of our trade. If we are not given patent protection in various countries, we ought to use all the economic power at our disposal to try to obtain such protection.

Senator MONDALE. Would you agree to reciprocity on human rights?

Mr. ABBOUD. We ought to do everything within the power of the United States to try to get human rights and privileges for people all over the world, not just Communist countries.

Senator MONDALE. We say it is within our power to influence patent rights in the Soviet Union, so we demand reciprocity. Is it in our power to demand that something be done about human rights?

Mr. ABBOUD. I don't think so and for a legitimate economic reason. In a negotiation, it depends upon the values that both parties place on issues which are in contention. If the other fellow will say: All right, I will use this as a negotiating chip, and I will throw patent rights into the formula for bargaining, then you have the power to influence that. If he withholds that and says——

Senator MONDALE. Don't you think that the Jackson amendment has resulted in the emigration of thousands of people who otherwise would not have been permitted to emigrate?

Mr. ABBOUD. In all honesty, I would have to say I think it has. Also the trade initiatives made with the Soviet Union and the fact that the President and the Secretary of State, have indicated the large exodus that has resulted from those negotiations. Yes, sir, I think we ought to use all the pressure we can.

But that is not the point. If we hold up this trade bill and jeopardize its passage because of the emigration question, I think that would be a tradeoff that would be inappropriate, sir.

Mr. STAINBACK. I think also in that regard, Senator, we indicated in our report we thought it would make a difference if there were some bona fide efforts to improve the situation. Last year the U.S. Labor Department sent me to an eastern European country for 30 days to work with the people on manpower problems. That is one of the reasons I am so pleased that we have this community thought in our statement of aid to communities per se, rather than just industry. There, in my thinking, is where we make our impact. We help change the ways of people by the constant contact we have with them, and the opportunity to talk and let them know where we are different and what we believe, and I think that is the way to do it and not with political views of an internal matter of the country within legislation of this nature.

Senator MONDALE. Senator Dole?

Senator DOLE. I am sorry I missed the statement. I had another meeting, but I take it that you have been discussing primarily title IV which does pose a threat, I think, to the entire trade bill. The Federal Government has been using the same kind of club over States. If you don't lower your speed limits, you don't get your funds. Now we are going to try it on an international basis. There must be some middle ground somewhere.

There has been some improvement in the policy. I don't know if a study was done with all the countries we trade with to find out how many areas of disagreement there might be.

I think Secretary Kissinger at least indicated a willingness to seek the middle ground and I hope Senator Jackson will, otherwise he may lose some of his cosponsors.

Mr. STAINBACK. I would agree with what you are saying. On the other hand, I am not an advocate of driving foreign-made cars, but there are many people in the United States who drive them. I would hate to see Germany, as an example, say they would not export their cars to the United States unless the housing within the major cities of this country was improved because how do they know and understand what our problems in that regard are and what is being done and the handicaps under which we are working to bring it about?

Senator MONDALE. Do you think that is a fair analogy, swapping cars as distinct from human rights?

Mr. STAINBACK. I am talking about the export of cars.

Senator MONDALE. We are talking about civil liberties of oppressed peoples. Do you think that is a direct analogy of their trying to influence housing policies of the United States?

Mr. STAINBACK. Yes, we are talking about living and human problems.

Senator DOLE. There are probably some oppressed people in this country. You don't have to look at housing. Look at some of the Indian population and some of the black population and your institutions and some of the white population, and you will certainly find some that might be under that label of "oppressed." If some other country found out, they might make a similar case. I don't think they will, but there is something different about MFN treatment to Russia because of the great power the Jewish community has in the Congress of the United States.

I think we might as well be realistic, then maybe we can resolve it.

Mr. ABBOUD. Senator, I would certainly commend your effort to find some middle ground. In response to Senator Mondale, I think the fact that the amendment was introduced and the fact that it was pursued as vigorously as it has been has certainly been beneficial for the people in the Soviet Union and for the world at large.

I think it has also been good for the image of the United States. However, if it is an either/or situation, that is if it means having either the trade bill with the emigration clause or no trade bill at all, it appears to me the priorities of getting a trade bill and being able to conduct negotiations would appear to me, would supersede.

But, I would quickly add that I think we can use other vehicles in other ways and continue our pursuit of this objective. If we can find a middle ground that is have our cake and eat it too, we certainly ought to go in that direction.

Senator DOLE. We are all seeking something, some kind of ground. Hopefully, we can find it. I do believe a sizable number of the 70-some cosponsors who felt very strongly and still feel very strongly about repressive policies the Soviet Union may have, also feel that we really gain nothing, that we lose economically, and we don't really help resolve the problem with this approach.

I would predict a rather sharp drop in total support of that amendment. Maybe some middle course could even be stronger.

I see some erosion in support for the hard line of the Jackson amendment.

Mr. LILLIEN. There is another perspective to be put on it because the question Senator Mondale poses is to what extent do we bundle the things we are concerned about into one negotiating package or to what extent do we try to unbundle them?

This is a good question. Why don't we use this trade legislation as a device to prevent the Russians from MERVing their intercontinental missiles. We are all certainly very concerned about the security of the United States as much as we are about human rights. The idea of inserting that in the trade bill hasn't come up.

Senator DOLE. Maybe we can put it in.

Mr. LILIEN. The dividing line is the dividing line that essentially falls between those issues that most nations describe as political and those issues which most nations regard as having to do with trade and economics. That can be negotiated without the emotional involvement of the negotiators in the political issues where they stand very fast. When we mix them up, we end up impeding all negotiation.

Senator DOLE. I think you are right. I wouldn't be surprised to see that amendment offered to unMIRV the trade bill.

Senator MONDALE. There is an article here I would like to read to everybody here. It is by Herb Gold. This is an article by Gold called "The Dissenters Solzhenitsyn Left Behind" in Newsweek this week:

I walked on Gorky Street in Moscow with a nathematician who presented me with some simple arithmetic. "You give two good and get one weak. I don't understand. You give money for investment. Then you give tools, machinery, skills. In return, you get a promise of goods. Two strong, one weak." He was suggesting that the bargain is not a smart one. Sakharov says something that touches more deeply: the bargain is a cruel one.

That is a dissenter in Moscow this past week. What do you say to him?

Mr. LILIEN. I would like to comment: You are saying negotiation within whatever framework can be aptly or ineptly handled. I don't know that that has to do with the specific provisions of a bill which is designed to establish a framework for negotiation.

This bill which establishes a framework for negotiation in trade is important. How well negotiations are carried out after it is enacted is also important, but I don't know that the legislative process is going to mandate that.

Senator MONDALE. What he is saying is that our policy of providing investments, machinery, and skills is more than neutral. It is depriving him of their hope. I have long been a supporter of improved trade with Eastern bloc countries.

Sakharov said the same thing. As you know, Solzhenitsyn said the same thing.

How do we handle the voices of brilliant, decent human beings who tell us we are on the wrong course?

Senator DOLE. By keeping a strong defense budget.

Senator MONDALE. Yes, I believe we ought to have a strong defense budget.

Senator DOLE. It is the same thing.

Senator MONDALE. I led the fight to get rid of the barnacles on the Export Control Act, the Eximbank. I started that fight around here and we finally won it.

Now I am starting to hear from these magnificent human beings who are depressed, oppressed, and they are very critical. Don't we have to think about what they are trying to tell us?

Mr. ABBOUD. Senator, I would like to address that question. These are magnificent human beings. I think the thrust of the Senator's remarks was that in the past several years in the opening up of trade barriers and getting us to do business the following will result:

These people will have to trade and sell their goods in world markets. We have a trade bill which does not allow them to come into our markets and dump. They are going to have to produce competitively and, even more important, they will have to show us how they get their prices.

That means that they are going to have to move from a centralized system into a market economy. If they move into a market economy, our experience throughout history has been that freedom will follow.

Senator MONDALE. Do you think there is any evidence whatsoever that they are moving to a free economy?

Mr. ABBOUD. I think there is great evidence.

Senator MONDALE. In the Soviet Union?

Mr. ABBOUD. Yes, I think they found they have to meet the design requirements of the goods they find in the marketplace. Their engineers are going abroad to service the products they are selling and they are taking the customer reaction back to the country.

I think this has created a great deal of consternation within Russia. It strikes right at the heart of their system.

Senator MONDALE. Senator Fannin. Do you feel that they are opening up within. There is always a feeling they will never open up outwardly unless they open up inwardly.

Do you feel they are opening up inwardly?

Mr. ABBOUD. Senator, if they are going to be competitive in world markets, they have to produce goods and services which stand the test of competition in the marketplace. They have got to open up within, in order to do that.

Senator FANNIN. They are producing the domestic equipment with greater expertise than they were just a few years ago. I know the automotive equipment they are producing today is entirely different than what they have produced in the past.

I was there a few months ago. I was amazed at the reports of the production line that the manufacturing was done outside of Moscow.

I also was very disappointed in attending one of the exhibits we had there for outdoor equipment, outdoor recreation equipment, which was sponsored by about 250 Americans, to find that the people that were working in those exhibits, the young people who were working with our young people, could not take our young men and women into other parts of the country.

They could not even take them beyond a certain area. It was something I thought was both very beneficial for both our people and the Russians, but they were so restrictive that they couldn't benefit by it.

What I really wanted to ask is just what can we do in this bill? I am trying to find out whether we are attaining our goal. I have firsthand knowledge of the discrimination caused by the reverse preferences caused by the European Economic Community.

We are seeking MFN for our citrus products in Europe. They will not grant MFN status, nor will they compensate us for it. The point I was attempting to make earlier is if we cannot settle these basic problems, how can we engage in broad complex negotiations?

Mr. ABBOUD. Senator, I would like to address that question. We had negotiations in 1962 with the so-called Kennedy Round and we really weren't prepared for those negotiations.

If you look back at it intellectually, you would have to say we just didn't do as well as we ought to have done. That "is because we weren't prepared. And, I do not believe we are prepared for the upcoming negotiations either."

We have a Special Trade Representative, but the staff of the Special Trade Representative is really inadequate. They don't have a defined budget. The bill ought to provide for a budget.

Certainly we have other bureaus of the Government; namely, the Department of Commerce and the State Department that can

But if we are going to hold our own in these negotiations and get other people to move on the dime, which they have not done, then the office of the Special Trade Representative must have enough staff work so that we can do the job effectively."

Senator FANNIN. Look back at the Kennedy Round or whatever negotiation you may want to talk about, and we certainly have come out second best or third best or whatever it might be.

In this bill the question I have is: Are we in any way or are we to the extent necessary providing for a change in this position?

Mr. ABBOUD. I may be wrong, but I don't think the bill specifically provides for a large enough budget for the Special Trade Representative to get the necessary staff. When we sit down in negotiation with

the other side, we must have the facts and figures on which we can base a retaliatory program in the event that they will not talk meaningfully about things that are important to us.

Senator FANNIN. Well, I asked previous witnesses if they would give us in writing what we need in this bill to accomplish that, because, really, to me the gap has been almost a barrier to us rather than assistance.

I have talked to the negotiators who always seem to be complaining, so we would like to know what can we do to turn that around.

Mr. INGERSOLL. I believe we need a marriage of the business community with the Government as we have seen in Japan, and as we are now seeing in the Common Market.

I think we ought to provide some way for the business community to assign its top people in a given industry to serve the Special Negotiators Office for the period of these negotiations even if they last for 2 or 2½ years, so they are intertwined, so industry can't say it was not properly represented.

The information we in the business community have is that these are going to be most difficult negotiations. And when you get down to the last wire, we are fearful that when they get down to the wire, some segment of the industry, because they weren't properly represented, may be sold down the river in order to conclude negotiations.

We want to be as tough as we can right down to the wire.

Senator FANNIN. I say amen to you. Unfortunately, in Congress we have an attitude we don't want anybody in any place or position where they can influence what is being done that is associated with industry or has a knowledge of it.

As to petroleum problems we have today, when we wanted somebody in the Energy Office to handle logistical problems, the answer was, no we cannot have anybody from the petroleum industries.

It is like having a chiropractor do a brain operation.

Mr. INGERSOLL. We are trying to protect the country. I hope Congress will recognize that so it can be accomplished.

Mr. STAINBACK. We would subscribe to that thought and another business organization has expressed somewhat the same view. You will find support from other business organizations and business in general.

Senator MONDALE. Would you include farmers in there?

Mr. INGERSOLL. Absolutely.

Mr. STAINBACK. I think you would absolutely want them. You need expertise. It is not going to come from government as much as from the industries or agricultural interests that are involved.

Senator MONDALE. I would ask the staff to include the Herbert Gold article.

[The prepared statement of Mr. Ingersoll and the Newsweek article referred to by Senator Mondale follows:]

PREPARED STATEMENT OF JAMES INGERSOLL, VICE PRESIDENT, WORLD TRADE REPRESENTING THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Good morning, I am James Ingersoll, representing the Chicago Association of Commerce and Industry as Vice President for World Trade. I am also a vice-president of Borg-Warner Corporation. With me is A. Robert Abboud,

Vice Chairman, First Chicago Corporation, who is Chairman of the World Trade Policy Committee of the Chicago Association of Commerce and Industry.

Our association represents some 5000 business and professional organizations in the Chicago area, with a gross annual product of $65.5 billion or roughly 5.1% of this nation's GNP. Metropolitan Chicago ranks second among U.S. metropolitan areas in industrial exports, and the state of Illinois ranks first in agricultural exports. Estimated total export-related employment in Illinois for 1971 amounts to more than 325,000 jobs. Within a 400 mile radius of Chicago, more than 30% of the nation's exports originate, and three companies within this area—GM, Caterpillar, and Cargil—are the top three exporters in the country.

So you can see Mr. Chairman and members of the Committee, we in the Midwest have a vital interest in the maintenance of a healthy, rational and orderly international trading system.

I would like to speak on several aspects of the pending trade legislation:

1. The need for a well cordinated national trade policy;
2. The need to obtain equitable access to foreign markets;
3. The authority to extend Most Favored Nation status to the USSR and other Eastern-bloc countries, and;
4. The extension of U.S. Export-Import Bank credits to these same countries.

The Chicago Association of Commerce and Industry has long supported the objective of free trade, for a simple economic reason: The lowering of trade barriers permits freer flow of goods and services across national borders, thereby assuring consumers everywhere the best product at the best price. And now that American goods and services are *more* price-competitive, removal of foreign barriers should mean continued growth for U.S. exports. This consideration is particularly important today, when the U.S. *must* significantly increase its exports to help offset the rising costs of its energy requirements.

THE NEED FOR A WELL COORDINATED NATIONAL TRADE POLICY

Mr. Chairman, our country is currently swept by complex cross currents, which could have a profound effect on our status as a world power. At last disentangled from 10 years of war in Southeast Asia, many Americans feel strongly that we should deemphasize our role in international affairs, and concentrate on domestic issues.

Other factors have supported this attitude: The most recent Mid-East conflict, when our troops were placed on alert against the possibility of large-scale Russian intervention; the ensuing oil embargo which caused inconveniences for many and hardship for some; the apparent "go-it-alone" attitude of some of our allies; the huge sale of grain to the USSR and the attendant increase in domestic grain prices; recent turmoil in the international monetary system. All of these factors, I believe, have contributed to the isolationist mood now prevalent in our country.

This mood is even more understandable in light of our nation's intense, historic pride in independence—our freedom from constraints imposed by outsiders. But historically, that freedom has rested on America's storied *abundance* of natural resources, including fertile farm land. Moreover, our oceans have *physically* insulated us from crises of Europe and Asia.

All of that has changed now. Strategically, the Atlantic and Pacific no longer protect us against spillovers from the disputes of other nations. The most recent Mid-East conflict demonstrated that all too clearly. Equally important, we are no longer self-sufficient in resources—today we import not only oil, but nickel, tin, zinc, and chromium.

Whether we like it or not, the U.S. is *inextricably* involved in world affairs. It *cannot* stand alone, or separate itself from the actions of other nations. It *cannot* cut off its ties with its traditional trading partners. It *cannot* cease to improve relations with former adversaries. In short, there *is* a global interdependence. And that interdependence—to the U.S.—means that *we must look outward.*

Our need for imports in energy, raw materials, and some food stuffs is obvious. And to pay for these imports we must export. But in order to export, we must have a universally accepted trading system which assures that our goods, and the goods of our overseas competitors, are accorded *equitable access* to

all markets. A system that protects us *all* from discriminatory treatment or un-fair tariff and non-tariff barriers. And of course, Mr. Chairman, this is what the Trade Bill is all about.

Among our citizenry, indeed among some of our leaders in both the private and public sectors, there seems to me an inadequate awareness of the need for a well-directed, national trade policy. This public nonchalance is a mater of great concern to me and the members of our association. To see why, one has only to view the commitment to trade of our major trading competitor—the European Community. They maintain a large and sophisticated commercial staff in Brussels supplemented by the expertise of nine different governments. As I understand it, this effort is directly supported by active private sector participation.

In the United States, however, there does not appear to be a comparable commitment. The U.S. negotiating team—though headed and staffed by capable people—may not be adequate in size or in technical background to make certain our objectives are achieved.

Mr. Chairman, we hope soon to be entering into long and tedious negotiations with the GATT nations, negotiations which will require a great deal of not only bargaining skill but background work and preparation. I therefore urge the Committee to study this matter closely, to make certain that the Office of the Special Representative for Trade Negotiations has sufficient resources and authority to meet the challenge. Otherwise the effort will fail, and we will suffer the consequences for some time to come.

I have spoken briefly on the need for a well-directed national trade policy. The Members of the Committee know that to develop that policy, there must be enabling legislation. And we need that trade legislation now, more desperately than ever before.

The events of the past year or two make this painfully clear. For example, the drought in Africa, the poor crop conditions in China and the USSR, and the change in ocean currents off the cost of Peru, *all combined* to increase world demand for agricultural products, and this led to substantial pressures on our domestic capacity. As a result, we briefly imposed export controls on some commodities—a move that surprised some, and angered others, but mostly shattered confidence in the ability and willingness of the U.S. to provide agricultural goods at reasonable prices.

The recently lifted oil embargo had a similar effect. This nation now knows it can no longer rely so heavily on the Mid-East region for petroleum products. Other nations have drawn similar conclusions. The danger of these reactions, as I see it, is that some industralized nations are moving to secure critical supplies of food, energy and other basic commodities for *themselves*, regardless of the cost or the adverse impact it may have on others.

This obviously can lead to dangerous results, and I believe we must act quickly to prevent this movement from accelerating. We must obtain international cooperation on a wide spectrum of issues including trade.

And while trade is only one of several areas in which cooperation and agreement must be reached, it is nevertheless an essential area. It is for this reason, Mr. Chairman, that I believe we must have a strong and *effective* trade bill, and we must have it soon.

I now would like to discuss briefly several aspects of the pending trade bill.

During the past decade, the trend toward regional trading blocs has fostered a system of trade preferences and agreements within and among various bloc members. Perhaps two of the better-known arrangements are the common agricultural policy and common external tariff of the European Economic Community. In addition to these internal arrangements the EC has also been extending preferential treatment to other groups and non-bloc members, and in turn has been seeking and indeed obtaining reverse preferential treatment from these parties. In fact, it is my understanding that the EC is presently reviewing its various preferential arrangements with non-EC countries, and if the proposed preferences currently under consideration are implemented, upwards of 80 countries will be eligible for various types of preferences.

Two examples may help illustrate how these practices can harm *U.S.* suppliers. The first deals with the common agricultural policy.

In early May of 1973 the CIF Rotterdam price of U.S. wheat was $105.15 per metric ton, but the landed price to the European buyer was $158.96. The difference, of course, was the result of the EC variable import levy of $53.81 imposed

under the common agricultural policy. And this $5381 was just enough to encourage EC purchasers of wheat to buy primarily from EC suppliers, leaving U.S. suppliers as a secondary source.

I am aware that agricultural prices have since risen, so that now world prices are above EC supported prices. Thus it could be argued that variable levies are no longer a problem, and that if the U.S. were really concerned about promoting agricultural exports it would not have imposed controls last summer.

Notwithstanding these statements, it should be recognized that as supplies increase, prices will drop. And if we were to have a bumper crop in the next year or two prices could drop significantly—so much so that our farmers would again be confronted with the issue of variable levies. The Agriculture Department stated in 1972 that in the 10 years since inauguration of the Common Agricultural Policy, EC variable import levies have held the rise in exports of affected U.S. commodities to the EC, to 23 per cent—compared with a *94 per-cent* gain for commodities not subject to the levies. Put another way, the U.S. share of the EC agricultural market has *decreased* from 12% to 9% during the period from 1962 to 1972. With the enlargement of the EC, the application of the Common Agricultural Policy could place even further constraints on our agricultural exports.

My second example is in the area of manufactured products. Caterpillar Tractor Co. in our area has stated that trade agreements between the EC and the five *non-acceding* EFTA countries will result in an eventual reduction to *zero* of duly rates on products similar to Caterpillar's. Meanwhile, the duty rates on *Caterpillar's* products exported to EFTA and EC countries will remain the same. Thus, according to Caterpillar—based on its 1972 exports of $24.3 million to the EC for which comparable equipment is manufactured by EFTA competition—Caterpillar will incur a weighted average 10.8 per cent duty disadvantage. Similarly, based on its 1972 exports of $14.5 million to EFTA, for which comparable equipment is manufactured by EC competition, Caterpillar will incur a weighted average 5.9 per cent duty disadvantage in that market. From this it seems reasonable to conclude that other U.S. manufacturers will suffer similar duty disadvantages.

The point in both cases, Mr. Chairman, and Members of the Committee, is that we must have a trade law which provides our negotiators the authority to work toward *removal* of these harmful practices and the establishment of an equitable trading system.

With regard to the extension of preferences, I am not opposed to providing generalized preferences to all eligible nations. But such preferences should be granted only on a non-discriminatory basis—*not* on the basis of some special historical relationship such as that of a former colony. Moreover, developing countries should not be permitted to extend reverse preferences to certain industralized nations and not others. But such practices not only hurt U.S. suppliers but are inconsistent with the provisions of GATT. I am pleased that the proposed legislation does not permit the extension of a generalized preference to any developing country which affords preferential treatment to the products of a developed country *and not the United States.* And I would hope that our negotiators will work towards the removal of all but generalized preferences, extended on a non-discriminatory basis to eligible developing countries.

THE AUTHORITY TO EXTEND MOST FAVORED NATION STATUS

To get the barriers removed abroad, we must be willing to reciprocate and remove our own barriers. In particular, we must deal with the question of equal tariff treatment for non-market economices. I firmly support the goal of human rights for all individuals, including the right of freedom of emigration. Moreover I believe this to be a legitimate goal for the Government of the U.S. to pursue. But I do not believe that requiring free emigration as a condition of equal tariff treatment or the extension of credits will in fact ensure that freedom. Such action could, in fact, have quite the opposite effect. I believe there are more effective means of accomplishing this very important goal. It would seem that such a complex issue could be better handled through a continued broad range of diplomatic efforts.

Moreover, such conditions could have an adverse effect on U.S. exports. It seems unlikely that the governments of non-market economies could contine to

purchase U.S. goods in significant amounts if they were not assured, at the minimum, equal access to U.S. markets and a reasonable balance of trade. In addition, the withholding of equal tariff treatment would most likely benefit other industrialized nations, particularly the EC and Japan, by allowing them to improve their already significant penetration of these markets. As this penetration continued, it would become increasingly difficult for U.S. suppliers to break into these markets, for it is likely that the USSR would become more and more accustomed to acceptable European and Japanese alternatives.

THE EXTENSION OF U.S. EXPORT-IMPORT BANK CREDIT

The last point I would like to touch upon today deals with the activities of the Export-Import Bank, and in particular, Eximbank credits to non-market economies. Eximbank's enabling legislation emphasizes the need to promote exports in order to contribute to the economic well-being of our nation. This language is couched in economic and commercial terms, with only occasional references to political considerations. In this respect, the Eximbank is obviously quite different from AID. Eximbank is used to promote and facilitate exports and thereby contribute to our economic well-being, while AID is a bilateral assistance program which, among other things, serves as a means to achieve our foreign policy objectives. I believe both activities perform a vital function, but I also believe the two should be kept quite separate—separate in the sense that I think we should avoid, whenever possible, using Eximbank as an extension of our foreign policy objectives. While I recognize the difficulty of adopting this approach in all situations, I nevertheless believe the primary criteria employed by Eximbank in reviewing credit applications should be economic and commercial.

While the extension of an Eximbank credit may be regarded as a form of assistance to the borrower, it also enables the borrower to purchase products from a U.S. supplier. Moreover now that Eximbank's direct lending rate has been increased to a fixed 7 per cent, it would be difficult to argue that such credits were being extended on a concessional basis (March 8 rates for 3-5 year Government securities were 7.05%). We must remember that every borrower from Eximbank pays the same fixed 7 percent. Thus it would appear that in the long run the benefit flows to the U.S. in general, and the U.S. supplier in particular. Moreover, the extension of such credit could lead to the development of a solid, pragmatic business relationship which in turn could help pave the way toward improved political relations.

Besides assisting the U.S. supplier, the extension of credits to the USSR, in instances such as financing the sale of energy-related goods and services, could result in other benefits. In particular it could help assure that the output of these projects would be shipped to the U.S. This supplement to our own energy sources could serve to provide some *balance* in our dependence on foreign supplies of energy.

In closing, let me stress again that I believe the United States Government should *actively* pursue the goal of freedom of emigration for all people. But I feel that this goal can be best achieved through continued bilateral diplomatic contact with the governments of the non-market economies. Indeed, Mr. Chairman, I believe much progress has been made to date in this entire area through diplomatic initiative. And I have no reason to believe that such progress should not continue. Thank you.

[From Newsweek Magazine, Apr. 8, 1974]

MY TURN: THE DISSENTERS SOLZHENITSYN LEFT BEHIND

(By Herbert Gold)

Recently I returned to the Soviet Union to visit the dissenters Solzhenitsyn left behind. On my last trip, nine years ago, almost everyone paid the police the extreme deference of fear. Now a curious alteration has taken place. Whole groups—intellectuals, nationalists, religious people of various convictions, Jews, even mere admirers of jazz or contemporary films or the clothes that go with more hair—seemed almost blithe about the cops tailing them and me. A blitheness of desperation; nothing more to lose.

With a scholar of Eastern religions, I waved for a cab during the rush hour in Moscow, and of course one pulled up right away, ignoring everyone else. "We can get cabs," he said. "It's a convenience." In Leningrad, Valery Panov, the dancer, put on a record of the music from "Coppelia" to confuse the bug as we talked. "And also," he said, grinning, "because it's so boring for the KGB to hear again my same old story." In Moscow, a banned painter, expelled from his union for "violation of the principles of socialist realism," echoed the words of a physicist in Kiev: "At last, there are some free people in the Soviet Union. We don't care any more."

Hundreds of these free people came to an all-day party for the writer Maksimov, sent abroad a few days after Solzhenitsyn. It was an honor roll of the blacklisted of Moscow. A well-known critic took me for a walk in the frosty weather. He spoke of an American friend who had once offered a gift of money. "I refused," he said. He was very embarrassed. "I was working. My wife had a good job. Now my books can't be published. My wife has no more job. Now please tell my friend we will accept the gift." We walked on, and this stalwart man of middle years, a grandfather, a member of the party since the war, was weeping with shame and rage. "Sometimes we have no money for eating!"

General Grigorenko and others are in insane asylums for speaking out about Soviet power lumbering against Hungary, Czechoslovakia, Israel, artists, thinkers. For meeting. For passing out statements. For signing petitions. To disagree with the regime is madness—the average Soviet psychiatrist will certify a man for defending human rights. PARTY AND PEOPLE ARE ONE, as the billboards say. A poet, recently returned deaf from Siberia, said to me: "Make no mistake about it. Soviet prisons are not nice soft ones like yours."

For the Jews, it is not the Germany of the death camps. It is more like the Germany of 1932—limitations on jobs, exclusions from schools, isolation from culture and tradition. The regime seems uncertain about whether to milk the Jews like cows or use them as scapegoats. Scapegoats are needed. The morose drunkenness visible every night speaks for a general repressed rage amid the triumphs of still another five-year plan. For those Jews who announce their desire to emigrate to Israel—and without the right of emigration, men are serfs—it is Germany, circa 1936. Joblessness, ostracism, police harassment, random frameups and abuse. Engineers and mathematicians work as "lift boys," to use the quaint English of one of them, because otherwise they can be charged with the crime of parasitism. I met a lift boy who has invitations to teach at Cambridge, Harvard and Berkeley. Another distinguished scientist was called in for questioning four months ago. After his visit to the police, he is still unable to sit down because of acid burns on his thighs and genitals.

MAKE LOVE, NOT WAR

All right, what does it have to do with us? We Americans have our own problems, don't we? Isn't it foolish for a people with stains on its own flag to meddle in the internal affairs of a great power that seeks to unfurl the banner of detente? The wise old cold warriors now want to do business together—our money and their natural gas, our industrial technique and their unexplored resources, our markets and their markets—and isn't commerce between peoples the way to peaceful coexistence?

The courageous physicist Andrei Sakharov warns that the matter isn't so simple. His argument is that selling the Soviet Union our computers and industrial skills in exchange for raw materials will doom any hope of easing the iron Soviet regime. The faceless bureaucrats will no longer need their own "effete snobs." They can buy the technical ingenuity abroad; they can crack down harder at home. The businessman's and banker's detente, he says, will snuff out the light still stubbornly glimmering among the immensely gifted, stifled people of the Soviet Union.

And with this abandonment of hope for those who treasure freedom will come a practical danger for America, too. Who will caution Soviet power against the old power games? When our bankers put our money into loans for natural-gas installations in Siberia, who will protect the supply when Pravda discovers American iniquity some place in the world? If our little friend Saudi Arabia can cut off oil to punish us, why shouldn't our brand new big buddy, the U.S.S.R., act enthusiastically upon some other occasion to discipline us?

I walked on Gorky Street in Moscow with a mathematician who presented me with some simple arithmetic. "You give two good and get one weak."

"I don't understand."

"You give money for investment. Then you give tools, machinery, skills. In return, you get a *promise* of goods. Two strong, one weak."

He was suggesting that the bargain is not a smart one. Sakharov says something that touches more deeply: the bargain is a cruel one.

DEAD SOULS

"You have heard of brain drain?" a fired professor asked me in Kiev. We were standing in a desecrated, bulldozed Jewish cemetery not far from the pits of Babi Yar. There were smashed columns, gaping holes filled with brackish ice where coffins had been. My friend's daughter was weeping. Her great-grandparents had been buried here. We tramped about in the slush and mud. There was no reason to destroy this relic of the ancient Jewish presence in Kiev, but nevertheless one night it had been done. "The problem here is not brain drain," my friend said. "That's not why there are so many troubles. The problem is soul drain."

Herbert Gold's most recent book is "My Last Two Thousand Years," published by Random House.

Senator MONDALE. Dr. Louis Krauthoff and Mrs. Doreen Brown.

STATEMENTS OF DOREEN L. BROWN, CHAIRMAN, CONSUMER EDUCATION COUNCIL ON WORLD TRADE AND LOUIS KRAUTHOFF, CHAIRMAN, ADVISORY COMMITTEE, CONSUMER EDUCATION COUNCIL ON WORLD TRADE

Statement of Doreen L. Brown

Mrs. BROWN. I am Doreen Brown, chairman of the Consumer Education Council on World Trade. Dr. Krauthoff is chairman of our advisory committee. He has a few words to say after my statement and mine will be very brief.

We are making this statement on behalf of a number of national organizations, participating members of the Consumer Education Council on World Trade, who are linked by a common interest in U.S. trade policy and the welfare of the consumer. The list of organizations joining in this statement is attached. I serve as chairwoman of this council on a volunteer basis, as do all of our officers and board members.

The Consumer Education Council on World Trade was established almost 2 years ago, through the efforts of 22 national public-interest and consumer-oriented organizations, who felt that the American consumer was neither adequately informed nor adequately represented on trade issues. There had never been sufficient debate on the implications for the consumer inherent in U.S. trade policy, and individual organizations who attempted to speak on behalf of the citizenry were being overshadowed by the very vocal vested interest groups.

Our member organizations are in unanimous agreement that every consumer in the U.S. has a major stake in international trade; that this is an issue that directly affects their economic well-being, as well as their freedom of choice in the marketplace; that protectionism is against their interest and that it therefore behooves the American consumers to become vigorous advocates of a freer trade policy.

We are particularly concerned because the low income consumers generally suffer most, since they are most sensitive to any increase in

prices, and since low-priced goods from abroad are normally the primary target of U.S. import restrictions. These concerns have increased considerably, both in intensity and in validity, since the inception of this council, as we all realize that the brunt of the consequences of an inflationary period in our economic history is borne by those least able to compensate.

Although we favor strongly the prompt passage of dependable and effective trade legislation and recognize the importance of such legislation to meaningful GATT negotiations, we are deeply troubled that the pending legislation does not address itself sufficiently to the specific interests of the consumers.

We presented a statement to the House Ways and Means Committee urging additional consideration for the consumer and we were gratified to see as part of the bill passed by the House of Representatives, the inclusion of consumer representatives on the Advisory Committee for Trade Negotiations which will work with the special representative for trade negotiations. We do not feel, however, that this is sufficient to protect the consumer and would urge that this committee seriously consider the following recommendation:

That whenever there is a matter of adjudications, negotiations, determinations or interpretations, or the creation of advisory bodies to the President, the Tariff Commission, the White House Council on Economic Policy, the GATT negotiating authorities or any other entity concerned with the formulation and implementation of U.S. trade policy, there should be included on these bodies representatives of consumer interests. Such representatives would be responsible for voicing and protecting consumer interests only, as distinguished from the other self interests of any particular segment of the population.

We would also like to make an additional recommendation which has to do with the fact that in U.S. trade legislation, as in this particular bill, the President has always been historically obligated to consider the interests of various segments of the economy before taking any remedial or protective action—industry, the worker, agriculture, and we feel that there should be spelled out in the legislation that whenever he does take into consideration, before taking action, the welfare of industry, labor and agricultural, that he also be mandated to take into consideration the interests of the American consumer.

In this way consumer welfare will have been given equal priority with that of the other economic segments of the United States. We are all aware that all American citizens are American consumers, that the good of the American consumer is the good of the nation, both economically and socially, and we feel very strongly that their interests should be considered at all points and levels in the regulation of trade policy.

Dr. Krauthoff has a few bright thoughts to add.

Statement of Louis Krauthoff

Mr. KRAUTHOFF. I am not so sure. I want to talk with you more about some dialogue with some other witnesses than the things that are in my statement.

The reason I feel that I have something to say is that I have some background in committee trade hearings having served in the Special Office of Trade Negotiations and the Special Information Committee which held public hearings on the Kennedy Round and trade matters subsequent thereto.

At one of these hearings I had the privilege of listening to the testimony of Senator Fannin. The trade business then is not new to me. I guess the only thing I want to say about the bill is that there should be one, and if it is a minimum housekeeping bill, so be it. Perhaps that is disappointing, but I just don't think you ought to let yourself be thrown off the track by getting too much on the platter which is not susceptible of being subdivided. If you do get into that condition, then there is obviously going to be no bill because there are too many controversial things in it. You ought to have a fall back position. This country has been without trade legislation since August of 1967. We changed our trade policy in 1934 and there never was one day's lapse between 1934 and 1967 without trade authority.

You know in the Congress what happens when there is a vacuum: The executive branch does tend to fill the vacuum. They have done it. It has been awkward. It hasn't been easy for them to negotiate where it was sometime questionable if you had the authority, and what authority, and were you usurping perhaps Executive privileges, so I think that this committee should decide to take the parts that they agree upon out of the House bill and go ahead and at least give our negotiators some form of legitimacy which I think they lack. I think if they don't have it, the Congress is sort of copping out to some extent.

As far as the marriage with business and government, I am glad that you thought of agriculture. I know you also thought of labor and I hope you think of the consumer.

Senator MONDALE. Yes, maybe we should add the consumers, too.

Mr. KRAUTHOFF. Marriages of business and government are not as popular as they might have been at the turn of the century. It is a much bigger household than those two, and there are people who might want to sit down with the businessmen and government when they are changing their grand ideas for the perfect future because there are other people who have thoughts about it, in no way denigrating the expertise of the businessmen. I was in business for 15 years myself and headed a national trade association. Everybody has expertise to put into the negotiations. I think they should all be used.

Senator TALMADGE. Thank you very much, both statements will appear in the record. I am most grateful to you for your statements.

I will turn the chair over to Senator Fannin. I must leave.

Senator FANNIN [presiding]. Thank you for your statements. They are helpful to us.

Certainly I agree consumers are important. One of the most serious problems facing this nation is what OPEC is going to do, the Organization of Petroleum Countries of the World. When the President decided that he was going to try to get consumer countries together, I happen to have been visiting the producing countries at that time and they were up in arms. They said let us not have a consumer

country organization that could be the same as a cartel. Of course, they have a cartel, so they want it all their way.

We are facing a very complex world as you well realize. We need to protect the consumer and the only way that I can see that we can protect the consumer is to think about the producer. We are in this country up against some very serious problems. of competing in world trade, and if we don't protect the jobs in the country, we are not going to have consumers because, as you very well brought out, the consumer includes the masses of our populations, the producers—well, they are all consumers. But with most of the consumers, somewhere along the line, there has to be a producer involved with that consumer or they are not going to consume very long. That is a good way to put it. It is just a fact of life.

I agree we need legislative protection in our trade and other areas. Other areas have pointed out we need protection for domestic producers who are injured by unfair foreign trade practice. For example, one of them told us we are being injured by the dumping of the Polish golfcarts. Don't you think our golf industry needs protection against dumping of foreign golfcarts, for instance?

Mr. KRAUTHOFF. Well, I certainly think they do if in fact dumping has been committed. I think the dumping law has to be followed very exactly. We also have to be careful to make sure that they are not just accused of dumping and they are not scared out of the market.

As a golfer, I know you would agree with me it is nice to have golfcarts. It is nice to have them at the lowest possible rental, and if we acted hastily against the Poles without giving them a fair shake according to our statutes, we might encourage Cushman and others to take advantage of our rather affluent industry.

Senator FANNIN. I happen to know a little bit about the industry. We have a highly competitive industry. We have had companies try to start up in my own State. They have not been able to compete.

Mr. KRAUTHOFF. Did Links ever go to Japan, you were worried?

Senator FANNIN. That was not Links. It was another company in competition, Bing, B-i-n-g.

Mr. KRAUTHOFF. Same design?

Senator FANNIN. Some of the people that now make Link clubs were with the Bing industry. When they left they had a similar design. That is a long story because there are lawsuits galore in this respect. What I am trying to bring out is that we have serious problems with, for instance, the Japanese, or we can go to other countries, but specifically it is brought to my attention by the electronic industry in my State. They say, the Japanese are making 100,000 TV sets and it is costing them $50 a set, but the second 100,000 will just cost them $40 a set. You know what happens. They say we are selling them cheaper in the United States because we are selling them from that second 100,000.

To me that is absolutely wrong and unfair. We are digressing some, but what I am trying to bring out, is that if we are going to be able to continue our competitive position in world trade, we must protect the domestic industry to the point where they are not having unfair competition. I am not in favor of saying that the Poles can't ship a

golfcart in here because they will sell under the price of an American golfcart, but if they are building these golfcarts and they are doing as I was illustrating——

Mr. KRAUTHOFF. Incremental prices for export.

Senator FANNIN [continuing]. They are selling at a lower price in the United States than they are in their own country, we have laws under the statutes which should apply.

I appreciate very much your testimony, gentlemen. We are not in disagreement. We have to go beyond what you have placed in the statement to fully realize the complexities of the situation. We appreciate your being here.

The hearings will stand in adjournment subject to call.

[The prepared statements of Mrs. Brown and Mr. Krauthoff follow:]

STATEMENT ON BEHALF OF THE CONSUMER EDUCATION COUNCIL ON WORLD TRADE BY DOREEN L. BROWN, CHAIRMAN, CECWT

I am presenting this statement on behalf of a number of national organizations, members of the Consumer Education Council on World Trade, who are linked by a common interest in United States trade policy and the welfare of the consumer. The list of organizations joining in this statement is attached. I serve as Chairwoman of this Council on a volunteer basis, as do all of our officers and board members.

The Consumer Education Council on World Trade was established almost two years ago, through the efforts of twenty two national public-interest and consumer-oriented organizations, who felt that the American consumer was neither adequately informed nor adequately represented on trade issues. There had never been sufficient debate on the implications for the consumer inherent in United States trade policy, and individual organizations who attempted to speak on behalf of the citizenry, were being overshadowed by the very vocal vested interest groups.

The Consumer Education Council on World Trade serves as a clearinghouse for the purpose of channeling information to and coordinating activities on trade matters of its participating members, with the objective of achieving more effective action on behalf of the American consumer. Its ultimate goal is an informed and concerned citizenry who will be able to assume its proper role in the formulation of U.S. trade policy.

Our member organizations are in unanimous agreement that every consumer in the United States has a major stake in international trade; that this is an issue that directly affects their economic well-being, as well as their freedom of choice in the market place; that protectionism is against their interest and that it herefore behooves the American consumers to become vigorous advocates of a freer trade policy.

We are anxious that the public become aware of the adverse effects on their welfare of tariffs, quotas and voluntary export restraint agreements, with the danger of retaliatory action, all of which would inevitably reduce the quantity of foreign imports available and thereby raise the price on all goods, as well as limiting significantly the range of consumer choice by making some goods totally unavailable. We are particularly concerned because the low income consumers generally suffer most, since they are most sensitive to any increase in prices, and since low-priced goods from abroad are normally the primary target of U.S. import restrictions. These concerns have increased considerably, both in intensity and in validity, since the inception of this Council, as we all realize that the brunt of the consequences of an inflationary period in our economic history is borne by those least able to compensate.

Although we favor strongly the prompt passage of dependable and effective trade legislation and recognize the importance of such legislation to meaningful GATT negotiations, we are deeply troubled that the pending legislation does not address itself sufficiently to the specific interests of the consumers. Considering that the American consumer is the one most likely to be affected adversely by

trade barriers, and from the potential trade wars which such barriers are prone to generate, this seems to be assigning the consumer a very low priority.

During the last year we have been watching with mounting concern, quotas come and go in response to domestic needs. Protective measures are imposed one day, then as inflation becomes intolerable, lifted the next. The uncertainties of such a policy, while it may offer temporary relief, are not very reassuring and make it increasingly difficult to convince the consumer constituency that its best interests are foremost in the mind of the trade policy formulators or are even being taken into proper consideration.

We presented a statement to the House Ways and Means Committee urging additional consideration for the consumer and we were gratified to see as part of the bill passed by the House of Representatives, the inclusion of consumer representatives on the Advisory Committee for Trade Negotiations which will work with the Special Representative for Trade Negotiations. We do not feel, however, that this is sufficient to protect the consumer and would urge that this Committee seriously consider the following recommendation:

That whenever there is a matter of adjudications, negotiations, determinations or interpretations, or the creation of advisory bodies to the President, the Tariff Commission, the White House Council on Economic Policy, the GATT negotiating authorities or any other entity concerned with the formulation and implementation of U.S. trade policy, there should be included on these bodies representatives of consumer interests. Such representatives would be responsible for voicing and protecting consumer interests only, as distinguished from the other self interests of any particular segment of the population.

I feel certain that the members of the Senate Finance Committee are aware that this is not an original or radical idea. The concept, in fact, has already been approved by Congress in the past. Some years ago a piece of legislation was being considered by Congress related to Tariff Commission matters and containing a provision to include a consumer representative on the Tariff Commission. The entire bill, including the proposal for a consumer representative, passed both houses of Congress. The legislation, unfortunately, was vetoed by President Hoover. To the best of our knowledge, such a proposal has not been reconsidered by Congress. We think it is time that it was, and expanded to include other trade entities as well, so that consumer interest can become a prime factor in the consideration of trade policy, particularly if such a policy is designed, as it is claimed to be, for the benefit of both our national and international interests.

There are several other aspects of the proposed legislation which are potentially dangerous to the welfare of the consumer. We refer in particular to a) the power given to the President to increase, under certain conditions, tariff rates by 50%. b) the easing of standards by which the Tariff Commission determines injury to a domestic industry and the devices which the legislation authorizes the President to use to ease domestic injury. c) the authorization to impose temporary surcharges or import quotas to correct persistent balance of payment deficits. d) the provisions for relief to industries from unfair trade practices.

All of the above, if implemented, would directly affect the quantity and/or prices of imported commodities, the burden of which ultimately would be borne by the American consumer. We do not intend to make specific recommendations to remedy these aspects of the bill, but are commenting on them as a demonstrable example of the lack of consideration being given to the welfare of the consumer.

United States trade legislation, including the pending bill, historically imposes an obligation on the President to protect the interests of American industry and American workers. We do not quarrel in the least with these requirements, but it is necessary that the President should be required to give equal consideration to the interests of the consumer. Their needs should be given particular attention, not merged with other special needs. We would therefore like to see spelled out in the legislation, that whenever the President is mandated to examine the effects on various economic sectors of certain protective or remedial actions before taking such actions, he be obligated to consider the short and long term effects of such actions on the American consumers. In this way, consumer welfare will be given equal priority with that of industry, labor and agriculture.

In his message to Congress on trade the President stated:

"A wide variety of barriers to trade still distort the world's economic relations, harming our own interests and those of other countries. . . These barriers to trade, in other countries and in ours, presently cost the United States several million dollars a year in the form of higher consumer prices and the inefficient use of our resources. Even an economy as strong as ours can ill afford such losses."

We hope that these words are meant to demonstrate a commitment on the part of the United States to develop and implement a new and progressive system of international trade from which all Americans may benefit and which will strengthen our ties with other nations. Such a system to be viable must be consistent with the principles of fairness and concern for all which we so often and readily articulate.

As members of the Consumer Education Council on World Trade, we recognize that all American citizens are American consumers, and that they represent the largest interest group in our country. Their welfare, therefore, is in the interest of the entire nation, both economically and socially. It should not be denied nor overlooked, but should, on the contrary, be given major consideration in the formulation of a "more open and equitable world trading system."

STATEMENT ON BEHALF OF THE CONSUMER EDUCATION COUNCIL ON WORLD TRADE

BY DR. LOUIS KRAUTHOFF, CHAIRMAN, ADVISORY COMMITTEE

Mrs. Brown has just told you generally about our Council and the board consumer interests which it represents today. I am appearing before you, as Chairman of the Advisory Committee of the Council, to speak on a subject of which I think I have particular expertise—trade hearings themselves. As the President of two national trade associations in the 1950's, I gained some insights into the preparation of testimony. Then, as Chairman of the Trade Information Committee of the Office of the Special Representative for Trade Negotiations, from 1964 through 1972, my inter-governmental committee held public hearings on international trade matters as directed by the Trade Expansion Act of 1962.

During this time I followed the trade hearings of the Congress with especial interest. Those of the Ways and Means Committee building up to this bill were especially lengthy: five thousand eight hundred and twenty seven pages in 1968; four thousand six hundred and fifty one in 1970; and five thousand three hundred and seventeen (including the summary) pages of testimony were generated last year over a period of twenty four days.

In 1968, Ways and means spent eighteen days on trade hearings but never reported out a bill. In 1970 the House spent twenty three days in public hearings on trade. The Senate spent two in October, and the bill died on the Senate floor two months later. The nation has been without trade bill authority now since August 1967. Until then there had never been a lapse of even a week since 1934, when we changed our trade policy. These issues are complex and the policy decisions are difficult, but the country and its over two hundred million consumers want action. They are not unaware that in this area especially there is apt to be Executive Branch usurpation when the Legislative Branch leaves an unaccustomed vacuum.

In the testimony last year before the Ways and Means Committee, witnesses representing sixty five commodities of direct consumer interest—from aluminum to zinc—were heard. Also appearing at those hearings were witnesses for two hundred and twelve non-governmental organizations. Our Consumer Education Council on World Trade was one of those groups and Mr. Brown has outlined our basic grade goals. I just want to stress that in all this economic mix, the American consumer has an enormous stake. They want to go on having the wide variety of choice that largely unrestricted imports are so essential in providing. They also want ample import entry to insure them as much shelter as possible from inflation, our number one national problem.

It is not often that the consumers in this country get concerned about international trade, but when they do get the wind up they develop ways of being heard. An early case in point was the special import tax on tea that led to the Boston Tea Party.

Today our consumer group is up to nothing so startling. They merely seek early passage of badly needed trade legislation, that is seven years overdue. The House bill: (1) provides for increased U.S. exports and imports, better jobs and economic growth at home; (2) protects legitimate U.S. domestic interests; (3) lays a basis for opening up new export markets and sources of needed raw material supply; (4) provides for the establishment of improved rules of the road and guidelines for harmonization in international trade which can help us become more competitive abroad; 5) provides, in an increasingly interdependent world, the authorities and the negotiating framework necessary for effective international responses to disruptions and imbalance in supply as well as markets; 6) and it does provide for increased consumer consultation in the formulation of trade policy. Finally, and we believe this is of overriding importance to all groups—not just consumers—we are convinved that a good trade bill will advance peace and security by helping to reduce international economic and commercial irritations which can so easily lead to major international disruptions.

The following national organizations, participating members of the Consumer Education Council on World Trade, have approved these statements: American Association of University Women, Americans for Democratic Action, Church Women United, Friends Committee on National Legislation, Japanese American Citizens League, Lutheran Church in America, National Board, Young Men's Christian Association in the U.S.A., National Board, Young Women's Christian Association in the U.S.A., National Council of Churches, National Council of Jewish Women, National Council of Negro Women, National Federation of Settlements and Neighborhood Centers, United Church of Christ—Center for Social Action, and United Presbyterian Church in the U.S.A.

[Whereupon, at 12:30 P.M., the committee recessed, to reconvene subject to the call of the chair.]

TRADE REFORM ACT OF 1973

WEDNESDAY, APRIL 3, 1974

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

The committee met, pursuant to recess, at 10:05 A.M., in room 2221, Dirksen Senate Office Building, Hon. Walter F. Mondale, presiding.

Present: Senators Mondale, Nelson, Bentsen, Fannin, Hansen, Dole, Packwood, and Roth, Jr.

Senator MONDALE. Our hearings will come to order.

We have a very long list of witnesses today and if the committee agrees, we will confine each of them to a 10 minute oral statement and then the written statements will appear in the record as though read. The 5-minute rule which was earlier approved will remain in effect throughout the hearings for questioning witnesses.

Our first panel will be Professor Richard Gardner of Columbia University and Dr. Fred Bergsten of the Brookings Institution, and I wish to thank each of you to your contribution to the development of my amendment which seeks to deal with short supply problems. It was something that I had been thinking about for some time, and then I read an article reporting on a speech by Professor Gardner of Columbia University and also saw some data which had been developed earlier by Fred Bergsten. On that basis I developed my amendment, which is now pending as part of the administration's Trade Bill.

I am very pleased to have the two of you here this morning, and I would ask Mr. Gardner to proceed.

STATEMENTS OF RICHARD N. GARDNER AND C. FRED BERGSTEN

Statement of Richard N. Garner

Mr. GARDNER. Mr. Chairman, in the interest of time I shall not read my prepared statement, but simply touch a few highlights that I hope may be of interest to this committee.

At the outset I would like to say that I believe the Trade Reform Act of 1973 on the whole to be a very good piece of legislation and that its enactment would serve the national interest for two main reasons:

The first is that the rules and institutions of world trade are now badly in disarray. They must be revised and strengthened if we wish to preserve an open international trading system. Without the authority to negotiate that this bill provides, we simply cannot do that.

The second reason is that the energy crisis has added new urgency to these negotiations. Faced with large trade deficits from higher oil costs, virtually all of the major trading nations in the world will be under severe pressure to resort to trade restrictions and push the burden of adjustment on to others. This would be a serious problem even in a world with strong trade institutions and rules. It could be an unmanageable problem in the present world with a weak GATT and with outmoded, ambiguous and, on some subjects, nonexistent trading rules.

So without this bill one would have to be very pessimistic about the prospects of finding cooperative solutions to the trade problems caused by the energy crisis.

Now turning to the Mondale-Ribicoff amendments, I need say little about the basic rationale because, Mr. Chairman, in your speech on December 3 you spelled out the case for amending the bill along these lines.

Senator MONDALE. I would ask the staff to put that speech in the record following Professor Gardner's remarks.

Mr. GARDNER. Thank you. It is a case with which I fully agree. As you pointed out, some 30 years ago President Roosevelt and Prime Minister Churchill proclaimed as a war aim of the United States and the free world the goal of access on equal terms to the trade and raw materials of the world. As you also pointed out, we forgot about that for nearly 30 years in our preoccupation with access to markets. And now, in a world of burgeoning populations and dwindling resources and accelerating inflation, we have got to come back to this concept of access to materials.

There are two very basic reasons for this, it seems to me. One is that it is morally, economically and politically inconceivable that nations which by an accident of nature have a virtual monopoly over materials the world desperately needs should have the right to hold the world up for ransom as a result. We must accept, all of us, including the United States, the moral, economic and political implications of interdependence.

The second reason is that we cannot clear away import restrictions unless we also deal with export restrictions. One will breed the other. And if we are in a world in which we can all be cut off without redress at a moment's notice from access to vital supplies, we are all going to be thrust into a new attempt to gain self-sufficiency. We see this happening already. So eliminating export controls is an indispensable element in our strategy to clear away import controls.

Having said this, I think we should recognize that the goal which you have set, Mr. Chairman, will involve very complex and difficult international negotiations, because when we talk about export restrictions we are talking about a wide variety of things. There are export controls put on for political purposes, which is what happened at the outset of the Arab oil embargo. There are export controls established to preserve access for the domestic population to commodities in short supply (we have the bakers of America now asking for export restrictions on wheat for that reason). There are export restraints put on for conservation reasons. There are export restraints put on for price-

raising reasons by a producers' cartel. And finally, there are export restrictions of a so-called voluntary kind put on by one country, Japan; for example, at the request of another, such as the United States.

Now these five kinds of controls all need to be dealt with analytically in a different way. So what I am suggesting is that while fully supporting the amendments that you and Senator Ribicoff have introduced, I think we should give the executive branch sufficient flexibility to negotiate rules about all of these things, and this will inevitably require reforming our own practices. We cannot have it both ways. I think we could well show the world an example with respect to the raw material system which we control food, that we understand the obligations of interdependence. The forthcoming World Food Conference, in which I know you, Mr. Chairman, have a very deep personal interest, seems to be a splendid opportunity for us to present the kind of example in this raw material which we control that we wish to see others follow on raw materials where we have a degree of dependency.

I would like to suggest also that we should try to act multilaterally in this area, wherever possible. Your amendments, as I understand them, call for amending the purpose clause of the bill to stress access to raw materials as a basic objective. They ask the executive to seek to negotiate strengthened rules in the GATT and other institutions on raw material access. They call for multilateral reprisals against countries that fail to live up to these rules, both members of these agreements and nonmembers as well. And finally, they authorize the President to retaliate as necessary to protect the national interest against those who do not play the game.

I would urge that in implementing a new international economic policy of access to supplies we seek to act multilaterally, not bilaterally, for at least three reasons.

The first is that in most cases the threat of reprisals against raw material cutoffs will have little practical significance unless we have our OECD partners with us—and we know they have not been with us in the case of oil.

Second, unilateral U.S. action will look to others as a destructive act of nationalism unless it is related to multilateral rules and multilateral procedures.

Third, such an effort of collective economic security could easily degenerate into a north-south economic war unless it is based upon principles that are acceptable to a substantial number of both developed and developing countries.

So I would hope that your amendments in their final form would specify that the President should exercise his authority to retaliate in conformity with GATT or other multilateral agreements once these have been renegotiated to deal adequately with supply access.

Pending such renegotiation, of course, the United States would reserve the right to retaliate without multilateral approval, but it should be understood that the President would use this authority only as a last resort and in conjunction with other consuming countries wherever possible.

One final thought. Codes of conduct by themselves are not enough. We will not get new rules and procedures assuring reasonable access to supplies from developing countries except in a much broader context involving a fundamental restructuring of international economic relations. The developed countries are rightly concerned about secure access to supplies controlled by developing countries. But the developing countries, in their turn, are rightly concerned about other kinds of access—access to markets, to capital, to technology, to management skills and to an adequate voice in decisionmaking in international economic forums.

The challenge facing our economic foreign policy is to fashion the world order bargain that will make access to resources a negotiable element in a new system of collective economic security that works in the interest of developed and developing countries alike.

I will not say more because you have a long witness list. I will just add that at the end of my prepared statement I have suggested six specific ways the bill could be improved on other matters, including the tariff and nontariff authority, the escape clause, countervailing duties, renegotiation of GATT, and preferences for developing countries.

Senator MONDALE. Thank you very much. If the committee agrees, we will now go to Fred Bergsten and then we can ask questions.

Statement of C. Fred Bergsten

Mr. BERGSTEN. Thank you, Mr. Chairman.

As you well know, the committee is really involved in quite a historic task right now because you are writing a major piece of trade legislation, which happens about once a decade at the most frequent these days. Therefore, one has to take a very fundamental look at the purpose of U.S. trade policy over the longer run in developing a bill such as is before you. And I would submit at the outset of my statement today that the purposes of U.S. trade policy must now be viewed in a very different light than we have traditionally viewed them in the past.

Inflation has replaced unemployment as the cardinal economic problem facing the United States, and it may have become our primary political problem as well. Prices continue to rise rapidly despite the downturn in economic growth and the increase in unemployment. There is little sign that even the rate of price increase will abate significantly in the future. There is widespread fear from observers from a variety of schools of economic and political thought that the United States may soon join the growing ranks of countries suffering from double-digit inflation.

Traditional policies of restraining demand and applying direct controls to prices and wages have not checked inflation, and would now probably make it worse. Thus U.S. economic policy is much more difficult to conceive and manage than at any previous time in the postwar period. Even if one does not agree that inflation has become our most important economic problem, it is clear that it is here for the indefinite future and is being caused by new and perhaps structural, rather than simply cyclical, factors.

The objectives of U.S. foreign economic policy are dramatically altered by this new internal economic situation. In the past, like most other countries, the United States has sought to use its external policies primarily to avoid increases in domestic unemployment. Barriers were erected to protect industries threatened by imports. Exports were subsidized. Overvaluation of the dollar has been opposed, since August 1971 with a vengeance.

But now that inflation has become so serious, and so resistant to traditional policy measures, U.S. foreign economic policy must be geared at least in large part in that direction. Such a policy would facilitate imports, to increase the supply of products available in our economy to check price rises. It would reject any new barriers to imports. It would end subsidies to exports, which drain resources away from our economy. In short, it would reverse much of the thrust of our previous foreign economic policy. Fortunately, the dramatic improvement in our balance of trade and overall balance of payments positions, and the strong outlook for both despite the sharp increase in oil prices, permit pursuit of such approaches without fear of falling again into the costly pitfalls of an overvalued dollar a la 1969–71.

Such a use of nontraditional policies to fight inflation is particularly important at this time. The traditional resort to restraining aggregate demand could raise unemployment to unacceptable levels, and—as in 1970–71—would probably not even curtail inflation much, since the root of the problem lies elsewhere than excess demand. Wage-price controls have also failed, at least in the ways tried recently, and probably in fact made things worse. So there is an urgent need to adopt a whole series of more selective policies to fight inflation without raising unemployment. The foreign economic policy I advocate today could be an important element in any such strategy.

The administration has taken a number of steps in this direction, in recognition of the new economic situation. Import quotas on petroleum and meat have been lifted, and the quotas on dairy products significantly raised. Subsidies on agricultural exports have terminated. The appreciation of the dollar has been supported by official intervention, and its depreciation resisted.

It is noteworthy that numerous other countries, faced similarly by a steady acceleration of inflation and unable to cope with it by traditional policies, have taken similar steps. Several countries (e.g., Germany, Netherlands, Australia, Norway) have revalued their exchange rates explicitly to fight inflation, even when their payments positions were not in surplus. Several (e.g., Japan, Canada, Australia) have unilaterally cut their tariffs for the same purpose, despite the imminence of a multilateral trade negotiation in which they are to trade concessions on a reciprocal basis and hence would have traditionally husbanded their import barriers with great vigilance. And a great number, ranging from the United States on soybeans through Brazil on cotton and leather to the United Kingdom on iron and steel, have embargoed or severely limited exports.

Thus there clearly is scope to use foreign economic policy to fight inflation. In addition, it is clear that the United States must be prepared to counter the efforts of other countries to export their infla-

tion to us through such measures as export quotas. We must also be prepared to counter the inflationary effects on us of the policies of other countries, even when adopted for other reasons—as with the cutbacks in production, and selective embargo, by the oil producers.

Because this set of problems is so new, however, it is virtually ignored in both the legislative basis for U.S. trade policy and the international arrangements which seek to regulate world economic relations. The Trade Reform Act cannot ignore needed improvements in dealing with the traditional problems of trade policy, such as adjustment assistance for workers dislocated by imports, and I will comment briefly on some of those issues later in my statement. But the primary goal of any new legislation should be to enable U.S. trade policy to cope with the primary international economic problems of today: inflation at home, and the inflationary impact on us of the policies of other countries.

There are several ways in which the Trade Reform Act should be amended to this end. Some changes would deal with the risk that other countries will seek to deny us access to their resources, and some would deal with our own policies which might impede such access.

First the Mondale-Ribicoff amendments should be added to the legislation. The basic purpose of these amendments is to foster the negotiation of new international rules to govern export limitations, just as international rules have governed import limitations throughout the postwar period. If the import precedent were followed, countries would have to justify internationally any resort to export limitations, apply them only for temporary periods, and provide compensation to countries injured by the move or accept retaliation from them—which is why the amendments quite properly would also authorize the United States to retaliate against unfair export controls levied by others. No international rules could be expected to work perfectly, of course, but their existence would almost certainly deter precipitate action in resort to export controls.

As a result, the United States would face less risk from the actions of other countries. That risk is real, as long as inflation continues and shortages tempt suppliers to limit exports, both to permit domestic consumption of their own resources and to raise world prices for their output. At the same time, such rules would lessen our own temptation to resort to export controls except when they were clearly and justifiably needed.

In short, the world should negotiate new rules and institutional arrangements to prevent trade wars of export controls, just as it negotiated the GATT after World War II to prevent trade wars of import controls. National efforts to export inflation are no more likely to succeed in the long run than past national efforts to export unemployment, but they could wreak havoc in the interim and raise major problems for both national economies and overall relations among countries. The negotiations of such new arrangements should be a priority U.S. objective in the forthcoming multilateral trade negotiations, as called for by the Mondale-Ribicoff amendments.

Second, section 123 of the act, which authorized the President to suspend import barriers to restrain inflation, should be expanded.

As already noted, both the United States and numerous other countries have taken a number of ad hoc measures in this direction. Such steps make imminent sense. They increase the supply of available goods and hence counter inflation in a fundamental way—unlike the artificial restraint of inflation through price controls, and opposite from the shortages of goods and acceleration of inflation triggered by import controls.

In the United States, barriers to imports were raising our consumer prices by at least $20 billion as recently as 1971. Fortunately, that cost has been reduced by the lifting of the oil and meat quotas. But sizable costs remain from the whole array of tariffs plus the remaining quota restrictions on textiles, steel, dairy products and several smaller items.

Section 123 of the bill would authorize the President to reduce tariffs and increase the level of import quotas to restrain inflation. This is a major and highly desirable innovation in U.S. trade law. However, the authorization is limited to 30 percent of total U.S. imports at any given time and a duration of 5 months for any product, and excludes any agricultural products under import quota.

I recommend that all of these restrictions be struck from the Trade Reform Act. All imports should be subject to elimination of all tariff and nontariff impediments, for a period to be determined by the President to fight inflation. If time limits are deemed necessary, they should run for at least 2 years to encompass the boom phase of the normal business cycle. Domestic groups which might be injured by such actions are fully protected by section 123(b)(1), which requires the maintenance of existing import barriers for any products where injury might result from their reduction.

Third, section 331 should be amended to require injury to a U.S. party before countervailing duties must be levied against the export subsidies of a foreign government.

As already noted, the use of export subsidies is declining around the world as countries seek to export their inflation rather than their unemployment. Nevertheless, some export subsidies remain and the United States needs a clear policy to cope with them.

However, in an inflationary climate there will be many instances in which the United States should welcome the benefits to its consumers provided by foreign export subsidies. Hence it should countervail against the subsidies only if they injure the workers and firms which compete with the subsidized imports. Such a policy has traditionally been followed with regard to dumping of products by foreign firms, which also subsidize U.S. consumers.

Regrettably, chapter 3 of title III of the Trade Reform Act does not incorporate an injury test for the application of countervailing duties. In fact, for the first time it would authorize countervailing against duty-free imports, with an injury test only when required "by the international obligations of the United States." I recommend that an injury test be required for any application of countervailing duties, on dutiable and nondutiable goods, so that U.S. inflation can be reduced by foreign export subsidies except where U.S. producers of competitive products would be injured in the process.

Fourth, Title V should be liberalized to further facilitate imports from the developing countries.

The developing countries are a major potential aid to U.S. efforts to fight inflation. Unlike virtually all industrial countries, many of them have unutilized labor which could be profitably employed if markets existed for their output. Thus there is a natural fit between our need for more goods and their need for jobs.

In addition, many of these developing countries control the supply of key primary products. They are much more likely to seek to raise the price of these commodities, increasing our inflationary problem, if they are unable to meet their own needs for jobs and export earnings by developing their manufacturing sectors.[1] Hence our own antiinflationary effort could be doubly boosted if we increase our imports of manufactures from the Third World. And recent international discussions suggest that we and the other industrial countries may have to provide more access to our markets for the manufactured goods of the developing countries if we are to win their acceptance of new rules to govern our access to their primary products.

Title V of the act seeks to do so by authorizing generalized tariff preferences for such products. However, several key limitations to that authorization are now included. The President is required to take into account a number of factors in determining whether imports from particular developing countries are even eligible for preferences, including their actions toward U.S. investments. At least 35–50 percent of the value of the imported product must be produced in the beneficiary country itself. Products subject to import quotas would not be eligible. Preferences would be lifted wherever eligible imports reached a level of $25 million or 50 percent of total U.S. imports of the item—both tiny amounts of U.S. consumption of virtually every product—unless the President explicitly decides "that it is in the national interest" to continue the preferences.

I recommend that all of these limitations be eliminated. Any value-added requirement should at least encompass value added in all eligible developing countries, not just the country exporting the final product. Products subject to import quotas, such as textiles, should be eligible for preferences; indeed, these preferences would run less risk of causing injury to domestic interests than preferences on any other products by virtue of the existence of the quantitative limits. Most important, any ceilings on preferential imports should be much higher—and it would be far better to avoid ceilings altogether, as in the original U.S. preference plan proposed by President Nixon in 1969. The standard escape clause, particularly as modified by this act, would provide the needed safeguards against injury to U.S. workers or firms resulting from an excessive growth of preferential imports—which brings me to my final point.

Fifth, Further improvements in the adjustment assistance program are needed to maintain the antiinflationary trade policy which I have

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[1] See C. Fred Bergsten, "The Threat From the Third World," *Foreign Policy 11* (Summer 1973) and "The Threat is Real," *Foreign Policy 14* (Spring 1974).

proposed, because of the problems occasionally caused for particular groups of workers by import flows.

Even in an inflationary climate, where increased imports are clearly in the national interest, equity requires governmental assistance to those particular groups—particularly workers, but sometimes firms or even entire industries—which may on occasion be injured by those same imports. Indeed, the enhanced importance for the United States of unimpeded access to imports enhances the importance of an effective program of adjustment assistance because the only alternative to deal with such injury, restrictions of the imports themselves, is so obviously undesirable. Thus I strongly support the preference expressed for adjustment assistance over import relief in several sections of title II, the several requirements that industry efforts to adjust be carefully scrutinized in determining whether to grant import relief or to maintain such relief after it is initially granted, the numerous requirements that consumer interests be considered in any determination regarding import relief, and the authorization of congressional vetoes of any new import quotas enacted by a President.

In addition, H.R. 10710 would reduce the need to resort to import restrictions by significantly improving the adjustment assistance program. However, further improvements are highly desirable and can be implemented at quite modest cost:

—The bill provides that workers laid off due to increased imports would receive 70 percent of their previous weekly wage for the first 26 weeks of unemployment, and 65 percent for the remaining 26–65 weeks of eligibility. This level of benefits would represent a significant cutback in the take-home pay of many workers, and should be raised to 80 percent for the duration of eligibility.

The proposed program provides no fringe benefits. Such benefits, particularly health and life insurance, add perhaps 15–40 percent to the real income of most workers. The Federal Government could easily keep such insurance going during the periods of worker eligibility by paying the premiums previously paid by their employers.

To achieve real adjustment and limit costs, early warning of possible trade-induced dislocation is needed. The Government, working closely with private industry and labor, should create a systematic program for detecting new areas where increased imports will lead to problems and which will give them prompt attention.

Adjustment assistance should be available to import-impacted communities, as well as groups of workers and firms.

A new Office of Adjustment Assistance should be created in the Executive Office of the President to run the program. Its administration is otherwise too diffuse to be operated with maximum efficiency.

CONCLUSION

With the proposed changes, along with its other provisions, the Trade Reform Act could take the lead in addressing U.S. foreign economic policy to the problems of the relevant future. It could play a particularly important role in combating inflation. It could provide means to deal effectively with any job losses caused by increased imports. And it would place the United States in an excellent position

to negotiate new trade rules which would both promote our national economic interests and further the prospects for global economic cooperation—a vital necessity in today's world of unquestionable economic interdependence. My final recommendation is that the committee report the amended bill as quickly as possible, and push for its early adoption by the entire Congress.

Thank you.

Senator MONDALE. Listening to your analysis of the world in which we live where the danger is inflation and not unemployment, and having earlier listened to some of the representatives of organized labor where they are terribly concerned about unemployment, one wonders whether we are looking at the same world.

For example, the auto workers, which have traditionally opposed any kind of quotas, speaking through their president, Leonard Woodcock, last week as I recall, asked for temporary quota protection against the importation of cars on the grounds that the drop in foreign exchange reserves in Japan would probably force the Japanese to try to export furiously their small cars. Then Mr. Meany, testified that there is a very strong movement in unemployment. When I go around the country that is what I hear when I am with union leaders and members. They are very concerned about their jobs.

Now how do you reconcile those two views of what is the major economic problem today?

Mr. BERGSTEN. I must say I have great sympathy with the auto workers. They are victims of two things that were beyond their control. One was the failure of our automobile industry to move as it should have moved to producing the kind of small cars that obviously were in demand by American consumers. And that was coupled with the second factor, the energy crisis, which has so dramatically changed energy cost in this country. A massive transition problem was created for the automobile workers as Detroit is now forced to the production of smaller cars.

But I would think that import restraints would be exactly the wrong way to deal with the issue. Indeed, the only reason that Detroit ever began to produce any small cars whatsoever was foreign competition. The United Auto Workers would be in a much worse situation today if Detroit had not been forced, first by Volkswagen in the late 1950's and then by the Japanese in the late 1960's, to begin producing at least some small cars so that some American demand for that kind of vehicle could be met from domestic production.

If it had not been for the competitive impulse of foreign competition, our automobile industry and our automobile workers would be in far worse shape than they are today. Now that of course leaves open the question of what to do about the present situation where we do have a transitional problem for the automobile workers and, indeed, for our automobile industry, having let itself be in the position it is in today.

I think the answer would be direct support to the automobile workers, which would have been included in the adjustment assistance package of the energy bill which was voted by the Congress recently but vetoed by the President.

Senator MONDALE. Are you talking about unemployment insurance?

Mr. BERGSTEN. That is right. I think that is the response. I think any effort to put import quotas on now would be totally ineffective because American demand for automobiles has shifted from large to small cars. If you put quotas on imports of small cars, you are not going to significantly increase the demand for large cars. You simply reduce the demand for all automobiles, until the quotas are lifted or until Detroit has retooled itself to produce the small cars which are being demanded now by American consumers.

I think there is very little chance that import quotas of the type called for would have a very significant effect in increasing employment in our automobile industry, because the American consumer's demand for automobiles is simply not for the kind of cars that Detroit is now prepared to produce.

Indeed, I would think that putting on import quotas would slow the pressure on Detroit to convert to produce the kind of cars that they can sell here, and therefore, even in the relatively short run, would have an adverse impact on employment in the automobile industry.

Senator MONDALE. I am going to return with some other questions but for the moment, Senator Fannin.

Senator FANNIN. Mr. Chairman, just to get into that one subject, as far as what the automotive industry has done I think we have to realize the tremendous number of jobs that have been available over the year because they have been producing a larger car. And I do not believe that the American public is demanding a small car. But I do feel that they are demanding an efficient car, and I think this is shown by their willingness to buy expensive cars produced, for instance, in Germany that are more efficient.

As an illustration of what is being done, if we are going to have the jobs available in the automotive industry and the public is going to have the demand satisfied, I think we should look forward to producing both a small car and a large car or medium sized car that has a low utilization of fuel. I think that is what we really must look forward to. I do not think we want to just say, well, everyone wants a small car, because most people do not want a small car. They want comfort in the car and I think they are willing to pay for it, but they are concerned with the utilization of fuel.

Do you agree with that?

Mr. BERGSTEN. I fully agree with the focus on efficiency. But there is a pretty high correlation between efficient utilization of energy resources and the size of the car.

Senator FANNIN. Yes, but you can have lighter metals utilized. You can have many cutbacks as far as weight is concerned in the car, and you can have a much more efficient running car as illustrated by some of the foreign cars being sold in the United States today. Well, that is one matter that I think is important because if we are talking about jobs in the automotive industry, that is certainly a factor.

One thing I wanted to discuss with Mr. Gardner is concerning the current policy within the European economic community. Do you think we can attain a consensus among our trading partners to revise GATT to insure access to supply?

Mr. GARDNER. I think we face a long and difficult negotiation. I think we should not be under any illusions. I think the notion that we are going to get a negotiation completed in a year or two, frankly, is not realistic. I see this as a negotiation that probably will run into the next administration, and given the disarray in which a number of the European countries find themselves, and of course France now enters a period of great difficulty and uncertainty, I think we have to face the fact that this is a 3 or 4 year proposition.

But I think if we handle our negotiating situation well, we have a reasonable chance of getting some improved rules.

Senator FANNIN. Well, I do think that you will agree as far as bringing pressure on the producing nations—we are talking about the petroleum producing nations of the world—unless we have some provision where we work together—the consuming nations of the world work together—we as a Nation can not bring very much pressure.

Now when we talk about what we can export, to the Mideast nations, they are dependent upon us for very few items. In other words, they can go to other countries of the world. I was just in the Mideast and I know that they are developing agricultural resources. In fact, we witnessed on the little island of Abu Dahbi a hydroatomic agricultural program that is going forward. They are not going to be dependent upon us for agricultural products. Honestly, how do you think that we can bring pressure other than through GATT or some combined program?

Mr. GARDNER. I stressed in my statement that we should seek to work multilaterally in most cases. Unless we had a substantial number of our OECD partners in Europe and Japan with us, we would be in great difficulty.

On the other hand, there are cases where we have a great deal of leverage either alone or in conjunction with one or two other countries. Take the case that you mentioned about Saudi Arabia. You asked, what do they need us for? I am going to put it rather bluntly: in the long run they need us for the survival of that regime. We are supplying large amounts of military assistance. I do not want to be understood as saying we should take any precipitious action, but I believe, sir, that we have some leverage in the situation and I think the indications are that we have used it behind the scenes in the last few months to bring about the termination of the embargo.

Senator FANNIN. I agree with you and that is the most powerful negotiating tool we have. In fact, it is about the only one that I have observed that could be utilized to great advantage. I notice, Mr. Gardner, you quote Cordell Hull and I of course know that that is a different situation than what existed when he made that statement, because we do have Russia to contend with.

Thank you.

Senator MONDALE. Senator Hansen.

Senator HANSEN. Mr. Bergsten, you estimate that imports as recently as 1971 cost the U.S. customer $20 billion annually. You assume the oil import program cost the consumers in recent year how much? Would you want to hazard a guess?

Mr. BERGSTEN. The figure compiled by the Cabinet Task Force on Oil Import Policy in 1970 was $6 or $7 billion.

Senator HANSEN. Now that oil import program of course has been scrapped. What has happened to the price of oil since then?

Mr. BERGSTEN. We all know how dramatically it has risen.

Senator HANSEN. You still feel, though, that it makes good sense to stop all import restrictions even though it may discourage the development of available domestic industry? That could have avoided to some extent at least, the situation we find ourselves in these last several months.

Mr. BERGSTEN. It is not clear to me that maintaining the oil import controls for 12 years, using up our domestic supplies, did not in fact add to the problem that has increased oil prices in the last 2 years. Had we had more domestic production still on hand rather than used up, we would have been in a far stronger position to counter the Arab oil embargo, and I think probably could have held prices down.

Senator HANSEN. I think the facts are that there are a number of authorities who would disagree that we used up our domestic supplies. I think it can be supported factually the lack of incentive among independent oil companies as demonstrated by the fact that in 1957 we had over 20,000 of them drilling for oil in this country, and in 1972 that number had dropped to less than half that number down to about 10,000 with only half as many wells being drilled despite the fact that our consumption of energy and oil had doubled, so that the shortfall was about in the ratio of 4, certainly suggests to me that the mandatory oil import program was caught on both sides. We tried when it was put into effect to give the encouragement to the domestic industry, but we did not let, for a number of reasons, prices rise to give the financial incentive that would follow.

So I would ask you, do you think that if we do develop a dependency on foreign supplies of any kind, we can be assured that foreign suppliers are going to keep prices cheap.

When Mr. Abel was here not long ago he testified that the cost of imported steel now exceeds the price of domestic steel by $100 per ton. How would you respond to his statement?

Mr. BERGSTEN. I would find it very surprising and difficult to reconcile his statement with the continued call of the steel industry for import barriers. If the foreign steel is costing $100 a ton more, there is certainly no need for import restraints to keep it out. Indeed, as I have observed, what has happened in the last year or so has been a dramatic improvement in the competitive position of our steel industry, so any import restrictions now would seem totally redundant.

Senator HANSEN. Without trying to defend or support the contention made by the domestic industry, my question was do you think we can depend upon foreign sources to keep prices cheap if we lose our domestic capability to compete with them?

Mr. BERGSTEN. No, not if we completely give up our domestic capability. That is one major reason for the Mondale-Ribicoff Amendments, to set up both domestic policies and international rules that would put the pressure on other countries not to extort from us.

As you may know, I have taken the position rather strongly in recent months that we face in other raw materials the potential for

the very same problem that we have faced in oil—that foreign producing countries may develop cartels to try to gouge us on price, the same as they have done in oil—and that we have to respond to that very effectively. So I am with you on that.

Senator HANSEN. I am sure that Zaki Yamani needs no defense from me, but when we visited some of the Arab countries early this year in January and we talked about the commonality of interest that we and they had in keeping prices down so as to halt or slow down the possibility of a world-wide inflationary spiral, they said do not look at us. First compare the cost of American products that we are buying, and they spoke about a number of things. And they had some pretty dramatic illustrations.

So let us not look at the Arabs and say quite insulated from any other consideration that the oil prices have risen. I think a point can be made that they are using a depletable resource. The time will come —I do not know how quickly—when they will be out of oil.

And to conclude, Mr. Chairman, the point that they were making is that when we compare the price of oil as it has escalated in recent months, they would like us also to compare the price of goods that they have been buying from us in recent months.

Mr. BERGSTEN. May I say I think you make one of the most important points that can be made in this discussion, because in a highly inflationary environment such as we now have everybody is trying to keep one leap ahead of the other guy in raising his prices. That is why I am calling for a U.S. trade policy, a new set of measures, a new set of mechanisms to try to cut that off because everybody loses very, very badly in both economic and social terms if the process continues.

Senator HANSEN. Thank you, Mr. Chairman.

Senator MONDALE. Senator Packwood.

ADJUSTMENT ASSISTANCE

Senator PACKWOOD. Mr. Bergsten, on adjustment assistance, we have had several witnesses testify as to the distinction among the words substantial, primary, and major. In your opinion, what should be the standard for adjustment assistance?

Mr. BERGSTEN. Substantial.

Senator PACKWOOD. As defined in the bill?

Mr. BERGSTEN. I think the eligibility criteria in the bill as it now stands are quite good and would provide the basis for an effective adjustment assistance program.

Senator PACKWOOD. Were we to adopt the Mondale Amendment, should we have a provision for veto by Congress in the event the President exercises his power unwisely in using export retaliation powers?

Mr. BERGSTEN. I should certainly think you should careful procedural safeguards that insure the open testimony of all interested parties before any decisions were taken.

Whether you would want to have a congressional veto, or rely on Tariff Commission procedures as we now do in the escape clause, is a hard question and really gets to whether the Congress feels it should

take up individual issues of that type. I would certainly have no objection to it. I think it would add to the basic purpose, to make sure that there are procedural safeguards and the whole issue is considered very carefully.

There are usually not very great time urgencies on these matters, so I would not be dissuaded by a concern that it would slow the processes.

Senator PACKWOOD. I think Senator Mondale has a good idea, but we make no particular provision one way or another and I wonder if there is any value in consistency when we are talking about trying to achieve the same end in toto, whether we are talking about tariff or non tariff barriers, or export limitations.

Mr. BERGSTEN. It would be consistent. I think the intimate involvement of Congress in trade policy is essential because trade is such a highly politicized issue in this country now, and Congressional input is the only way to insure that all aspects of the issue are always heard.

So as I say, I would certainly have no objection to that inclusion.

Senator PACKWOOD. I have no further questions.

Senator MONDALE. Senator Roth.

Senator ROTH. A number of our witnesses in the past have expressed concern about preserving the industrial base of this Nation, that we should not permit ourselves to become a service country.

I wonder if you would care to comment on that, and if you agree that it is a problem, what we should do to make certain that we maintain the industry we need down the road.

Mr. BERGSTEN. I certainly share the concern that the United States retain a strong industrial base. I must say I am quite pleased and optimistic about our ability to do so.

In looking at our foreign trade performance, even during the period of massive overvaluation of the dollar in 1969 through 1971, our trade surplus in capital equipment, heavy production goods, the kind of things that make up an industrial base, remained very sizable and quite strong.

Since the exchange rate realinements have removed the artificial impediment to our competitive position caused by disequilibrium exchange rates, there has been of course the most dramatic improvement in our trade balance in a single year than has ever happened in the history of trade—an $8 billion improvement in our commercial trade balance, some of it agriculture, but much of it, in addition, on the side of manufactured goods, with the volume of our industrial exports rising by almost 25 percent in a single year.

All of that, I must say, gives me a great deal of confidence in our industrial base. The question for the future is how one insures retaining that industrial base.

I for one would be reluctant to think that we could maintain it by erecting barriers to competition within our industrial base. I indicated before, on the automobile industry, that the impulse of external competition has forced our automobile industry to innovate, modernize, diversify itself. I would simply think that any kind of barriers to imports, or on the export side as well, would undermine the objective of trying to maintain our industrial base.

Senator ROTH. I just wanted to pose one further question.

To the extent that the international competition is based upon cheaper labor, can we necessarily expect our industry to maintain the kind of compensation we desire when it does compete with other countries where labor is far cheaper?

Mr. BERGSTEN. Of course economists will always tell you that cheaper wage rates reflect lower productivity and that it all balances out. In many cases that is true. But in some cases, one would have to admit that lower wages prevail beyond the time that productivity has remained low.

However, in a world of flexible exchange rates, that problem should not arise because any differential between wages and productivity in a particular country would immediately affect the exchange rate of that country. And if they are in an unfairly favorable competitive position, as a result of such a divergence, their exchange rate will rise. That will raise the prices of their goods to offset the divergence, and offset any unfair competitive advantage they might have.

Again, the dramatic improvement in our trade balance last year vis-a-vis Japan, vis-a-vis Korea, vis-a-vis Taiwan, countries that are cited as being low-wage exporters, are, I think, dramatic evidence that this analysis is in fact accurate.

Senator ROTH. I am not an economist but I must say that I do have some concern that these self-adjustments do not come about as rapidly as may be desirable.

Let me ask you this question. It is expected on the part of many observers that Japan and even Western Europe, because of the higher price of oil, are going to aggressively push sales to our market. Do you see that this requires any special steps by us, in view of your testimony?

Mr. BERGSTEN. It certainly requires very tight vigilance over those countries. There is in fact exactly such vigilance going on in the international monetary forums, to avoid competitive depreciation of exchange rates, which is one way to do it.

I must say I have been encouraged. No country in the wake of the oil problem has competitively devalued its exchange rate. No one has put on import barriers. No one has been subsidizing exports. I keep my fingers crossed. But so far so good. We certainly must be very vigilant, though, in seeing that this continues.

Senator ROTH. My time is up. Thank you.

Senator MONDALE. Senator Nelson.

Senator NELSON. I have been in another meeting so I did not have the chance to hear your testimony. I do not want to be repetitious, but I would like to pursue that question of Senator Roth's on wage rates. I am not an economist either, but in the past 2 years I have talked to a number of people in the electronics business who say that they just cannot compete, and they are better off if they close down their business here. The business is highly labor intensive, and so they go to Taiwan or elsewhere. If they don't move, they say, they are getting the tar beaten out of them because of the wage differentials, the cost factor.

What is your observation about that?

Mr. BERGSTEN. I am reluctant to make much observation with two rows of representatives from the electronics industry sitting behind me. [General laughter.]

Senator NELSON. Is that so? I have never seen any one of them before, but anyway, let's hear what you have to say about that.

You can face them if you do not want to have your back to them when you talk. [General laughter.]

Mr. BERGSTEN. As I understand it, there are some significant differences within the electronics industry on the point that you raised.

On some components, for example, and even some final manufactured products, it does seem that competitive advantage has shifted to other countries who combine lower wage bases plus an ability to pick up the technology that is now available fairly widely.

So one, therefore, has to ask the question, if the United States firms did not pick up and invest abroad, as you say, what would happen otherwise? And what those firms usually suggest is that if they did not make those foreign investments, we would instead import the goods from the same countries but from firms centered in those countries, centered in Japan, centered in European countries which themselves invested in Taiwan, Singapore, wherever it might be.

One always does have the option of trying to put up import barriers to block that kind of import flow. That raises the fundamental question of trade policy.

I have mentioned at the outset, and it has been alluded to by a number of Senators, that it is a trade off. You can try to hold back the inevitable ebb and flow of economic structure of this or any other country by raising artificial barriers to it, be it import controls or price and wage controls. But when you do that you significantly raise your costs and your prices domestically, fueling inflation. You reduce the productivity of your own labor force in your own industry, and over the long term you can only have the effect of both raising inflation and undermining your own growth potential. You do have the choice; you can put up the barriers, but you must recognize that there are very high costs to doing it.

It is a policy option, there is no doubt about it. But it is a costly one and in my view, at this point in time, it is exactly the opposite of what we need.

Senator NELSON. If everybody did the same thing, maybe it would not make any difference. But we keep being told that, for example, the European countries subsidize. I hear it because I am from a dairy State. The Europeans subsidize the exportation of dairy products and set up barriers to our products. What does this country do in dealing with a country which sets up barriers to our products, or, if not barriers, subsidizes their exports. How do we deal with that?

For example, we have had testimony here in the Finance Committee that you can barely get an American car into the Japanese market because of all kinds of complicated marketing structure difficulties which they have set up. Yet our markets are open to all of their cars. You see them all over. How do you deal with that? You can talk free trade all you want, but we are dealing with a huge industrial power that keeps us out and wants to be in here.

How do you deal with that?

Mr. BERGSTEN. I think you deal with it two ways, and you may do the two simultaneously. One is to try very, very hard to negotiate the elimination of those barriers. That in fact is a major rationale for getting into a big new trade negotiation to deal with precisely the kind of nontariff barriers you are mentioning, the common agricultural policy in Europe, and nontariff barriers in Japan. You try to negotiate. But if you cannot negotiate with them, you hit them over the head.

Senator NELSON. But we have never hit them over the head. You can go to our State Department officials dealing with agricultural policy and they really do not care. Let the stuff come in, they say because their problem is negotiating NATO this or that, so the hell with the farmer. And they are the ones who determine what happens, not our Agricultural Department. We have fought that battle for years. Take subsidization and the tremendous invasion of the market by subsidized dairy products. Our Department of Agriculture tells our farmers to cut back production to bring it into conformity with demand. They cut it way back and then the Government floods the market with foreign imports. That is a good answer except we never do it.

Mr. BERGSTEN. Senator, I could comfort you in the sense of assuring you that——

Senator NELSON. I am not just talking about dairy.

Mr. BERGSTEN. I understand that, but I can assure you that the State Department has not determined U.S. trade policy. I can tell you that both from my experience from being in the White House and from observing it outside.

Senator NELSON. Maybe nobody does.

[General laughter.]

Senator NELSON. On another dairy issue, I can recall during the middle of the Vietnam war, that, all of a sudden we gave a big import quota of cheese to Australia because Australia was sending boys over to Vietnam. That is the only connection I could make on it. It was cheddar cheese in violation of the import quota, there was no doubt about it.

We finally proved it, but that was a State Department operation. Now I do not know who determines it.

Senator NELSON. But the point is that your answer is, let's hit them over the head. What bothers everybody is that we never hit anybody over the head.

Mr. BERGSTEN. I think in writing the Trade Reform Act you can certainly add to the likelihood that we do hit them over the head in cases where they deal unfairly by requiring the application of countervailing duties against foreign export subsidies where they injure American interests. We should countervail against such instances. We should apply the antidumping duties in cases where foreign firms are unfairly dumping their products on our markets.

Senator NELSON. Does our country even know who is doing it and to what extent? I never could find out.

Mr. BERGSTEN. It is very difficult, Senator, to track down some of these export subsidies or unfair trade practices. A lot of industries in this country complain about a lot of such practices but when asked to come up and recite chapter and verse, they often are not very good at doing so.

I have tried that when I was in the Government. I know that successive administrations have tried to get U.S. industry to lay it on the line. They complain about foreign barriers and unfair foreign practices, but when asked to lay it on the line they often do not come up with any details.

Senator MONDALE. We have gone beyond our 5 minutes.

Senator NELSON. Yes, but you are getting good questions.

[General laughter.]

Mr. BERGSTEN. And good answers.

[General laughter.]

Senator MONDALE. Superb answers.

Senator NELSON. May I ask one more question?

Senator MONDALE. I don't object.

Senator NELSON. Thank you very much.

Senator FANNIN. Would you ask one for me? Ask about how they justify the 3-percent tariff on all those Japanese cars and other cars coming in, and still we cannot get a car into any other country of the world from anywhere to 2 to 5 or 10 times that much?

Senator NELSON. Do you want me to ask it?

[General laughter.]

Senator NELSON. Go ahead.

Senator FANNIN. It was along your line of questioning, I would like to have their thoughts on why we permit these cars to come in on a 3-percent tariff when the Japanese have 6 or more percent, 10 or 11 percent in the European economic community, plus nontariff barriers that are 10 times that much. That cannot be justified.

Mr. BERGSTEN. The structure of tariff and nontariff barriers differs very markedly from country to country. In some sectors our import barriers are of course much higher than those in some other countries. So while we would legitimately have the concern you expressed on automobiles, other countries would have them on textiles or steel.

Senator FANNIN. But in our unemployment, that is the problem we are facing in the automotive industry. This has come about over a period of years. You say it came about just because we did not build smaller cars. Well, that is not true. There are many factors involved and I think you will agree with me that there are contributing factors.

So I just ask you: can you justify all of these foreign cars coming in at 3 percent?

Mr. BERGSTEN. Senator, as I indicated in my statement, I really would not try to justify any of these import barriers. I really would think that getting into a multilateral trade negotiation now, with the primary objective of exactly what you say, negotiating down those foreign restraints, should have top priority.

Senator FANNIN. We just do not have the votes in GATT to get anything done, is that not right?

Mr. BERGSTEN. The votes in GATT are a real problem, I agree with you. I think there should be renegotiation of many of the rules, including voting procedures.

Senator FANNIN. Thank you very much.

Mr. GARDNER. Mr. Chairman, may I make one or two comments on the questions that have come up in the last few moments?

Senator MONDALE. Certainly.

Mr. GARDNER. First of all, I think it is clear that we are not going to be able to succeed in renegotiating GATT from top to bottom since amendments require a two-thirds vote and we have a one-nation-one-vote system and over 80 countries. Therefore, the way forward, it seems to me, is the approach suggested by the panel of the Atlantic Council recently, headed by Ambassador John Leddy, which is to negotiate a new code of trade liberalization among the key trading countries, the European community, the United States, Japan, perhaps Canada, and one or two others. That can be done without a formal amendment of the GATT. The 10 or 12 principal countries can get together and write some new rules which will be effective among themselves with some new decisionmaking and voting arrangements assuring approximate parity in voting between the Community, the United States, Japan and so on.

This can be done, and one reason we are in difficulty, in answer to Senator Nelson's question, is that the nontariff barriers have not been effectively dealt with for the last 30 years and it is partly the responsibility of the United States that they have not been.

It was our country that first carved out a big exception for agricultural, particularly dairy products, from article XI of GATT. It was not the Europeans that started it.

The reason that GATT is ineffective in agriculture, ineffective in Government procurement, subsidies, and many of these other things, is in large part traceable historically to U.S. policy.

Now I do not wish to say that we are more to blame than anyone else. But that, I think, is an historical fact that we have to contend with. We are now trying to renovate the whole system and deal with these major areas that for 30 years have not been effectively regulated by the international trade rules.

One other comment. I think the sectoral equivalence provision in the nontariff barrier authority is most unfortunate, and I would urge that this committee take a vary hard look at it. In my judgment it would make it difficult, perhaps even impossible, to negotiate new and effective rules about nontariff barriers in the areas that we have been discussing.

We have historically in this country and with our trading partners sought reciprocity across the board. If we are going to have to seek competitive equivalence in 40 different product sectors, as this is now interpreted by the President's Special Trade Representative and by the House Ways and Means Committee, we are going to put a terrible burden on our negotiators in fixing up the rules of the international trading game.

Senator NELSON. And your recommendation is what?

Mr. GARDNER. I would recommend that that section—it is in my testimony.

Senator MONDALE. In the House bill?

Mr. GARDNER. It is in the House bill, and my recommendations are there in my testimony, where I suggest that we either eliminate the requirement of sectoral equivalence, or else make it clear as a minimum that section 102(c) be implemented only to the extent consistent with the overall objectives of the legislation laid out in section 2.

Unless that is done, I fear we may have serious misunderstandings when these nontariff barrier agreements are concluded several years from now and this will strain executive-congressional relations.

Senator MONDALE. Would you yield there?

As I understand it that is designed in whole or in part to get at the nontariff barriers of Government purchasing policy.

One of the things that has happened is that many of these governments say that they will only accept bids from domestic producers. So, for example, if generators are made in the United States and there is a big bid on generators in Germany, the German Government would say to U.S. producer oh, no, you cannot bid. But if there is a generator bid open in the United States, German producers can bid here. And I think that is what supporters of the sector approach are getting at, is it not?

Mr. GARDNER. That may be what they are getting at, but it is not what the legislation says.

Senator PACKWOOD. I wonder if I might interject there, Mr. Chairman. I do not think that is what they are getting at. I think Mr. Gardner is right. I have been through this with three or four different witnesses and they really do want sector by sector bargaining, those that are pursuing it. And if we cannot make a quid pro quo arrangement on chemical manufactures, they would have the right, as I understand it, to say, well, all right, we would like to reach a favorable agreement on agriculture and in exchange we will make this kind of concession on chemical goods. Each industry is reluctant to see that kind of bargaining, and I think Mr. Gardner is right.

If we will get into the thing that if we cannot get a bilateral agreement on chemicals we cannot somehow look at two or three sectors together, I think there is going to be serious difficulty in the negotiations.

Mr. GARDNER. Let's take the example the chairman gave. It is urgent that we get some new rules about Government procurement. Let us suppose we get a new Code of Trade Liberalization negotiated which says that the 10 major trading countries of the world, the Common Market, ourselves, Japan, and so on, will grant one another the same right to bid on government contracts as they grant their own citizens.

As I interpret the bill as now written, it is not at all clear that that would be in compliance with the legislation, because it would be necessary to show that for every product sector for all the different products, that that would result in equivalent competitive opportunities. But the fact is that as a result of differences in comparative advantage, we will have a better chance in competitive bidding to get the contracts in some areas, the Japanese will do better in others.

We cannot show, in other words, that the application of these general principles will result in affording an equal advantage to everyone in all major product sectors. We have never conducted tariff or nontariff barrier trade negotiations that way and I do not think we should start now.

Mr. BERGSTEN. I might add that the sectoral approach would undermine Senator Fannin's objective of knocking down foreign barriers to our automobile exports. If one tried to do a sector deal in automobiles, it would be almost impossible for the reason you pointed out: our barriers are lower than theirs. There would simply be nothing to trade.

Senator FANNIN. But all the OECD countries have the tariffs. If they all had equivalent tariffs you would not have this problem.

I could never understand why we ever negotiated on that basis of one-third, one-fifth, or one-tenth of what the other countries have.

Mr. BERGSTEN. It is a fair question, but the fact is that we are there today. In order to get those other duties and the nontariff barriers down in other countries, we are going to have to make some trades in other areas.

Senator HANSEN. But this is so important. Now there is a very serious factor of unemployment in this country.

Senator PACKWOOD. I think the point is, Paul, the other countries will say, all right, we will lower the tariffs to 3 percent on cars, American cars coming into our country, and you will have your 3 percent on ours coming in. In exchange, we would like greater access to your textile market.

Senator HANSEN. When we originally worked on GATT, we were willing to give concessions, and we gave concession after concession after concession to get some of these other countries of the world to be able to compete. But that is gone now and I think we have to look at it from the other way. There must be adjustments back where we now have an opportunity to compete.

You talk about quid pro quo. You have to compare it not with just what you do at this moment. You have to look back over the period of time these agreements were made.

Senator PACKMOOD. I am not sure these witnesses would agree with that. But they are saying, do not tie our negotiators' hands, and say if you cannot make an agreement in automobiles, if that is it, there is not going to be any agreement.

You cannot weigh agriculture, chemicals, and automobiles together or against each other. You have got to go on each sector.

Senator HANSEN. Well, but if you are trying to correct a mistake that was made years ago in order to accomodate these countries, I do not think that we can then strike away our rights in bargaining.

I have one further observation, Mr. Chairman. I think Mr. Bergsten spoke optimistically about his belief in the competitive vitality of American industry vis-a-vis other countries around the world. I just would not dispute this fact. I do not think it necessarily can be demonstrated that a lower wage results in lower productivity. I should think that if you want to compare the output of the average Japanese laborer today with his counterpart in this country, it makes ours look not too good.

I know that when Mr. Woodcock was over there in Japan about 1 year ago he asked about absenteeism, and one of the Japanese manufacturers with whom he was discussing the problems said, well, of course we have people who are ill and not able to come to work. He said, I do not mean about that. I mean what about people who want to take 1, 2, or 3 days off to spend with their families. That was not heard of over there.

It would be a happy circumstance if it were true that the higher wages are, the more productive a worker is, but I do not really think that such a statement can be defended in the light of reality.

Second, I note that Japan is doing precisely what many of our multinational corporations in America are doing. They are in a tight labor market situation over there or at least until the energy crisis. And what were they doing? They were exporting their technology. They were exporting their know-how, their modern plants and everything into countries where labor is cheaper, into Taiwan and other parts of Asia to take advantage of the lessened demands, and, as a consequence, the greater competitive advantage that would result from producing textiles no longer made in Japan but throughout the rest of the world. I just make that observation and ask you if you share generally my sentiments?

Mr. BERGSTEN. I think your second point is certainly right. The Japanese are consciously exporting some of their industries in order to do what I suggested in my statement—fight inflation and, in their case, fight environmental pollution as well by marrying up their technology and capital with cheaper production processes abroad to fight inflation at home.

Senator HANSEN. I am not sure that they are necessarily trying to fight inflation. I think rather it is to add to their economic strength. Now obviously they are concerned about inflation these days, as all of us must be, but Japan has a rather unique situation. As you know, governments just take an industry by the hand. About 80 percent of all the money invested in industry over there comes from the government, as compared to about 20 percent in round numbers from this country. And they have sort of cartelized the rest of the world and say to this company you go there and to another company, you go there.

They are not restrained or constrained by the antitrust laws that we have in effect in this country. And while it is true that inflation does worry all of us these days, I think initially their concern in going abroad was to reap the economic benefits that flowed from being able to employ competent workers at a lesser figure per hour than they could employ people in Japan.

Mr. GARDNER. Mr. Chairman, may I add a thought on this question of Senator Hansen's?

Senator MONDALE. Surely.

Mr. GARDNER. I had the privilege 3 years ago of participating in the President's Commission on International Trade and Investment Policy, which took an exhaustive look at the ability of the U.S. to compete in the industrial sector. After 2 years of exhaustive examination, we concluded that the long-term prospect was good—in fact, the

recommendation of the Commission, far from asking for additional restrictions to protect our position, was that there should be the progressive elimination of most tariffs over the next 10 years and of all tariffs over the next 25.

We found that during the period of the 1960's up until the Vietnam War wage costs per unit of output—which of course is the relevant test, not wage rates, but wage costs per unit of output—had not risen faster here then overseas. What got us in trouble was the Vietnam war and the induced inflation. That is why we have had to have $2½ devaluations.

In a world, as Dr. Bergsten points out, of more flexible exchange rates, the exchange rate ought to be able to compensate for these changes in relative differences in wage rate per unit of production. I would see us maintaining our competitive advantage, particularly in the high technology sector.

One specific policy implication, however, that Fred did not mention and that I would like to suggest, is this: We can take active steps through tax policy and other policies to be sure that we are moving ahead in research and development so that we are on the technological frontier. We are a high wage country. We can only compensate for it if we are leaders in innovation.

Senator HANSEN. And yet the multinational corporations today can take our technology, the latest sophisticated knowledge that we have, and move it anyplace around the entire world?

Mr. GARDNER. They can.

Senator HANSEN. And do.

Mr. GARDNER. If they do not, of course, let us assume we tried to restrict them in that, some other foreign country would simply try to move into the area.

Senator HANSEN. I am not trying to defend it. I think that it is a fact.

Senator PACKWOOD. Could I ask one last question, because they have alluded to a point several times that I do not quite understand. Explain to me how the floating exchange rates compensate for the lower wage rates overseas and the increasing, decreasing values of their currency.

Mr. BERGSTEN. As Professor Gardner just said, competitiveness is determined by a great number of things, but on the labor side it is the wage cost per unit of output—the comparison between the wage level and the productivity of the workers involved.

Now if there were a systematic divergence between wage levels and productivity in a country such as Taiwan—productivity shot ahead but, for one reason or another, they held their wages down—their competitive position would get better because their wage costs per unit of output were declining. In a world of flexible exchange rates, their exchange rate, reflecting that improved competitive position, would immediately rise in world markets.

Senator PACKWOOD. Explain that in English, please.

Mr. BERGSTEN. Because of their improved competitive position, they are exporting more and earning more foreign exchange. People are having to buy Taiwan dollars to pay the Taiwanese for their

increased exports. In a world of flexible export rates, those purchases of Taiwan dollars paid for the exports drive up the price of the Taiwan dollar. That is what has been happening to the German mark over the last 4 or 5 years.

Senator PACKWOOD. I am with you so far. What happens then?

Mr. BERGSTEN. Because the Taiwan dollar rises in value, the Taiwanese goods become more costly in world markets, therefore reducing the competitive position that was gained in the first place by the gain of productivity relative to the wage levels. Now that is a big gain for Taiwan. They have increased their national wealth. But the increase in their competitive position is then offset.

Senator PACKWOOD. When the output is high for the wage level, the demand for their products would go up and that finally drives the Taiwan dollar up so high that they tend to become uncompetitive, is that it?

Or at least it reaches its own level?

Mr. BERGSTEN. Reaches its own level would be the likely outcome.

Senator PACKWOOD. And this would happen?

Mr. BERGSTEN. The history of international finance shows that it often does happen. When you try to maintain fixed exchange rates, you get into disequilibria like the British overvaluation in the mid 1960's, like the overvaluation of the dollar before 1971, like the undervaluation of the Japanese yen and the deutschmark. When we go to a floating rate system, equilibrium tends to develop. It has happened in previous historical periods, and it seems to be happening right now.

Senator PACKWOOD. If this happens, how does the German trade balance get to be $26 billion in 1973?

Mr. BERGSTEN. It was $12 billion. That is still big. The German situation is a real problem.

Senator PACKWOOD. Where do you get $12 billion?

I have got $26 billion.

Senator MONDALE. That is the manufacturing balance there.

Mr. BERGSTEN. It could be in deutschmarks, or only for manufactured goods.

Senator PACKWOOD. Why does not the market go up so high that they have trouble exporting?

Mr. GARDNER. We do not have a completely flexible system, as Dr. Bergsten might like. The fact is, countries do intervene in the exchange market, in the case of Germany, to prevent too great an appreciation of their currency which would price them out of the world market. They want to maintain this competitive edge. That is why we need an international monetary forum to get some agreed rules of the game——

Senator PACKWOOD. Who intervenes to keep the market from going up too far?

Mr. GARDNER. The German central bank.

Mr. BERGSTEN. I think there has not been a great deal of intervention by the Germans vis-a-vis the dollar. There are some European countries that are keeping their rates fixed together. I think the more fundamental explanation on the German side, and quite frankly we do

not understand it all, is that in 1973 excessive world demand overshadowed the price changes caused by the exchange rate movements. And because the Germans simply have a heavily industrialized economy with lots of productive potential, when there were order backlogs in similar industries here, in Japan, and everywhere else, the Germans kept selling goods simply because they were the only people who had the productive capacity to turn out those goods.

I look for a significant decline in that German trade balance over the next 2 or 3 years.

Mr. GARDNER. For another reason, Senator. It is not just the exchange rate changes. We have two other corrective factors working for us in the long run. Labor costs are going up very rapidly in Europe and Japan. We are going to see much more aggressive trade union bargaining in Europe and Japan during the next few years.

Fiat was just forced, as a result of government intervention, to make a wage settlement which Umberto Agnelli, the president of the company, said may force Fiat to become a ward of the state in a few years. And in Germany and elsewhere we are going to see a lot of wage increases as a result of trade union bargaining.

The second factor is the energy situation which has been a much greater shock to our European partners and Japan than to us. They will face rapidly escalating raw materials costs, much more than the United States, which is relatively more self-sufficient in raw materials. So I think the prospect in the next decade, both on the wage front and on the raw material front, is profoundly favorable to American industry.

Mr. BERGSTEN. The proof of the pudding looks different when one considers Japan which, even before the energy crisis had seen a $6 billion decline in its trade surplus in the course of a year as a result of the exchange rate changes.

Senator MONDALE. Thank you very much for a most useful presentation.

[The prepared statement of Mr. Gardner and a speech of Senator Mondale's follows. Hearing continues on p. 1662.]

PREPARED STATEMENT OF RICHARD N. GARDNER,[1] COLUMBIA UNIVERSITY

I am grateful for this opportunity to testify before the Senate Finance Committee on the Trade Reform Act of 1973. In accordance with your request, I shall focus on the so-called "Mondale amendments" and then go on to offer some specific suggestions for strengthening the legislation in other respects.

Let me state at the outset that I consider the Trade Reform Act of 1973 to be, on the whole, a good piece of legislation. I believe its enactment this year to be highly important to the national interest of the United States, for two main reasons:

First, the rules and institutions governing world trade are in dangerous disarray. They must be revised and strengthened—*soon*—if we wish to preserve and enlarge the benefits of a cooperative world trading order and avoid a further drift toward economic conflict. Without the negotiating authority provided in this bill, the United States will be powerless to work for a new trading order in its own and the general world interest.

As this Committee is well aware, major changes are required in our trade relations with every part of the world—with the developed non-Communist

[1] Richard N. Gardner, Professor of Law and International Organization at Columbia University, served as Deputy Assistant Secretary of State for International Organization Affairs in the Kennedy Administration and was a member of President Nixon's Commission on International Trade and Investment Policy in 1970–71.

countries, with the Communist nations, and with the developing areas. If we do not pass a trade bill this year, it will be difficult to pass one before 1977. Thus we may lose our last clear chance to reform the world trading system in this decade and avoid an irreversible deterioration in our relations with these three key groups of nations.

Second, the energy crisis has added an even greater urgency to world trade negotiations. Face with large trade deficits from sharply higher oil costs, virtually all the world's major nations will be under severe pressure to resort to trade restrictions or trade-distorting measures to protect their trade positions and push the burden of adjustment onto others. This would be a serious problem even in a world with strong institutions for trade cooperation and clear and equitable ground rules covering resort to tariff and non-tariff barriers. It could prove an unmanageable problem in the world in which we now find ourselves—a world with a debilitated GATT and with outmoded, ambiguous, and, on some subjects, non-existent trading rules. Without this bill, one would have to view with profound pessimism the prospects of finding cooperative solutions for the trade problems caused by the energy crisis.

THE MONDALE AMENDMENTS

Last fall, in a statement before the National Foreign Trade Convention, I urged that the Trade Reform Act of 1973 should be revised to focus on access to supplies as well as access to markets. Senator Mondale has introduced a number of amendments to the bill to accomplish this purpose. They deserve the most careful and sympathetic consideration. Our national interest, and the interest of the world community generally, would be served by the adoption of amendments along the lines which Senator Mondale has proposed.

The case for such amendments was developed fully in Senator Mondale's statement to the Senate on December 3. But perhaps I may add a few thoughts on the history, the law, and the politics of this difficult and complex subject.

In August 1941, Franklin Roosevelt and Winston Churchill met on a destroyer off Newfoundland to draft the Atlantic Charter, a statement of postwar aims which could unite freedom-loving people everywhere in the fight against facism. The fourth paragraph of the Charter proclaimed the principle of "access, on equal terms, to the trade and to the raw materials of the world."

The motivation behind the fourth paragraph of the Atlantic Charter was simple. The leaders of the wartime alliance believed that peace could not be achieved unless it had a sound economic basis. The experience of the first four decades of this century suggested that if countries were denied access to raw materials and markets, they might be tempted to secure them by resort to force—or at least would seek to justify aggression on the grounds that they were denied the opportunity to meet their economic requirements through peaceful means.

Cordell Hull, the father of the trade agreements program, was a believer in the theory that "if goods can't cross borders, armies will." This perception of the close relation between economic policies and peace had a profound influence not only on the Atlantic Charter but on other wartime statements and on postwar planning.

Yet despite this background, international economic negotiations from the end of the Second World War to the present time have focused almost entirely on access to markets and have virtually ignored the problem of access to supplies. The reason for this one-sided emphasis is obvious—for most of the postwar period the central problem seemed to be how to avoid depression and unemployment by selling goods to other countries. Now, however, we are moving into an era of resource scarcity and accelerating inflation—an era which requires a new approach to international economic policy, or perhaps we should say a return to the old and forgotten perceptions which lay behind the fourth paragraph of the Atlantic Charter.

Raw material access has acquired a new importance for the United States. By 1985 our country, even if it achieves energy self-sufficiency, will be primarily dependent on imports for nine of the thirteen basic minerals required by a modern industrial economy. As Lester Brown has pointed out, within the relatively brief fifteen year span of 1970–1985, "we will have made the transition from being an essentially self-sufficient country to—at least in terms of raw materials—a have-not country. We do not yet appreciate the economic, social, and political consequences of this historically abrupt transition."

The Arab oil embargo was undertaken with the explicit purpose of forcing the United States and its allies in Europe and Japan to change their policies on the Middle East. It has been lifted, but subject to further review in the light of progress toward a Middle East settlement. Moreover, output is being held well below capacity for economic as well as political reasons.

Other raw material suppliers, encouraged by the success of the oil embargo, now threaten to follow suit. Representatives from 16 East and Central African countries meeting in Dar-Es-Salaam, Tanzania on November 24, 1973, called for diplomatic, economic and other sanctions against the United States, Britain, France, West Germany, Japan and Brazil unless they ceased "support" for white minority regimes in Southern Africa. The Chairman of the conference, Foreign Minister John W. S. Malecela of Tanzania, said the sanctions could include a ban on both exports to and imports from the United States and the other named countries. Although most of the sixteen countries do not possess materials of vital importance to us, some of them, such as Zaire, the former Belgian Congo, clearly do.

What is perhaps more to the point, many developing countries are now tempted to form porducer cartels for the purpose of raising prices and achieving international transfers of wealth that seem otherwise impossible. One well informed observer, Ugandan social scientist Ali Mazrui, sums up their attitude as follows:

"From the point of view of millions of Asians and Africans, the Arab oil sanctions against select Western countries will probably rank in history alongside Japan's victory over Russia in 1905—as milestones in the story of how Asians and Africans discovered their own potential power against Caucasian might . . . As a lever against the rich, certain Third World resources will become the equivalent of organized labor in the history of the industrialized countries—as a basis for collective bargaining."

Statements to the same effect were made recently by Algerian representatives at a meeting of developing countries in preparation for the forthcoming U.N. General Assembly on raw materials and economic development.

Economists disagree as to the probable success of price-raising producer cartels for materials other than petroleum. My own view is that growing resource pressures do promise some additional bargaining power to many developing countries, but that outside of oil the possibilities for successful producer cartels to raise prices are very doubtful—either the producers lack the identity of interest and the necessary foreign exchange reserves for a collective cutback in supply, or the consumers have too many other options in the form of large stockpiles, home-based production, and the availability of substitutes.

Producer cartels may achieve some results for their organizers in the short run, but in the middle and long run they are likely to backfire. The danger is that a policy of confrontation could push developed countries into policies of self-sufficiency, denying developing countries the technical assistance, the capital and the market access without which they cannot meet their development goals. In the economic and political backlash, even the resource-rich developing countries would lose; and the have-not countries would lose most of all. The role of international law and organization, in my view, should be to reinforce cooperative behavior that will serve the long-run interest of all. Specifically, this would mean restricting the right of producer nations to form price-raising cartels except as part of mutually-agreed commodity arrangements in cooperation with consuming countries, as was proposed in the Charter for an International Trade Organization 25 years ago.

Lest we adopt an unduly self-righteous attitude on these matters, we should recognize frankly that the United States itself has been one of the worst offenders in using export controls in ways which have adversely affected other countries. For years we have applied an embargo on trade with Cuba. Last summer, we unilaterally cut off exports of soybeans and other agricultural products to our trading partners in Europe at the very time that we were pressing them to modify policies of agricultural self-sufficiency and become dependent on our production.

It is obvious from these examples that the whole concept of an open and cooperative trading system is under serious attack. International trade is becoming heavily "politicized." This trend is destroying the traditions of reasonably free and non-discriminatory access to markets and supplies that are essential in an increasingly interdependent world.

Since the U.N. Charter, countries are no longer permitted to use force to back up their economic claims. Quite apart from legal prohibition, such actions now entail costs and risks that make them politically undesirable. But if the Atlantic Charter concept of equal access to raw materials cannot be guaranteed by the use of force, we need to consider guaranteeing it in some other way.

There is no easy solution to this problem, but it is certainly in our own and the general interest to try to develop some new international rules and procedures to assure reasonable access to raw materials. The present state of international law in this area is not satisfactory. The General Agreement on Tariffs and Trade does contain a general prohibition on the use of export and import controls (Article XI) as well as a requirement that both export and import controls should not discriminate between countries (Article I). Article XX of GATT permits measures deviating from these and other GATT rules "relating to the conservation of exhuastible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption." The same article also permits measures "essential to the acquisition or distribution of products in general or local short supply: *Provided* that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products . . . " These authorizations of export restrictions are subject to the requirement that such measures "are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or disguised restrictions on international trade . . . "

In this tangle of rules, exceptions to the rules, and exceptions to the exceptions to the rules, it is extremely difficult to discern any coherent guidelines for national policy. And, what is more to the point, all of these principles are effectively vitiated by a subsequent GATT article (XXI) which declares that nothing in the GATT shall be construed "to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests . . . taken in time of war or other emergency in international relations. . ."

It seems to me that a major U.S. objective in the forthcoming trade negotiations should be to incorporate some new and stronger rules in the GATT limiting the resort to export controls. At a minimum, the new rules should prohibit the use of export or other controls for political purposes. A country should not be permitted to cut off or threaten to cut off exports in order to change another country's policies (although exceptions would be granted to permit countries to restrict the export of weapons and national security information and also to restrict trade in the course of actual hostilities). The new rules should also seek to define more precisely the economic, conservation and other purposes for which exports can be limited and should place greater emphasis on the need to take account of the interests of others. Most important of all, since the rules on this complex subject will inevitably require interpretation in specific circumstances, new GATT procedures should be created requiring advance notice, consultation, authoritative interpretation of the rules and settlement of disputes by impartial conciliation and arbitration commissions under GATT auspices.

Where countries are found to have violated the new principles and fail to adjust their policies in accordance with multilateral decisions, they should face the possibility of multilateral reprisals. If this cannot be done through the GATT, it may have to be undertaken through the OECD or some other multilateral forum. In extreme situations, multilateral sanctions may even have to be applied to countries that are not GATT members, on the theory that their violation of broadly agreed community standards are gravely threatening community interests. If we can propose cutting off air service to countries that give refuge to hijackers, if we can contemplate denying port facilities to nations that pollute the oceans with their tankers, we should certainly explore the possibility of multilateral trade, aid and investment embargoes on nations that threaten the world economy by arbitrarily withholding vital raw materials.

None of the Arab oil producing countries is a party to GATT except for Kuwait and many of the sixteen African countries who made the declaration referred to earlier are also outside the GATT. However, a number of these Arab and African countries who are not GATT members (including Saudi Arabia) have committed themselves in bilateral treaties with us to refrain

from the very measures of trade discrimination which they recently aimed in our direction. Moreover, all of these countries voted for U.N. Resolution 2625 of the 25th General Assembly, entitled "Declaration of Principles of International Law Concerning Friendly Relations and Cooperation Among States in Accordance with the Charter of the United Nations." In promulgating this resolution, the General Assembly declared that "the principles of the Charter which are embodied in this Declaration constitute basic principles of international law, and consequently appeals to all States to be guided by these principles in their international conduct and to develop their mutual relations on the basis of their strict observance."

One of the key principles of the Declaration is the following: "No State may use or encourage the use of economic, political or any other type of measures to coerce another State in order to obtain from it the subordination of the exercise of its sovereign rights and to secure from it advantages of any kind."

It was the Afro-Asian group in the United Nations, including the Arab countries, that pressed hardest for the principle quoted above and for the proposition that this principle was already part of international law. Of course, their motive was to prevent the United States and other industrialized countries from using economic power as an instrument of political pressure. It is interesting that not a single voice has been raised in the United Nations to cite this authoritative declaration of the General Assembly since the Arab oil embargo began.

In his speech to the General Assembly in September, Secretary of State Henry Kissinger announced the willingness of the United States to negotiate a new instrument on the "Economic Rights and Duties of States" as proposed by the Government of Mexico. The Department of State has hitherto been reluctant to raise the issue of access to resources in these negotiations because of our own use of export controls. We certainly cannot have it both ways. I believe we should offer to reform our practices in this area in return for reciprocal changes in the practices of others.

In implementing a new international economic policy of access to supplies we should seek to act multilaterally, not bilaterally, for at least three reasons. The first is that in most cases a threat of reprisals against raw material cut-offs will have little practical significance unless we have our OECD partners with us. The second is that unilateral U.S. action will look to others as a destructive act of nationalism unless it is related to multilateral rules and multilateral procedures. The third is that such an effort of "collective economic security" could degenerate into a North-South economic war unless it is based on principles that are acceptable to a substantial number of developed and developing countries. I would hope that the Mondale amendments in their final form would specify that the President should exercise his authority to retaliate in conformity with GATT or multilateral agreements, once these have been renegotiated to deal adequately with supply access. Pending such renegotiation, the United States would reserve the right to retaliate without multilateral approval. It should be understood, however, that the President would use this authority only as a last resort, and in conjunction with other consuming countries wherever possible.

Obviously codes of conduct by themselves are not enough. On both sides of the great economic divide, there will need to be more enlightened perceptions of national interest. In recent years, the developed countries have manifestly failed to discharge the aid and trade obligations that were necessary to make a success of the Development Decade. Partly in response to this failure, partly out of a misguided nationalism, many developing countries enlisted under the banner of "sovereignty over natural resources"—failing to see that developed countries also have "sovereignty" over their capital resources, their technology and their internal markets, and that some mutually agreed limitations of sovereignty are essential to give full possibilities to the sovereignty of all. Ironically, the greatest victims of the "sovereignty" that the OPEC countries exercised in quadrupling oil prices in 1973 were the developing countries themselves.

To sum up, I doubt that new rules and procedures assuring reasonable access to supplies can be negotiated except in a much broader context involving a fundamental restructuring of international economic relations between developed and developing countries. The developed countries are rightly concerned about secure access to raw materials at reasonable prices. But the developing countries are rightly concerned about other kinds of access—access to markets,

to capital, to technology, to management skills, and to an adequate voice in decision-making in international economic forums. The challenge facing U.S. foreign economic policy in the next few years is to help fashion the "world order bargain" that will make access to resources a negotiable element in a new system of collective economic security that works in the interests of developed and developing countries.

OTHER FEATURES OF THE BILL

The trade bill could be strengthened by a number of other changes, the most important of which are suggested below:

1. Tariff authority

Section 101 gives the President authority to eliminate tariffs of 5% or less, to cut by 60% tariffs of from 5% to 25%, and to cut by 75% tariffs which are over 25%—provided that no rate over 25% is reduced below the level of 10%. I believe the national interest would be better served by replacing this formula with the zero-tariff authority contained in the original Administration bill. This would enable us to work more effectively for the objectives of the legislation set out in Section 2, particularly the goal of "open and non-discriminatory world trade." Zero-tariff authority is particularly important if we are to reduce the margin of discrimination against American trade by bargaining down the common external tariff of the enlarged European Community and the tariffs of other countries in association with it. As the President's Commission on International Trade and Investment Policy stated in its Report (p.14):

"Our objective should be the progressive elimination of most tariffs over the next 10 years, and of all tariffs over the next 25 years. Progress toward this objective would gradually eliminate the discriminatory effects on the United States and other nonmember countries of the European Community and its preferential trading arrangements."

Even if the goal of tariff elimination proves impossible, it is still in our interest to reduce world tariff levels as far as possible. We have a comparative advantage in many products, such as agricultural produce and high technology manufactures, that are currently subject to a high rate of protection by other nations. If we are restricted in the concessions that we can make in other areas, we may not be able to achieve the necessary competitive opportunities for our export industries or reach the general level of reciprocity in overall reductions that is so essential to a successful trade negotiation. Trade negotiations are a two-way street; and if one partner will go only a certain distance, the other partner cannot be expected to go any further. We should not jeopardize the trade negotiations by limiting unduly the negotiating authority of our representatives.

If the Senate is not prepared to grant zero tariff authority in the form originally proposed by the Administration, a useful compromise would be the formula adopted in the Trade Expansion Act of 1962 authorizing the elimination of duties on products for which the Community and the United States account for 80% or more of world trade. That formula was of little use in the Kennedy Round when the U.K. failed to join the Community, but it could be extremely valuable now.

2. Nontariff barrier authority

The otherwise excellent formula for negotiating on non-tariff barriers is flawed by the provisions for "sectoral equivalence" inserted by the House Ways and Means Committee. Section 102 states that a principal negotiating objective in the field of non-tariff barriers is to obtain, with respect to "each product sector of manufacturing" and with respect to the agricultural sector, "competitive opportunities" for U.S. exports to developed countries that are "equivalent" to the "competitive opportunities" afforded to these products in the U.S. In pursuit of this objective, the President is required to negotiate trade agreements "to the extent feasible" on a sector by sector basis and to indicate with respect to each trade agreement submitted to Congress the extent to which equivalent access in each sector has been achieved. Although these provisions do not appear in the section of the bill covering the President's tariff-cutting powers, the report of the Ways and Means Committee states (on page 19) that the objective of sectoral equivalence is also to be applied "to the extent feasible" in the tariff areas as well.

I believe it would serve the national interest if these provisions for "sectoral equivalence" could be removed from the legislation or at least substantially modified. In the forty years since the trade agreements program was inaugurated, we have conducted our trade negotiations on the basis of overall reciprocity, permitting concessions in one product sector to be reciprocated by concessions in another, subject only to the requirement that there be a balance of advantage in the total package. Trade-offs between product sectors have been and will continue to be necessary for the achievement of substantial progress in the reduction of trade barriers—particularly non-tariff barriers—because in individual product sectors we and our trading partners differ in trading interests, productive efficiency, and the type of trade barriers we employ. It might conceivably be appropriate to require that the President seek reciprocity within the manufacturing sector *as a whole* in order to prevent excessive concessions here on behalf of our agricultural and service exports—although even this kind of requirement would need careful examination. But requiring that equivalence must henceforth be achieved in thirty or forty product sectors—which is apparently the way the legislation is interpreted by the Ways and Means Committee and the Executive Branch—risks placing unsuperable handicaps on our negotiators before the negotiations even begin. It would make it extremely difficult—perhaps impossible—to negotiate new rules in GATT on such non-tariff barriers as subsidies and government procurement, since the competitive effects of such new rules will inevitably differ from one product sector to another. In one product, we may gain somewhat greater than equivalent competitive opportunities from the new rules; for another product, somewhat less, depending on our comparative advantage or disadvantage in production.

It is significant that the idea of sectoral equivalence was carefully considered and firmly rejected by the President's Trade Commission in 1971. I believe the reasons given by the Commission's Report (p. 12) are as timely now as they were then:

"Reciprocity should be conceived in terms of the whole set of negotiations rather than as an objective to be achieved within self-contained compartments. . . . . In some cases, of course, it may be possible to arrive at mutually advantageous solutions within specific industrial sectors, and efforts should be made to find such solutions. On the other hand, in many cases a country will have to give more than it gets in one sector or functional area, and recoup by securing an equivalent advantage in another."

If the Senate is not prepared to drop the sectoral equivalence provisions or to modify them substantially, I would recommend, as an absolute minimum, that Section 102(c) be amended to make it clear that its provisions are to be implemented only to the extent consistent with the overall objectives of the legislation laid down in Section 2.

3. GATT revision

Section 121 (a) directs the President to take such action as may be necessary to bring trade agreements to which the U.S. is a party—primarily the GATT—into conformity with certain "principles." GATT urgently needs revision, and this Section would raise no problem if the "principles" subsequently enumerated were limited to broad statements of the kinds of rules sought to be achieved. Unfortunately, however, some of the numbered paragraphs appear to prejudge the question of what specific institutional means should be employed to improve the trade rules.

For example, Article 121 (a) (1) requires "the revision of decision-making machinery in the GATT to more nearly reflect the balance of economic interest" and Section 121 (a) (3) requires "the extension of GATT articles to conditions of trade not presently covered in order to move toward more fair trade practices." Given the fact that GATT now has more than 80 members and follows the rule of one-nation one-vote, amendments of the GATT articles to achieve U.S. objectives in these areas are not likely to prove feasible. A more practical approach would be to negotiate a new Code of Trade Liberalization, supplementary to GATT and supportive of it, open to participation by those relatively few key trading nations economically capable of assuming the new responsibilities, as has been proposed by the Special Advisory Panel to the Trade Committee of the Atlantic Council under the chairmanship of Ambassador John Leddy. The GATT members accepting the Code (which would deal, among other things,

with non-tariff barriers not now adequately covered in GATT) could then apply between themselves in its administration such new and more realistic decision-making arrangements as they would agree upon.

I would, therefore, recommend revising Section 121 (a) along the following lines: "The President shall, as soon as practicable, take such action as may be necessary to strengthen the GATT and other trade agreements heretofore entered into to make them more effective instruments for the development of an open, nondiscriminatory and fair world economic system, including (but not limited to) . . . . . ." The six numbered paragraphs that follow would then be reworded to eliminate specific references to the GATT articles individually or as a whole, leaving the President sufficient negotiating flexibility to accomplish the objectives laid down in the opening paragraph of Section 121 (a) by whatever means proved most practicable.

4. Import relief under the "escape clause"

Title II of the bill is too permissive in allowing U. S. industries to resort to tariff and other forms of protection in the face of import competition. True, this part of the bill does emphasize adjustment to import competition, provides more ample assistance for this purpose than ever before to workers and firms, and favors relief through tariffs and tariff quotas over quantitative limitations and orderly marketing agreements. But other innovations in the bill could substantially increase the number of successful applications for escape clause relief which will go from the Tariff Commission to the President.

For example, the existing requirement that imports be the "major" or principal cause of injury to a domestic industry is changed to a requirement that they be only a "substantial" cause—a cause defined as "important and not less than any other cause." Alongside the existing law's tight definition of "serious injury"—the significant idling of productive facilities, the inability to operate at a reasonable profit, significant unemployment, etc.—we have a new standard relating to a "threat" of serious injury on the basis of which relief can be granted. The "threat" can take the form of a decline in sales, a growing inventory, and a downward trend in production, profits and employment—obviously a much easier test to meet.

Those who believe in freer world trade might be reconciled to these new provisions if relief in the form of higher tariffs or other restrictions were clearly limited to a short time period. Unfortunately, the legislation provides for a five year period of protection renewable by an additional two years—with the opportunity to apply for yet another period of relief after a two year interval. If the concept of the legislation is to grant temporary protection to permit industries to become more competitive or to change into another line of production, one seven year period ought to be enough.

No less disturbing is the legislation's ambiguity on the key question of whether the more permissive standards for import relief are to constitute the exclusive mode of protecting domestic industries—or whether such industries will continue to have access to non-legislated methods such as the special international arrangements on textiles and steel. If we are going to set a new and easier standard by which industries are to get temporary relief from imports for the purpose of making competitive adjustment, I believe these standards should apply to everyone. At the very least, the bill should provide that no new restrictions, "voluntary" or otherwise, should be imposed to take care of industries that are unable to satisfy the new standard, and existing special arrangements that are not embodied in multilateral agreements under the GATT should be rapidly phased out. This would mean phasing out the steel agreement but not the multilateral textile agreement.

The American people are justifiably fed up with a double standard of law and justice—one standard for the rich and powerful and another for the rest of us. One place to start rectifying the double standard is in this new trade bill.

Some loosening of the current escape clause provisions is obviously necessary as the price for passing a trade bill, but I fear the loosening in the House version has gone too far. The new provisions would mean many more recommendations for trade restrictions by the Tariff Commission—and much more political pressure on the President under the escape clause than he has faced in recent years. I hope the Senate will tighten up the escape clause both with respect to the criteria of causality and injury and with respect to the other matters mentioned above. And it is absolutely essential to retain the discretion

the President has under existing law and in the proposed legislation to deny the application of an industry for new trade restrictions in the light of broader national and international considerations.

5. Countervailing duties

There is no valid national interest in countervailing against foreign subsidies which neither cause injury to an American industry nor prevent one from being established. Other countries recognize this fact and require that injury be shown before countervailing duties are imposed. The prevailing practice in this regard is embodied in Article VI of GATT, which requires "material injury" as a prerequisite to the imposition of countervailing duties. Yet the United States continues to apply a countervailing duty law that has no injury requirement, taking advantage of the "grandfather clause" of GATT permitting contracting parties to maintain pre-1947 legislation inconsistent with the GATT rules.

I would favor amendments to Section 331 of the bill bringing us into line with GATT standards by requiring proof of "material injury" before countervailing duties are applied. On the other hand, I can understand the argument that in order to maximize our negotiating leverage, we should postpone such a change in our legislation pending the negotiation of new rules on subsidies that are consistent with our national interests. But if we are to follow that negotiating strategy, we should certainly provide the Secretary of the Treasury with the temporary discretionary authority included on page 123 of the bill not to impose countervailing duties which would jeopardize the satisfactory completion of the trade negotiations. The provision beginning on the bottom of that page requiring the mandatory application of countervailing duties with respect to articles produced by a government-owned subsidized facility in a developed country could complicate our negotiating problems and should be removed.

6. Preferences for developing countries

Title V of the legislation constitutes an important step forward by recognizing the important national interest of the United States in assisting the developing countries to increase their export earnings and thus accelerate their economic development. However, tariff preferences are not available with respect to articles that are subject to "escape clause" actions under old or new legislation, nor will they have much value with respect to articles subject to "voluntary" or other forms of quantitative restrictions. This underlines the importance of tightening up our policies for "import relief" along the lines outlined earlier. We should not be in the position of taking back from the developing countries with one hand what we are giving with the other. In the long run, we should be moving with our developed trading partners toward a system of one-way free trade on behalf of the developing countries.

I would also recommend deleting paragraph (c) (1) of Section 504, which makes preferential treatment unavailable for the product of a beneficiary developing country when that country supplies more than $25 million of that product during a calendar year. It is inconsistent with the purposes of tariff preferences to limit the trade benefits so severely.

On the other hand, I support the provision in Section 504 (c) (2) withholding preferential treatment from the product of a developing country when that country secures more than 50 percent of U.S. imports of that product in a calendar year. The 50% limitation serves a useful purpose in preventing a few relatively advanced developing countries from gaining most of the benefits of tariff preferences at the expense of all the others.

[From the Congressional Record, Dec. 3, 1973]

TRADE REFORM ACT OF 1973

Mr. MONDALE. Mr. President, I intend to submit several amendments to the Trade Reform Act of 1973. I am pleased that Senator Ribicoff, chairman of the Trade Subcommittee of the Finance Committee, is joining me as a cosponsor of these amendments. The amendments update the trade bill to address the new challenge which confronts us today—the use of export controls on scarce raw materials and perhaps even manufactured products as a new weapon in international politics.

The Trade Reform Act, as reported by the House Ways and Means Committee, would provide authority necessary to achieve greater access for American products to overseas markets. While this is a necessary objective for meaningful trade negotiations, it must not be the exclusive aim of trade reform. Yet, the bill in its present form does not deal with the equally pressing need to assure access to supplies of the raw materials we need for a stable and growing economy.

Under the Export Administration Act of 1969, the President has the authority to curtail the shipment of our products overseas. But the use of export control authority cannot be viewed solely within a domestic context, as the oil embargo clearly shows. Agreements to prevent the unjustified use of export controls must be a major goal of international trade negotiations, and the President must have more explicit and precise authority to respond to export embargoes against the United States.

During the last World War, President Roosevelt and Prime Minister Churchill dedicated our two nations to the defense of several major principles which form the basis for the collection security of Western countries. Enumerated in the Atlantic Charter, these principles include under title IV the goal of "access, on equal terms, to the trade and to the raw materials of the world."

The principle articulated by Secretary of State Cordell Hull, the father of the trade agreement program, that "if goods cannot cross borders, armies will," was ignored before the war. In the postwar decades, international trade negotiations concentrated almost exclusively on the problem of surplus production and on access to markets, and virtually ignored the problem of access to supplies of raw materials.

However, today we face new problems of resource scarcity and accelerated inflation in which producing countries are withholding supplies of a wide variety of products for purely economic reasons or, in the case of oil, to extract political concessions.

The United States, Japan, and the Common Market countries are all suffering from intolerable rates of inflation. This inflation poses a threat to our political institutions. For the continual increases in the cost of living tend to erode public confidence in government.

When prices spiral out of control, people may reach out for government which can effectively halt inflation even at the expense of their democratic traditions.

Inflation is eating away at the real earnings of working people in the United States. Shortages of food, fuel, timber, cotton, scrap iron, cement, and many other products are a major cause of rapid inflation this year.

At the present time, many U.S. companies are facing difficulties in obtaining raw materials, and a number have asked that authority under the Export Administration Act be invoked to curtail shipments overseas.

While in some cases such controls may be justified, I believe we must begin to view export restrictions in a broader international context. For instance, if we prohibit all exports of America's oil, would the Canadian Government—the single largest supplier of oil to the United States—be encouraged to follow our example?

The imposition of the Arab embargo over oil is the most clearcut example of the unreasonable use of export controls, and it has greatly intensified the economic difficulties we face. Our factories and farms depend upon petroleum to operate. Unless adequate supplies of fuel are made available, shortages and higher prices will spread throughout our economy next year.

Although we need fuel, American foreign policy cannot yield to blackmail over oil. At stake is not only our firm and longstanding commitment to Israel but also our best strategic and economic interests. A taste of success from extortionist tactics will only increase the appetite for more concessions. For the long-term lesson is that blackmail could easily be employed by countries that are monopoly suppliers of other products.

The United States is already more than 50 percent dependent on imports for 6 of the 13 major raw materials required by our industries, and projections show that by 1985 we will be dependent on imports for 9 of these materials.

A senior Brookings economist, Fred Bergsten, recently noted in Foreign Policy magazine:

"Four countries control more than 80 percent of the exportable supply of world copper, two countries account for more than 60 percent of world tin

exports, and four countries raise that total close to 95 percent. Four countries combine for more than 50 percent of the world supply of natural rubber. Four countries possess over one-half the world supply of bauxite. And a handful of countries are coming to dominate each of the regional markets for timber."

In our increasingly interdependent world, a high degree of responsibility must be exercised by all countries. Industrialized nations have an obligation to asure that developing countries have an opportunity to achieve desired levels of economic growth by providing technical assistance, market access, credits, and grants in aid. At the same time, countries that have valuable resources have an obligation to use those resources in a manner which will not injure but benefit the world community.

Nations have obvious concerns about guarding the domestic supplies of raw materials when threatened by shortages or other national emergencies. Although the United States used such justifications last spring to impose export controls on soybeans, oil seeds, and other products, in taking such steps without prior consultation with our traditional trading partners—Japan and Europe—we set a bad example for the rest of the world.

It is naive to assume that our trading partners will give us greater access to their markets if we do not assure them stability of supplies. How can we expect, for example, the European Economic Community to liberalize its common agricultural policy and forgo self-sufficiency in food production unless we provide reasonable guarantees that we will not cut them off each time our stocks run low?

An assurance of markets is necessary for an assurance of supplies. The United States should play a leading role in working to liberalize trade barriers. But we also must build a system of world food reserves to make certain that export commitments can be met and that food will be available to the developing countries in time of emergency needs.

For an assurance of markets and other economic benefits also requires an assurance of supplies. We must take the initiative in negotiations to achieve an international set of rules to assure access, on an equitable basis, to supplies of food and scarce raw materials.

The amendments I offer today are designed to accomplish these goals.

First, my amendments would provide the basis for collective trade agreements on export controls. I recognize that there is already a general prohibition against export controls in GATT, article 11. But there are many exceptions in GATT articles 11, 20, and 21 which need to be tightened and reformed; and the general prohibition has never been enforced.

The President would be directed to seek to strengthen the GATT provisions or other international agreements to include rules governing access to supplies of food, raw materials, and manufactured products. An extension of the GATT provisions would also be sought to authorize multilateral sanctions in GATT, or any other multilateral forum, against countries which by their actions substantially injure the international community, and thereby threaten the entire existence of the GATT system. If we can suggest curtailing our services to nations which give refuge to hijackers, and if we can suggest denying port facilities to nations which pollute the oceans with their tankers, then we can certainly consider multilateral trade and aid embargoes on nations which unjustifiably withhold vital raw materials.

While I would hope that such retaliatory measures would not have to be used, if they became necessary, rather than acting as helpless giants, members of the GATT system must work together to maximize their leverage against the offending countries. Just as the international community reacts together against import quotas, so it should react against countries which place unreasonable controls over exports.

For 20 years GATT has focused on the liberalization of import restrictions. These amendments would mean a major expansion of GATT responsibilities. Events of the past 2 years have demonstrated that it is crucial that these responsibilities be expanded.

We have an immediate crisis over oil. But in considering sanctions against producing countries, we must recognize the many practical problems that are involved. For example, would enough countries be willing to cooperate so that sanctions would be effective? How would we prevent the transshipment of products in the event a counterembargo were imposed?

Recent studies have cast doubt upon the effectiveness of a counterembargo imposed by the United States alone. We have also seen indications of an unwill-

ingness on the part of the European states and Japan to resist the demands of oil-producing countries in the Middle East. The European countries have so far been unable to cooperate even among themselves in responding to Arab threats; and it is therefore unlikely that we can immediately secure cooperation between Europe, the United States, and Japan.

But it is obvious that the thrust of the Trade Reform Act must be redirected toward export control policies because of rapidly changing events. It is equally clear that the scope and powers of the general agreement on tariffs and trade must be enlarged to deal with this crucial issue. My amendments are designed to speed movement in this direction and to stimulate discussion so that we can arrive at the most effective means of responding to recent events.

My amendments would also give the President authority to retaliate against export controls which injure the United States. The definition of unfair trade practices provided in the Trade Reform Act would be expanded to include unreasonable and unjustifiable export restrictions—including quotas and embargoes on exports to the United States of manufactured goods and raw materials required for a stable and growing economy. The President would be given authority, subject to certain specified procedures, to counter such restrictions by the imposition of export and import quotas of our own and embargoes against any country which engages in these unfair trade practices.

In addition, the President would be empowered to deny economic and military assistance, as well as participation in any program of the United States which extends credit or investment guarantees to offending nations. Finally, the President would be authorized to restrain foreign direct and indirect investment by U.S. companies in these countries.

These amendments would give the President the leverage he needs to negotiate with other governments from a position of strength. Hopefully the President would use this authority within a multilateral context as called for by my proposed changes in the GATT rules.

We must begin now by rebuilding our relationships with the Europeans and the Japanese. Over the past 4 years, the administration has devoted most of its attention to superpower politics and has largely overlooked our traditional trading partners and the less developed countries. This neglect has left both the Atlantic and Pacific Alliances in an unprecedental state of disarray.

For example, in the President's most recent energy message, he made no mention of the need of our allies in planning their energy programs. Self-sufficiency for the United States by 1980 in energy would not end our problems if Europe and Japan were still totally dependent on Arab oil.

There has been a failure of advanced consultation on a whole array of issues involving our allies. But one symbolic example of the administration's neglect is its refusal for more than a year to appoint an Ambassador to the prime forum for cooperation with our allies—the OECD—during this time of acute crisis in world economic relationships. It is the OECD in which oil policies are coordinated among the industrialized countries and in which basic economic policies are reviewed among the industrialized countries together.

We must start to work together to build new procedures and rules within GATT and the OECD—rules that will serve notice that the United States and its allies will be prepared to act together to counter any threat to our collective economic security. One immediate step would be to join together and form within these organizations a coalition of oil-consuming nations to present a common front in bargaining with the Arab States.

Rules must be formulated in a manner which insures a fair return to producing countries for their precious resources and which insures their economic development. I believe that we can devise a system which is equitable to producing countries and to the industrialized world.

While many obstacles must be cleared, we must seize this opportunity to make our international economic institutions more responsive to the problems of scarcity, of inflation, and of unfair trade practices which deny raw materials to member countries—just as these economic institutions have dealt in the past with problems of abundance, of unemployment and of unfair trade practices in which imports unfairly penetrated markets.

Economic self-sufficiency is a good rhetorical catch phrase. But it no longer is a realistic or meaningful goal as we enter the final quarter of the 20th century. We must learn to cooperate in accordance with recognized principles of fair trade so that the people of all countries can look forward to a more secure and prosperous future.

The agreements concluded in the Tokyo round of negotiations will in great measure determine the future shape of international economic relations. We may find ourselves in a world dominated by growing hostility between rich and poor and among the rich unless the United States takes the lead in strengthening the community of interest among our Nation, our principal trading partners and the developing countries.

Mr. President, I ask unanimous consent that the full text and a summary of my amendments, along with a recent editorial from the Washington Post and a statement from a group of Cambridge economists, be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

SUMMARY OF MONDALE AMENDMENTS TO TRADE REFORM ACT OF 1973

The Mondale amendments would:

Amend the Trade Reform of 1973 to make access to supplies of raw materials one of the major goals of U.S. trade negotiations;

Direct the President to seek to extend and strengthen provisions of the General Agreement on Tariffs and Trade (GATT) or other international agreements to include rules governing export embargoes by member nations that deny equitable access to supplies of food, raw materials, and manufactured products;

Direct the President to seek to negotiate authority for multi-lateral sanctions, through GATT or any other international forum against member or non-member countries which impose export embargoes that substantially injure the international community; and

Amend the definition of unfair trade practices to include the unjustifiable or unreasonable use of export embargoes, and authorizes the President, subject to procedural safeguards, to retaliate against countries which deny raw materials to the United States by imposing a counter embargo, by prohibiting economic and military assistance, credits or investment guarantees, and by restricting foreign direct and indirect investment by U.S. companies.

On page 5, line 7, strike out "and", and after line 7 insert the following:

(2) to insure equitable access to supplies of food or raw materials required for production of energy and orderly economic growth and development; and

On page 5, line 8, strike out "(2)" and insert "(3)".

On page 16, line 6, strike out "and".

On page 16, line 11, strike out the period and insert ", and".

On page 16, after line 11, insert the following:

(7) the strengthening and extending the provisions of GATT or other international agreements to include rules governing access to supplies of food and raw materials, including rules governing the imposition of export controls and the denial of access to supplies of petroleum, raw materials, and manufactured products.

(8) the extending the provisions of GATT or other international agreements to authorize multilateral sanctions by contracting parties against member or non-member countries which deny equitable access to supplies of petroleum, raw materials, and manufactured products, and thereby substantially injure the international community.

On page 106, line 3, after "import" insert "and export".

On page 109, after line 3 insert the following:

SEC. 302. RESPONSES TO CERTAIN EXPORT PRACTICES OF FOREIGN GOVERNMENTS

(a) Whenever the President determines that a foreign country or instrumentality imposes unjustifiable or unreasonable restrictions, including quotas or embargoes, on the export to the United States of food or raw materials required for the production of energy or for orderly economic growth, he shall take all appropriate and feasible steps within his power to obtain the elimination of such restrictions, and he may take action under section 301 with respect to such country or instrumentality and its products, and, in addition, he may—

(A) impose restrictions, including quotas and embargoes, on the export of United States products to such country or instrumentality,

(B) deny economic and military assistance and participation in any program of the Government of the United States which extends credits, credit guarantees, or investment guarantees, to such country or instrumentality, and

(C) prohibit or restrict investments, direct or indirect, in such country or instrumentality by United States citizens and domestic corporations and by other corporations and entities which are controlled by United States citizens and domestic corporations.

(b) In determining what action to take under subsection (a), the President shall consider the relationship of such action to the international obligations of the United States and to the purposes stated in section 2.

(c) The President shall provide an opportunity for the presentation of views concerning the export restrictions referred to in subsection (a). Upon request by any interested person, the President shall provide for appropriate public hearings with respect to such restrictions after reasonable notice, and he shall provide for the issuance of regulations concerning the conduct of hearings under this subsection and subsection (d).

(d) Before the President takes any action under subsection (a) with respect to any foreign country or instrumentality—

(1) he shall provide an opportunity for the presentation of views concerning the taking of any such action,

(2) upon request by any interested person, he shall provide for appropriate public hearings with respect to the taking of any such action, and

(3) he may request the Tariff Commission for its views as to the probable impact on the economy of the United States of the taking of any such action.

On page 109, line 4, strike out "302" and insert "303".

On page 109, line 6, after "301" insert "OR 302".

On page 109, line 8, after "301(a)" insert "or under subparagraph (A), (B), or (C) of section 302(a)".

On page 109, line 19, after "301(a)" insert "or section 302(a), as the case may be,".

On page 43, line 11, strike out "302(b)" and insert "303(b)".

On page 43, strike out line 13 and insert "----------of the 'Trade Reform Act of 1973' (with the blank space being filled with '301' or '302', which applies); and".

On page 43, line 20, strike out "302(b)" and insert "303(b)".

On page 46, line 11, strike out "302(b)" and insert "303(b)".

On page 46, line 18, strike out "302(b)" and insert "303(b)".

OIL, GRAIN AND THE TRADE TALKS

The massive and ponderous process of world trade negotiations has now begun, to the accompaniment of loud public fanfare and quiet private doubts. The doubts arise from the basic aims of the negotiations, which are now to a significant degree obsolete. These trade talks were originally organized as a further attempt to reduce protectionism among the rich nations, and open up markets for the poor. But the world's economy has changed suddenly and profoundly over the past year or two. The central issue now is not so much the various countries' attempts to shut out each others' goods. To the contrary, the real and pressing danger is the savage competition for access to limited supplies of those imported goods crucial to every nation's life—above all, grain and oil.

The world has no rules for distributing scarce commodities. Or more accurately, it rations them to the highest bidder by raising prices. Currently that means soaring commodity prices that are inciting spectacular inflation rates in the industrial countries, and are lifting these goods altogether beyond the reach of the poor. It is an efficient process, in a mechanical sense, but it is intolerably disruptive and cruel. The trade negotiators seem to be commencing a long solemn discussion of barriers to imports, at a moment when their governments at home are scrambling frantically to grab the imports that they need.

Nearly two years ago, at the time of the first American devaluation, the leading nations all agreed that they ought to work out orderly new rules for world trade and money. The long labor of reorganizing the monetary system is now getting under way at the International Monetary Fund's meeting in Nairobi. The parallel reform of the trading rules, after months of preparations, now has formally begun with a meeting of 103 nations in Tokyo. They published a formal declaration pledging themselves to seek "the expansion and

ever-greater liberalization of world trade." That is an admirable objective, but it is not at the moment the most important one. Nor is it likely to be the most important one for some years to come.

The great symbol of the sudden reversal of the issues is the United States and its wretchedly battered trade policy. After years of drumming on the European Common Market to loosen its barriers to American farm products, last June we swung around without notice and embargoed the exports of soybeans on which those same Europeans were counting. Meanwhile, after 15 years of limiting our imports of foreign oil, in order to keep our domestic prices up, we are now desperately trying to buy enough fuel oil in Europe to get ourselves through the coming winter.

The most urgent business for trade negotiators these days are those two commodities, food and oil. In both cases, there will be no international agreement at all unless the United States takes the initiative. But the United States does not seem to have any very clear idea precisely what it wants to do with either of them.

Regarding oil, the importing nations need an agreement on dividing up the available supplies, whatever they may be. Granted, an agreement would be agonizingly difficult to work out. But month after month of snarling and squabbling among the oil-fueled nations would inflict catastrophic damage on the relationships that have, for a generation, guaranteed world stability.

The prospects for an international grain system are, if anything, even dimmer. Solutions exist. Last week a group of eminent economists from Japan, Europe and this country met here at the Brookings Institution and worked out a draft plan for an international grain reserve. It would be expensive and complicated. It would require a kind of international consultation and joint action reaching well beyond the rather rudimentary procedures of the present trade and monetary systems. The only thing to be said for it is the cost of the alternative, in recurrent inflation, panic and anger.

The trade meeting in Tokyo was a sign of progress. The negotiations are now under way. But they are like a big ship, difficult to turn under full steam. There is a risk that this huge enterprise, with 103 nations aboard, will keep sailing ahead, by sheer force of momentum, toward an obsolete purpose instead of turning to the work that most needs to be done.

Oil Shortages and Middle-East Politics

A statement by Kenneth J. Arrow, Franklin M. Fisher, John Kenneth Galbraith, Simon Kuznets, Wassily Leontief, Merton J. Peck, Paul A. Samuelson, and Robert M. Solow.

We make the following statement in order to clarify the tenuous and complex relation between current oil supply problems and Middle East policy.

The coincidence of difficulties with the supply of gasoline and heating and residual fuel oils in the United States and the recent war in the Middle East may give rise to misunderstandings about the nature of the relation. It may be felt that American aid to Israel and support for its position are in some way responsible for the energy difficulties (the word, "crisis," is much too strong). There is only a limited and most transitory connection, and our foreign policy should not be deflected in the slightest by the illusion that giving in to oil blackmail will in fact gain us anything.

1. The world crude oil situation has two aspects. First is the cartel of the producing nations, the members of the Organization of Petroleum Exporting Countries (OPEC), which has both Arab and non-Arab members. This cartel has been able to raise prices repeatedly by raising the tax on oil exports. The tax becomes a cost to the oil companies, who are able to pass it on to customers like any excise tax. The upper limit to this monopoly is the cost of alternative sources of fuel. This is obviously a very uncertain ceiling in the short or long run. Some put it near $5 a barrel f.o.b. Persian Gulf, some as high as $10. It is certain that the OPEC nations will keep probing toward this limit. They began this process with the Teheran "agreements" of 1971, which were violated within a few months.

In early October of this year, the Persian Gulf members ended the charade of negotiations and raised prices unilaterally. Without doubt, they will do so again.

There was and is no connection between Middle East peace and the oil monopoly of Arab and non-Arab nations. If some perfect Middle East political settlement were reached tomorrow, the OPEC countries would not give up a cent of their gains, and they would not cease to consider when and how much to raise prices. To suggest a connection between Arab-Israel strife and the contrived scarcity of oil to drive up prices is to commit a non-sequitur.

2. The new element in the situation lies in the cutbacks, over and above the normal scarcity, which were proclaimed in mid-October by the Arab nations and which, they said, would continue until the borders of Israel return to those before the Six-Day War of 1967 and until the Palestinian people were granted their "rights," a concept not explained. To the cutbacks has been added a proclaimed total embargo against the United States.

The embargo is not important in itself. We need only cite the June 1973 statement of the ex-Secretary-General of OPEC, Dr. Pachachi of Iraq, to the effect that a selective embargo is useless, as well as the interview with King Feisal and Prince Saud of Saudi Arabia in late August, when they pointed out that the United States could not be reached by an Arab embargo against them alone.

The cutback in total production of the Arab countries is genuinely damaging to the consuming nations, though the United States is harmed least of all. The extent of those cutbacks is not altogether clear. Iraq has not joined; Libya's stand is unclear, though both have embargoed the United States. According to press reports, the reduction appears to be 25 percent of Arab oil, or about 15 percent of all oil moving in international trade. The Arab nations are said to plan no further cuts because they fear retaliation: the denial of food and manufactured goods, not to mention military action by consuming countries (New York Times, 10 November 1973).

3. In the United States, the scarcity of gasoline and home heating oil is due primarily to a shortage of American refining capacity, which is not expected to be made up before about 1977. So long as capacity is inadequate, and there is little slack elsewhere in the world, product will be short even if crude oil is available without limit.

Arab crude oil imports have amounted to about one million barrels daily, and refined products made from Arab oil, "an amount difficult to estimate but possibly as much again," (Petroleum Press Service, November 1973, p. 405). Since part of the maximum two million barrels, out of a daily consumption of 17 million barrels, will be made up by increased imports from non-Arab sources diverted to the United States (a decision which depends to no small degree on American oil companies), the overall loss to this country is at most 12 percent. But the loss is not equally distributed. The main impact will fall on the East coast supply of residual fuel oil, used almost entirely by industry. About 35 percent of this supply is from refineries, mostly in the Caribbean, which run partly on Arab oil. Some uncertainly large fraction of this will be stopped.

4. The consuming nations are not without weapons of their own, once they realize they are confronted with what the Petroleum Minister of Saudi Arabia, Sheik Yamani, has rightly called "war" (Platt's Oilgram News Service, 22 February 1973). If united, they can refuse to supply food and manufactured goods to the nations committing the hostile act of embargo. The Soviet Union might find it difficult to make up the deficit, and the Arabs might well be unwilling to accept the resulting dependence. It would be more productive for consuming nations to confer on such counter-measures than to outdo each other in subservience which profits them nothing. ("Arabs don't have to police their own boycotts. Sycophant nations are doing it for them." (Wall Street Journal, 6 November 1973).

5. The threat to American oil usage may indeed have beneficial effects. As the President's message shows, the threat has awakened the country to the need for meeting the energy problems which would be upon us in any case within the next twenty years. It has alerted us to the profligacy with which we have

been using energy to accomplish tasks of secondary importance. Conservation of energy has become a prime need in meeting both the short-run difficulties and the long-run growing scarcity, and with a reduction in energy usage will come a reduction in our serious problems of air pollution.

6. We express no opinions on the nature of any Middle East peace, or what the United States could or should do to bring it about. We do warn that letting our policy be determined or even influenced by the threat of injury is as futile as it is ignoble. Oil is a non-durable good. If to maintain the flow this year we accede to a course of action we would not otherwise desire, then it will follow as the night the day that we will be blackmailed again and again. The Japanese government has for years been among those most favorable to the Arabs, yet they have been denounced for their "odious neutrality" (New York Times 18 October 1973), and more was demanded: breaking relations with Israel, economic sanctions, and military aid to the Arabs (New York Times 8 November and 15 November 1973). The more is given, the more will be demanded.

Saudi Arabia will promise oil for next year in exchange for the "right" kind of peace, then make fresh demands for further oil the year after that. As Sheik Yamani said of the Teheran "agreement" in September, his government would have liked to honor the agreement but circumstances had changed (Middle East Economic Survey 7 September 1973). Circumstances will always change. And, as the Wall Street Journal warned last 26 April, giving in to blackmail on one issue in one part of the world invites blackmail on every issue in every part of the world. We hope our policy makers and our public will remember this and not be dazzled by the hope of some grand "settlement" which wraps up oil and politics in a neat looking package which will soon start to unravel and lean to endless confrontations.

The greatest service which the United States can render to friendly nations in Europe and Asia is not to let itself be swayed by this blackmail. For if the United States cannot be reached or influenced, then Europe and Asia are being tormented to no purpose, the Arabs have no motive to continue the cutbacks, and the usual money incentives to resume normal output will operate.

IDENTIFICATION OF STATEMENT SIGNERS

The following information about the signers of the statement on Oil Shortages and Middle-East Politics is provided for identification purposes only. No organization mentioned has taken any position on the issues discussed.

Kenneth J. Arrow: Professor of Economics, Harvard University; awarded Nobel Memorial Prize in Economic Science, 1972; President, American Economic Association.

Franklin M. Fisher: Professor of Economics, Massachusetts Institute of Technology; Editor, Econometrica.

John Kenneth Galbraith: Professor of Economics, Harvard University; Past President, American Economic Association.

Simon Kuznets: Professor Emeritus of Economics, Harvard University; awarded Nobel Memorial Prize in Economic Science, 1971; Past President, American Economic Association.

Wassily Leontief: Professor of Economics, Harvard University; awarded Nobel Memorial Prize in Economic Science, 1973; Past President, American Economic Association.

Merton J. Peck: Professor of Economics and Chairman of the Department of Economics, Yale University.

Paul A. Samuelson: Institute Professor of Economics, Massachusetts Institute of Technology; awarded Nobel Memorial Prize in Economic Science, 1970; Past President, American Economic Association.

Robert M. Solow: Institute Professor of Economics, Massachusetts Institute of Technology.

Senator MONDALE. Our next panel consists of V. J. Adduci, President of the Electronic Industries Association; and Wm. H. Moore, vice president, of EIA; and William Kennedy, Counsel, General Electric International Group, General Electric Company. You will proceed, please, Mr. Adduci.

STATEMENT OF V. J. ADDUCI, PRESIDENT OF THE ELECTRONIC INDUSTRIES ASSOCIATION, ACOMPANIED BY WILLIAM H. MOORE, VICE PRESIDENT OF THE ELECTRONIC INDUSTRIES ASSOCIATION AND DIRECTOR OF ITS INTERNATIONAL BUSINESS COUNCIL

Mr. ADDUCI. Mr. Chairman and members of the committee, with me today is Mr. William H. Moore, vice president of the EIA and director of its International Business Council. We very much appreciate the committee's invitation that EIA testify on H.R. 10710.

Despite the diversity of their products and the differing sizes and characteristics of their businesses, EIA members are agreed in their broad views on world trade and investment. In 1973, our association adopted a position statement on this subject. Its preamble expressed our underlying philosophy about international business and investment. It says:

> EIA reaffirms its belief in the principle of free and fair trade. For this principle to prevail, however, there must be similar support in policy and in fact by nations throughout the world. This is unfortunately not the case. Action must, therefore, be taken not only to defend the principle but to restore the conditions which are essential for its successful operation.

We turn now to H.R. 10710. This we support in broad concept and in most specifics. Although we offer a few suggestions regarding H.R. 10710, we emphasize our belief that this is a good bill and a greatly needed bill. For the sake of our companies and our employees we urge its early enactment in substantially its present form.

One of our primary reasons for supporting this bill is the fact that it seeks to expand world trade and our participation in expanding world markets. EIA believes that the expansion of our international trade is the only approach which offers any hope of economic progress for the United States, its companies and its workers; and so we support the general concept that will lodge in the Presidency extensive management powers over American trade policy.

A second major reason for supporting this bill is its focus on one aspect of international trade which has been especially troublesome to our industries. This is the whole area of nontariff barriers, by which many impediments are presented to the sale of our products elsewhere in the world.

We applaud all efforts to open up the markets of other countries to our products as fully as our markets are open to theirs. As we analyze the world situation in preparation for the GATT negotiations, we note that access to the American market is a privilege held very dear indeed by about 20 of the most developed countries, and our industries need more access to the electronics markets of those same 20 countries. Therefore, our strategy for sectorial bargaining in electronics is to seek the needed access to their markets.

At the same time, we urge that title I of the bill be clarified to insure pursuit of GATT agreements to reduce, eliminate, or harmonize the proliferating practices of many nations whereby they grant export aids and incentives to their firms.

On sectorial negotiations, EIA members attach great importance to the utilization of the sectorial approach during the GATT negotia-

tions, because our experience during and after the Kennedy round has completely convinced us that this approach is much more likely to yield fair and satisfactory results.

If the United States lowers its barriers in a given sector without a reciprocal lowering of foreign barriers in that sector, than American industry and employees in the given sector are not benefited. Abroad, the industry still encounters high barriers against its products. Here at home, it encounters more competition from abroad.

If, on the other hand, sectorial bargaining be pursued successfully, the United States and our trading partners will lower barriers in the same sector. Then, all parties will indeed increase trade and employment. The electronic industries of this Nation do not fear foreign competition. We simply insist on as much access to their markets as they are given to ours.

Accordingly, we specifically endorse in its entirety section 102(c) of the bill and we urge retention of all language in that section, including the requirement that "trade agreements entered into under this section shall be negotiated to the extent feasible on the basis of each sector."

We also urge that your report on the bill contain strong language to advance this point of view for the sake of U.S. consumers, employers, and employees.

We are aware of about nine proposed international codes, one on international standardization which we consider excellent, one on government procurement as to which we would have more questions, and a half dozen other less developed proposals. The maturing of any of these will depend on the enactment of H.R. 10710. Although these are not sectorial in nature, we see no incompatibility with the sectorial codes called for in section 102 of the bill. We ask that your report on this bill support both.

On consultation with industry, we urge retention and strengthening of section 135, entitled "Advice From the Private Sector." We vigorously endorse STR's recommended amendment of section 135(e) to exempt meetings of advisory committees from section 11 of the Federal Advisory Committee Act. This change is imperative if the work of the industry advisory committees is to have any value. Without this change, any spokesman of any foreign country or industry will be made fully privy to the recommendations of these committees.

We also endorse STR's recommendation that you amend H.R. 10710 to create an industry policy advisory committee, and we add our recommendation that you charge this committee with the four specific functions listed in our written statement.

Now, staffing of the Office of Special Trade Representative:

In order that the United States may have a strong negotiating team, EIA urges that the Senate Finance Committee: One, review the adequacy of the STR's staff in terms of numbers of professionals and their knowledge of U.S. industry; two, stipulate the committee's view on the matter in this bill or in the committee's report, and in any event seek to insure that STR has the authorization and funds for adequate numbers of suitable staff persons reporting directly by statute to STR, as contrasted with having to use personnel detailed by other Federal agencies.

On countervailing duties, EIA applauds the fact that H.R. 10710 grants judicial review for American companies, and we continue to urge the "full, legitimate, fair, and rapid enforcement of both the countervailing and antidumping laws."

We urge the deletion from section 331 of the proposed new paragraph entitled "Temporary Provisions While Negotiations Are in Process." This would provide that after the use of a subsidy has been determined, the Secretary of the Treasury may nevertheless, for 4 years from the enactment of H.R. 10710, decline to impose any additional duties.

This would defeat the purpose of the countervailing duty statute, which offers by far the best help our Government could give us. Accordingly, we vigorously oppose the proposed subparagraph 303(e), and we urge that your committee eliminate it from the bill.

Items 806.30 and 807 of the Tariff Schedule of the United States:

EIA opposes any change in the present items 806.30 and 807.00 because, as the U.S. Tariff Commission determined in 1970 after a careful study, changing them would decrease U.S. production and employment. Accordingly, we strongly urge elimination of section 203(f)(1) of H.R. 10710.

On the President's authority to levy surtaxes:

If surtaxes or import quotas become necessary to protect our balance of payments, EIA favors authority for their application across the board in accordance with our international commitments, rather than selective application against one or a few countries. To that end we recommend deletion of section 122(c)(2).

Amendments regarding access to supplies:

EIA supports carefully drawn amendments which would authorize the President to retaliate against any nation which embargoes exports to the United States of any important supplies or material.

Mr. Chairman, we appreciate the time and attention of the committee.

We ask that our full written statement, and not just this abbreviated version, appear in the record of this hearing.[1]

Senator MONDALE. Thank you very much.

Mr. Kennedy?

STATEMENT OF WILLIAM F. KENNEDY, COUNSEL, CANADIAN GROUP OF GENERAL ELECTRIC CO.

Mr. KENNEDY. My name is William Kennedy and I am counsel for the International and Canadian Group of General Electric Co. I am grateful for the opportunity to present to this committee General Electric's views in support of the proposed Trade Reform Act, H.R. 10710.

Before addressing the specifics of the bill, I should provide some perspective on General Electric's activities in international trade. General Electric is a manufacturing company with a broad variety of product lines, all deriving from a common core of electrical technology. It has been engaged in overseas trade and investment throughout

[1] See p. 1677.

this century. Its 1973 U.S. exports amounted to over $1.1 billion—almost 2.5 percent of total U.S. exported manufactures for 1973. For the 5 years ended December 31, 1973, General Electric's favorable merchandise trade balance—that is, excess of exports over imports—amounted to about $2.5 billion.

Since 1968, General Electric's export volume has doubled from roughly $1½ billion to over $1 billion and its favorable merchandise trade balance has also doubled from over $400 million to over $800 million. When other current account items, such as dividends, interest, royalties, and payments for services, are included, General Electric's 5-year total contribution to the U.S. balance of payments is over $2.8 billion.

About a year and a half ago we made studies of the effect of the company's international activities—exports, imports, overseas investment and licensing—on domestic employment. These studies showed that the net favorable effect was in excess of 20,000 full-time jobs; about 65 percent of this number were hourly paid employees.

We think that the current number would be closer to 25,000 General Electric domestic jobs, to which should be added perhaps another 25,000 in other organizations—suppliers of materials and services, financial institutions, shipping and transportation companies and government agencies. In addition to these 50,000 domestic positions, U.S. employment in General Electric businesses such as locomotives, gas turbines, aircraft jet engines and marine propulsion, is indirectly attributable to export volume. These businesses serve and are dependent upon world markets and export sales are critical to their success because of high investment and high development costs.

Finally, I should note that General Electric's export business has been highly diversified. No one product line has consistently accounted for over 10 percent of the volume and neither has any one country.

Against this background, I would like to turn to General Electric's position on the pending trade bill.

First, we believe H.R. 10710 as reported by the Ways and Means Committee and passed by the House of Representatives is a thoughtful and balanced piece of legislation designed to promote U.S. exports and increase U.S. employment and at the same time provide more effective protection against unfair import competition. The administration submitted a good bill and the House in our opinion strengthened many provisions of the bill.

Second, the suggestions that the bill has somehow become untimely because of the economic dislocations caused by the oil price increases are, in our judgment, wide of the mark. To the contrary, these dislocations increase the risk that some hard-pressed countries will resort to trade restrictive measures; we need ongoing international trade negotiations to counteract this tendency and to preserve channels of open multilateral trade.

Moreover, these trade negotiations are the logical forum in which to deal with the issues of equitable access to supplies and an international code on export controls—issues brought into sharp focus by the recent oil embargo and addressed in the amendment offered by

Senator Mondale and Senator Ribicoff. I might note that General Electric supports the basic purposes of this amendment.

Third, the authority granted in H.R. 10710 offers the first opportunity for a systematic assault on the montariff barriers and distortions which in some sectors have become the main obstacles to growth of U.S. exports and to the free flow of international trade. The development and adoption of international codes on government procurement, export subsidies and product standards are essential if the United States is to avail itself of its comparative advantage in high technology manufactures.

Fourth, the bill as passed by the House contains provisions for consultation of committees of the Congress and for consultation of industry, agriculture, labor and others in the private sector which offer assurance that U.S. negotiating positions will reflect the views of those most affected. These provisions should go a long way to eliminating the lack of effective communication and the resulting frustration which apparently characterized the critical last stages of the Kennedy Round.

Fifth, the bill defines as a principal U.S. negotiating objective the attainment by product sector of competitive opportunities for U.S. exports equivalent to those afforded in this country to imports in that sector. This objective of competitive equivalence applies, of course, only to other developed countries.

The initial point to be made about this provision is that contrary to fears expressed in some quarters, it does not put unreasonable constraints on the executive branch's negotiating flexibility. The bill does not mandate a particular negotiating result—a mandate which would be unrealistic in any event in the context of complex multiparty negotiations. The sanction in the bill, and the only sanction, is the obligation of the President to give the Congress an accounting by product sector of the extent to which he has attained the objective of competitive equivalence.

In this connection, I believe section 162(a) of the bill should be clarified by requiring that the President's statement of reasons in support of an agreement on nontariff barriers and distortions be given to the Congress before the agreement enters into force and specifically at the beginning of the first 90 day period contemplated in section 102(f)(1) of the bill.

Next, I should note that section 102(c) of the House bill is entirely consistent with the proposed administration approach, which General Electric endorses, of attempting to develop generic codes dealing with nontariff barriers and distortions across sectoral lines. By definition international codes would harmonize these barriers and distortions, and thereby advance the objective of competitive equivalence by product sector.

Section 102(c)(2) does call for negotiations by product sector to the extent appropriate to achieve the objective of competitive equivalence and to the extent feasible. These provisions give the Special Trade Representative flexibility as to the timing of sectoral negotiations and as to the manner in which sector bargaining is to be integrated into the overall negotiations.

The only legal constraints on this discretion of the STR are the dual obligations in the statute to consult the interested congressional committees and to consult product sector advisory bodies. In a word, the House in section 102(c) did not put unreasonable restraints on the executive branch authority, but instead set up guidelines for the exercise of discretion and asked for an accounting as to how that discretion is exercised. In this connection, I cannot help noting that it is to the Congress that the Constitution entrusts the power to regulate commerce with foreign nations.

It is important not to obscure the main thrust of the provisions for product sector equivalence. These provisions have several key premises, which are familiar to this committee, but which it may be useful to emphasize:

The comparative advantage of the United States in world trade lies principally in two areas, agriculture and high technology manufactures;

The United States comparative advantage in high technology manufactures has been nullified in many cases and for many years by a range of nontariff barriers and distortions;

Congress in the exercise of its constitutional responsibility should set for the executive branch negotiating targets for the forthcoming trade discussions;

These negotiating targets should certainly include competitive opportunities for U.S. exports equivalent to those afforded foreign suppliers selling in U.S. markets;

And finally, the executive branch should be required to give the Congress a plain-spoken accounting of the extent to which the targets established by law have been met.

Industry hasn't asked the Congress for more than that and we don't see how anything less would be in the national interest.

Thank you, Mr. Chairman.

Senator MONDALE. Thank you.

Mr. Kennedy, is it correct that the administration poses a sector equivalency rule, and you have heard the witnesses preceding you this morning who felt the same way about it.

Mr. KENNEDY. Yes.

Senator MONDALE. I had understood that the sector approach is designed principally to deal with the question of government purchase policy where, for example, the Germans could bid on a generator contract in the United States, but a U.S. firm could not bid under similar circumstances on a government purchase in Germany, and so on.

Am I correct in that?

Mr. KENNEDY. I think principally government procurement is too strong a word. Certainly government procurement is one of the main areas where there has been a concern which is reflected in the views of those of us in industry who have advocated an approach like this. But broadly, there are a series of industry sectors where tariffs are no longer, if you will, a serious competitive factor in transnational trade. On the other hand, in some of these sectors, and certainly some of the sectors in which General Electric Co. is engaged, we find that

access to foreign markets is restricted, by government procurement restrictions, by export subsidies of other countries, by rules on standards compliance, by import license requirements, by quotas and the like. So we very much welcome on our part the emphasis in the bill on nontariff barriers and distortions.

On the other hand, it seemed to us that although it is proper and we support the administration in this, to think that these issues can be approached generically by attempts to develop international codes, we think in the end you have to measure results and impact sector by sector. It seemed, therefore, desirable to many of us in industry that the President be asked to identify competitive equivalence as a negotiating objective, a principal one, not the only one, but a principal one. And second, those of us who supported those amendments do not believe there should be constraints on the President's flexibility. That would be totally unrealistic.

It is a multiparty negotiation and Congress cannot tell the President, you have to come back with this particular result. But it is reasonable for Congress, which has the constitutional role here, to say to the President, please give us an accounting as to how you made out. And that is the first part of that amendment. The second part of the amendment is that where it is appropriate to attain this objective of equivalence and where it is feasible, sector bargaining should be a preferred negotiating technique.

This again seems to me a very modest or moderate proposition, in spite of the concerns which have been expressed earlier. Government procurement, to your point, is one of the main concerns and perhaps the single biggest one, but not by any means the only one, Senator.

Senator MONDALE. Could you submit for the record perhaps a letter in which you describe specifically the kinds of problems you have in mind when you argue for this sector by sector approach, so we know specifically what companies in the United States are up against?

Mr. KENNEDY. I would be happy to.

Senator MONDALE. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Adduci, I strongly support your recommendation relating to the antidumping and countervailing duties statutes. One of the problems in the antidumping area is determining the cost figures of foreign manufacturers. I have introduced a bill to bring dumping under our antitrust laws and provide for discovery procedures in the Federal district court. Thus, if figures are not forthcoming, imports would be denied access to this market.

Would you support this?

Mr. ADDUCI. We support judicial review, yes, sir.

Senator FANNIN. We have several problems along our borders as far as the plants are concerned. I notice, Mr. Adduci, in your statement you give the reasons for retaining the items 806.30 and 807.00 for the American manufacturers if they are going to be able to compete with the other countries of the world.

I think that we have had figures—I do not know whether it has been from General Electric or from what source—on the amount of employment along the border, and also the number of jobs retained in the United States with the result of the border program.

Would that not be very much involved in this particular amendment?

Mr. MOORE. Yes, indeed.

Senator FANNIN. Do you have any idea what we are talking about just in our border programs, the number of jobs?

Mr. ADDUCI. Do we have any figures on that?

Mr. MOORE. Senator, I do not have such figures with me. I know of places where they could be obtained, and we will be glad to get some figures along that line and submit them for the record.

Senator FANNIN. I think it is important to not only have the number of jobs involved in the cross-border, but it is also important to have the supporting jobs that are involved on the American side, I know that we have had people, we have had members of the Congress argue that this was costing us jobs, whereas in reality we probably are able to hold plants that had been within the U.S. borders that would have been forced to close.

Is that true?

Mr. MOORE. We agree completely and would be glad to supply additional data for the record in support of the point that you are making, which is a very important point and one not often understood.

[The following letter was subsequently supplied for the record:]

ELECTRONIC INDUSTRIES ASSOCIATION,
Washington, D.C., June 10, 1974.

SENATE FINANCE COMMITTEE,
Dirksen Senate Office Building,
Washington, D.C.

GENTLEMEN: When EIA President, V. J. Adduci, and I testified before the Committee on April 3, 1974, I promised to provide for the record information as to the number of jobs in Item 807.00 operations outside the United States, and also the number of jobs in the United States dependent upon such 807.00 operations. Assembling this information has proved to be time-consuming; because we understand these data will soon be needed for the printer, I am supplying all we have received, as follows:

Company	Mexican plants		Elsewhere in world		Total	
	Workers in Mexico	U.S. workers dependent on Mexican plant	Workers offshore	U.S. workers dependent on such plants	Workers abroad	U.S workers
A	0	0	2,500	3,000	2,500	3,000
B	300	35	1,000	700	1,300	735
C	1,700	1,565	7,000	6,260	8,700	7,825
D	769	433	875	670	1,644	1,103
E	0	0	1,100	100	1,100	100
F	375	125	0	0	375	125
G	0	0	500	300	500	300
H	1,000	2,000	0	0	1,000	2,000
Total	4,144	4,158	12,975	11,030	17,119	15,188

In providing data, two member companies offered relevant comments:

COMPANY A

"This ignores our purchases from other companies which are using 800.30 and 807.00 operations. Their employees as well as ours are better off because of those operations, but we have no way of quantifying the numbers of their employees or ours who are involved. In the case of companies buying from us, however, we estimate that the jobs of an additional 500 U.S. employees of other companies are dependent on our off-shore operations; because those companies are able to secure economies from our off-shore operations."

COMPANY B

"There is one important element in the way 807.00 and 806.30 affects us which I have no way of showing in these statistics. That is the jobs in our vendor organizations that would be affected.

"It is clear in our case that the elimination of 807 and 806.3 could threaten, in fact could eliminate the jobs in our U.S. plants. That is bad enough. However, our Border Zone and Overseas operations have enabled us to market worldwide rather than just in the U.S. market. Our total production from these plants is much higher than it ever would be otherwise and here is the important point—our foreign plants use predominantly U.S. sourced raw materials such as copper wire, a variety of chemicals and machinery.

"Without the 'base load' of the U.S. market and the 807 and 806.3 treatment of product brought into this market it is clear that both our domestic and international business is threatened. It is also evident that we would be buying less or not at all, the raw materials (all of which are manufactured items) from our U.S. vendors."

Sincerely yours,

WM. H. MOORE, *Vice President; Director, (International Business Council).*

Mr. KENNEDY. Senator, if I could just clarify one observation. General Electric is not a substantial factor in cross-border employment. We do have one operation. Of course, we have a Mexican company which is not involved in the question you are talking about. But we do have one plant across the border which makes components for home laundry equipment, with an employment, I think, of 175 hourly workers. So it is quite a modest operation.

Senator FANNIN. I see. I know in the overall, though, that it is significant. I wanted to establish the benefits that accrue to the workers in the United States as a result of those plants.

You have heard the discussion that as far as GATT is concerned the tremendous problem we have when we start making changes.

Is it not true that we have a tremendous problem because in the origin of GATT. As we started assisting in GATT we made many concessions that are very unrealistic today. We made them at that time to help some of these nations develop their industries, come forward and be a part of the world market?

Mr. MOORE. We believe, Senator, that many concessions, as you have just said, were made during the Kennedy Round that have worked out in an unfortunate fashion. We believe that in significant degree this was due to underattention to the sectoral approach during the Kennedy Round, and this is the reason that we should very much like to see the sectoral approach pursued in the upcoming round. We believe that that is the best basis for achieving the results that you have in mind.

Senator FANNIN. My time is up.

Thank you, Mr. Chairman.

Senator MONDALE. Senator Bentsen?

Senator BENTSEN. Thank you, Mr. Chairman.

Mr. Kennedy, I think you have done a very good job in presenting your point of view on product sector equivalence.

Do you see that this would be a barrier in any way to carrying on negotiations on agriculture and industrial products at the same time?

Mr. KENNEDY. I do not perceive how it would, Senator. That statement has been made, I guess, off and on in recent weeks. But the logic

of it escapes me. If you go through the provisions of 102(c) as the House Ways and Means Committee proposed them and as the House adopted them, what they do is, they say to the President, regard as a principal negotiating objective—a principal negotiating objective, not the only one—the requirement of equivalent competitive opportunities by product sector—not equivalent results, as Professor Gardner was suggesting, but equivalent competitive opportunity. That is the language of the statute.

Then you look at what the House bill requires. It does not require of the President that he come out with a particular result. It requires that he tell the Congress how he made out against the objective of equivalent competitive opportunities.

It simply brings the Congress into the evaluation process as agreements on nontariff barriers are brought to the Congress under the 90-day procedure.

Senator BENTSEN. You obviously get a very sympathetic ear on such points.

Mr. KENNEDY. Well, we for one supported a very broad delegation of negotiating flexibility for the President in our statement to the House Ways and Means Committee, and I think properly we did say that there ought to be two accompanying provisions: namely, a strong involvement of the Congress right along as the negotiations went along, the Congress kept abreast; and second, a strong involvement of industry with active consultation with industry.

This does not preclude cross-sectoral concessions. If the President concludes that in the national interest he must make concessions in one sector in order to obtain reciprocal advantages in another, he can do that. He just has to tell the Congress what he did and why he did it.

Senator BENTSEN. Mr. Kennedy, let me ask you another question then. I am very much impressed with your $2.5 billion trade balance for General Electric and knowing your company and how much it spends on research and what it does in high technology I am concerned as to how we can get a handle on the problem of shipping technology out of this country, particularly high technology. I look at the situation like the Thor-Delta missile launching system that we sold to Japan and this concerns me very much.

The definitional problem is very great. For example, we export services in the form of personnel and scientists to provide technical expertise to foreign countries. This is a very difficult thing to find a way to stop.

To what extent has your company participated in setting up high technology plants overseas?

Mr. KENNEDY. We have overseas investments which are substantial. They are not as large, of course, as those of a number of U.S. companies. But we do have substantial overseas investment. These plants make a wide variety of things, heavily consumer products, but industrial and power generation products as well.

Senator BENTSEN. Would you restrict your comments to the high technology products that I asked you about?

Mr. KENNEDY. Yes.

Basically, what the General Electric Co. has done through a long history is attempted to be in international trade. Our preferred

course, of course, would be U.S. manufacture and export where that would be competitive. But for a long period of time we have found that particularly in a number of the businesses we are in which are identified as, if you will, national interest businesses by other countries, they wish to have a local capability.

So they have all kinds of barriers to keep out exports from the United States, informal and formal, the informal ones often being more important.

Senator BENTSEN. Do you feel we should have a quid pro quo in that type of situation?

Mr. KENNEDY. Yes. One of the theories of competitive equivalence by sector is to be responsive to that.

Senator BENTSEN. Would you tell me specifically, as I asked you in the beginning, what high technology plants you have overseas?

Mr. KENNEDY. Yes. We have in Canada plants which make industrial equipment, power generation equipment. We have comparable plants in Brazil, where we have a capacity to make locomotives.

Senator BENTSEN. Would you call that high technology?

Mr. KENNEDY. Well, for instance, we do not make aircraft engines abroad. And actually, I would say the bulk of our high technology capacity is in the United States, if that is the thrust of your question.

Senator BENTSEN. I do not think any of those you cited are high technology.

Mr. KENNEDY. No, I think perhaps the best case—we have jointly owned fuel manufacturing facilities in both Germany and Japan.

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

Senator MONDALE. If the committee has no objection, I suggest that we complete this panel and then come back at 2 o'clock. I know we have other witnesses who have been waiting. They can make other plans, and if they are willing, come back at 2.

We have a vote on the Senate floor at noon, do we not?

Senator BENTSEN. That is correct.

Senator FANNIN. Yes.

Senator MONDALE. So let us complete this panel. And I apologize to the others who have waited, but if you could we would appreciate it if you would come back at 2 o'clock.

Senator Hansen?

Senator HANSEN. 2 or 3 years ago I read a story in the Wall Street Journal about an electrical union in Chicago that was striking. They were not complaining about the hours, wages or any other thing, excepting that there was a continuing attrition taking place among their members. More and more, that particular electronics manufacturing company was importing component parts from Japan, and more and more the role of the workers in the Chicago area was relegated to that of becoming assemblers of these component parts.

How significant is this sort of competition from foreign countries at this time?

And do you believe that we have enough of an advantage technologically to continue to meet this competition?

Either of you gentleman——

Mr. MOORE. Senator, of course I am unfamiliar with the facts in the particular case of which you speak.

Senator HANSEN. I am sorry, I cannot recall the name of the company. You probably know it.

Mr. MOORE. Very possibly. But I think a more general answer would be more useful to the committee in any event. We are familiar with the phenomenon that you speak of, and we consider that the developments that have been going on as far as they embody free trade are for the advantage of American consumers and are best left uninterfered with. As our formal statement indicates, we are deeply concerned about these subsidies that are practiced in various parts of the world. And we believe that the enactment of this bill will help to improve the situation by bringing about faster enforcement of countervailing duties which we favor, and will improve the situation in another very important way which earlier witnesses have spoken to, by giving the President authority to negotiate in a hardboiled way with other nations in order to bring about better access for our products to their markets.

But our companies repeatedly assure us that they do not fear foreign competition as long as it is fair. We just want access to their markets on as generous a basis as they have access to ours.

Senator HANSEN. I might just add a footnote. I do not think the company, the entrepreneurs in this operation, were complaining a bit. They were able to compete quite effectively with their American competitors. The complaint came, rather, from the workers who were being put out of jobs because far fewer were required to put so many units of a product on the market, that more and more component parts were being imported by the company from Japan.

Mr. MOORE. If I may speak to that point, Senator, it is an excellent one, and the thing to be noted is overall employment. I believe your opening remarks had to do with the story being 3 or 4 years old, and I believe that there is a lot of confusion in the country as a result of the fact that there was a substantial amount of employment developed in the electronics industries and in others as well, but I am speaking for the electronics industries, as a result of the buildup for the Vietnam war. And then with its tapering off about 1969 there was an abrupt dropping off of employment, and I fear that many, too many people confuse that dropping off with what they think was going on in foreign trade. I think, though, that is a misdiagnosis there that has confused a lot of people.

But on the overall basis, the employment trend within the electronic industries has been up and up and up. It reached a peak about 1969. It fell off a little bit, and now it has resumed the upward trend, and that I believe is overall the encouraging thing, with the thought of those employees in mind.

Senator HANSEN. Thank you.

Senator MONDALE. Senator Packwood?

Senator PACKWOOD. Mr. Chairman, I want to go back to the sector by sector business again. I am not sure we are talking about the same thing.

Senator MONDALE. If you do not mind, you can complete your questions.

Senator PACKWOOD. All right.

I do not sense that your understanding is what I think Mr. Eberle's or perhaps others' understanding of the sector by sector provision.

Let us take two examples. Let us take cattle for one. For years the United States was trying to compete on the Japanese beef market. The Japanese are not protecting an indigenous industry. It is just roughly $5 billion worth of dollars that they do not want to pay for beef if they can avoid paying it. If you sit down to bargain with them, and they finally agree, let us say, to open up their market to our beef without restriction, what conceivable item in the agricultural product sector do they have to offer us on a sector by sector basis that is equivalent?

We do not buy any agricultural product from them and we do not want anything. But they are going to demand a quid pro quo.

What do you do in that situation?

Mr. KENNEDY. Well, the difficulty I have with some of the concerns that have been expressed in the testimony of the special trade representative is, it seems to me this is putting on the language of the House bill a very extreme reading. I do not think that there is anything in the language of the bill which is, after all, what we finally come to, which says that the United States cannot bargain with the Japanese about exports of agriculture, and if there are no barriers on our side or theirs, that you cannot make a bargain within its four corners of the kind you are talking about.

Senator PACKWOOD. The bargaining can be exchanged, then. They will let beef into their market if we will give a preference in our market for cameras?

Mr. KENNEDY. Let us take that as the next step in the equation. First of all, cameras are not a product sector. The product sector would be described more broadly than that. Second of all, what you would look for as a sector equivalence objective in the camera trade is, are the tariffs comparable, are the ground rules by way of import licensing and quotas——

Senator PACKWOOD. I am presuming they are not comparable.

Mr. KENNEDY. Let us assume they are not. At that point the President can make a determination. He can say, in the overall national interest I have concluded that maximizing beef exports to Japan outweighs the disadvantage of increasing competition from Japanese cameras in the United States, even if that competition is not equitable because they have more barriers to the competition.

Now, if he does that, he tells you that that is what he has done.

Senator PACKWOOD. That is what I want to make sure of. So you do not——and I think this is where you come in with this little clause, "to the extent feasible". There is no quid pro quo on agriculture and no conceivable way that we can bargain on that kind of sectoral basis.

Mr. KENNEDY. There are not going to be quid pro quo's in other sectors, either, Senator. This is an important point. The concept which we have negotiated in the past on tariffs has been, you kind of line up the trade advantages that result from our concessions against the trade advantages that result from the other country's concessions on an overall basis. That is not an appropriate way to look at it in the case of nontariff barriers.

Senator PACKWOOD. I just want to build a record here so that when we enter into negotiations, we are clear on what we are talking about.

Let me give you another example, cars. We cannot get into the Japanese market with our cars. Under the bargaining if the President chooses, could we make this kind of an arrangement? Japan says, all right, there will be no duties and import barriers on cars. You can keep your 3-percent rate on our cars coming into your industry. And in exchange, we are going to protect our chemical industry, and we are not going to let your chemicals into our country on the equivalent basis.

Can we bargain off cars for chemicals on that type of situation?

Mr. KENNEDY. If you are talking about what the law requires, the President can do anything he determines is in the national interest so long as he gives you an accounting, and where there is a nontariff barrier agreement, so long as you have your right to veto.

Senator PACKWOOD. So, even though it might be legal to bargain cars and chemicals, you do not have to under this section as you envision it?

Mr. KENNEDY. You are not mandated to do it. But let me, however, add a qualification, and I think this is quite important, Senator.

I think the thrust of what the House was saying in its report on the bill and in adopting it is that in most cases, certainly in many cases, sector bargaining and sector equivalence is a very desirable technique. So I do not want the record to show that I am suggesting at all that the cases you are talking about may not be possible. But I would think they would be very exceptional in point of fact, and I think that is what the House was saying, if I understand the House report and the House debate to the legislative history.

Senator PACKWOOD. I realize they may be exceptional, but I want to make sure that we are not going to write a legislative history that almost precludes them. I want to make certain we don't run the risk of being faced with a court action saying, you did not bargain sector by sector in electronics or chemicals, therefore the agreement into which you entered is not legal.

Mr. KENNEDY. I stand on the testimony that I cannot see a court entertaining a suit like that with any seriousness at all, and that the constraints on the flexibility of the STR are just two: namely, that they have to deal with this committee and the Ways and Means Committee, and they have to have industry consultation all through the process. There are some very good provisions on that. But those are the constraints on the STR.

Some of the other concerns that are expressed, it seems to me, have no foundation in either the language or the report.

Senator PACKWOOD. We may not be far apart, but I think the idea of increased industry representation is good, and as long as the language is sufficiently wishy-washy and you can go ahead and bargain as you want anyway, I do not object.

Mr. KENNEDY. I must say I do not subscribe to the view that it is wishy-washy. I think it does not mandate a result, but it is very meaningful to tell the President that a principal objective is competitive equivalence. It is an important thing to do, to tell the

President that he has to give you an accounting as to how he made out. It is an important thing to do to tell a President that sector bargaining is a preferred technique where that is available.

Senator PACKWOOD. Thank you very much.

[The prepared statement of Mr. Adduci and an appendix to Mr. Kennedy's statement follows. Hearing continues on p. 1686.]

PREPARED TESTIMONY OF V. J. ADDUCI, IN BEHALF OF THE ELECTRONIC INDUSTRIES ASSOCIATION

Mr. Chairman and members of the committee, I am V. J. Adduci, President of the Electronic Industries Association or "EIA." With me today is Mr. William H. Moore, Vice President of the EIA and Director of its International Business Council. We very much appreciate the Committee's invitation to testify on the views of our industries with respect to H.R. 10710.

The electronic industries of the United States have an annual sales volume of over $31 billion. We directly employ about one and a quarter million people; in addition, large numbers of persons are indirectly employed through subcontractors and suppliers and through thousands of distributors and dealers.

Our membership comprises over 200 small, medium and large companies which produce all types of electronic systems, equipment and parts—from the simplest to the most complex. These firms vary in size and business focus from fabricators of small parts to very large multi-product manufacturers with international operations and world-wide stature. We produce the goods which help to provide education, home entertainment and communications in this country and around the world. Our products help to solve scientific and business problems, enhance medical and health practices, and increase the national productivity. Our systems and devices guide aircraft and are essential for national defense. As the national organization of these industries, EIA represents a substantial majority of the employment, investment, and production of this very strategic and technologically-oriented sector of the national economy.

Despite the diversity of their products, and the differing sizes and characteristics of their businesses, EIA's members are agreed in their broad views on world trade and investment. In 1973, our Association adopted a Position Statement summarizing the consensus of the vast majority of our members. Its preamble expresses our underlying philosophy on international business and investment; it says:

". . . EIA reaffirms its belief in the principle of free and fair trade. For this principle to prevail, however, there must be similar support in policy and in fact by nations throughout the world. This is unfortunately not the case. Action must therefore be taken not only to defend the principle but to restore the conditions which are essential for its successful operation."

We have two general comments regarding the trade legislation you are now considering:

First, we believe that the United States needs a clear statement of International Economic Policy which should be made statutory. That policy should cover our basic belief in the free enterprise system, especially as it relates to international trade and investment. It should reemphasize our belief in raising the standards of living of all people, and our active desire for peace throughout the world. Both objectives can best be achieved by expanded world commerce and industry. The policy should also stress the responsibility of developed nations to assist in closing the widening gap between advanced and developing nations and thereby, in turn, support our other objectives of higher living standards and world peace.

Second, we note that there is real danger that mistakes in legislation on international trade or investment may be impossible to correct in any short period of time. It might take decades to undo the harmful effects of short-sighted policies. Our point is simply that we do recognize the extremely difficult task that lies before the Committee in evaluating all of the issues covered by H.R. 10710.

PROPOSALS OF THE TRADE REFORM ACT

We turn now to the proposals embodied in H.R. 10710. These we support in broad concept and in most specifics.

Although we have a few suggestions we want to offer regarding H.R. 10710, we emphasize our belief that this is a good bill and a needed bill. We urge its early enactment in substantially its present form.

One of our primary reasons for supporting this bill is the fact that it is grounded in an effort to expand world trade and United States' participation in expanding world markets. EIA believes that the expansion of our international trade is the only approach which offers any hope of economic progress for the United States, its industries and their employees; and so we support the central concept that lodges in the Presidency extensive management powers over American trade policy.

A second major reason for supporting H.R. 10710 is its focus on one aspect of international trade which has been especially troublesome to our industries. This is the whole area of non-tariff barriers, by which many impediments are presented to the sale of our products elsewhere in the world. Especially where our products would otherwise be competitive, our manufacturers are frequently stymied by non-tariff barriers far more effectively than by the prevailing tariff duties. In some instances, the proscriptions are against selected imported electronics. Sometimes markets are closed to us by nationalistic standards imposed for protectionist reasons. Many countries limit the importation of any foreign products if like articles are locally made. Sometimes, too, would-be importing firms find it impossible to secure the requisite foreign exchange—even in countries with swollen surpluses of dollars. In still other cases, our price competitiveness is effectively checked at the frontier through the imposition of border taxes, customs uplift, and the like.

We applaud all efforts to open up the markets of other countries to our products as fully as our markets are open to theirs. As we analyze the worldwide situation in preparation for the GATT negotiations, we note that:

(a) access to the American market is a privilege held very dear, indeed, by about 20 of the most developed countries; and

(b) our industries need more access to the electronics markets of those same 20 countries.

Therefore, our strategy for sectorial bargaining in electronics is to try to secure the needed access to their markets.

At the same time, we urge that Title I of the bill be clarified to insure, in the forthcoming international negotiations, pursuit of agreements to reduce, eliminate or harmonize the proliferating practices of many nations which grant export aids and incentives to their firms. These distort competitive positions—and thus trade flows—between countries almost as much as non-tariff barriers. Furthermore, such agreements would add strength and clarity to the exercise of the President's retaliatory power set forth in Section 301, as would the prospective amending of the U.S. antidumping and countervailing duties statutes. We especially object to aid and support by foreign governments for the exports of national industries where such aid effectively reduces the export price below realistic competitive levels.

SECTORIAL NEGOTIATIONS

EIA members attach great importance to the utilization of the sectorial approach during the GATT negotiations, because our experience during and after the Kennedy Round has completely convinced us that this approach is much more likely to yield fair and satisfactory results. Very regrettable results could have been avoided, we believe, if the Kennedy Round had utilized a sectorial approach to insure that foreign electronic markets were opened to our electronic products as fully as our markets were opened to foreign electronic products. Having learned from this damaging experience, we very strongly urge that future negotiations be on a sectorial basis.

This point deserves emphasis: Whereas the multilateral lowering of trade barriers is desirable, it proves beneficial to a given sector of American industry only if the United States and our trading partners jointly lower barriers in that sector.

If the United States lowers its barriers in a given sector, without a reciprocal lowering of foreign barriers in that sector, then American industry and employees in the given sector are not benefited. Abroad, the industry still encounters high barriers against its products. Here at home, it encounters more competition from abroad. That sector of American industry is compelled to react, by finding means other than sales from its United States plant.

Cross-sectorial bargaining, wherein concessions are given here, but not gained abroad, casues dislocation of the industry and its employees.

If, on the other hand, sectorial bargaining be pursued, then the United States and our trading partners lower barriers in the same sector. Then, all parties will indeed increase trade and employment. The economic law of Natural Advantage will prevail. The electronic industries of this nation do not fear foreign competition. We simply insist on as much access to their markets as they are given to ours.

For several reasons we hope that your Committee will support the use of sectorial negotiation.

First, as noted above, our industry and others have felt adverse effects from the lack of attention to sectorial bargaining during the Kennedy Round.

Second, some misunderstandings exist, within the Government and in certain industries, as to the advantages and the potential of sectorial negotiation.

Third, for our industries, we firmly believe that negotiations by product sector are the most practicable and perhaps only method for securing equivalent market access or opportunity for our exports. Moreover, many sectors are sufficiently large in terms of production and export potential so that within themselves it should be possible to achieve the necessary reciprocity of concessions. As to the broad scope of our own industries, we base our conviction of the workability and desirability of the sector bargaining technique on the following current facts and conditions:

1. Within each product sector—particularly as 26 of these have been defined by the Special Representative for Trade Negotiations (STR) and the Department of Commerce—there exist a wide range of specific articles or products and, hence, a wide diversity of market opportunities. At the same time, there are many affinities in technical development and capability, manufacturing process, and marketing that bind these products into large technological families whose fragmentation through uninformed concessions would damage the industry as a whole. Thus, while diverse, these industry sectors are also technologically and economically integrated in patterns that include both a number of vertical producers and many specialized manufacturers.

2. This is also true of our major trading partners in the EEC (which will participate in the GATT negotiations as a single unit) and Japan. These principal parties to the GATT negotiations also possess large market and manufacturing sectors that demand and produce a wide diversity and large volume of products similar to those of U.S. industries. Their scale of operations easily permits them to supply third-country and American markets in competition with U.S. firms. In short, between these countries and the United States, there now exist international competitive conditions. And since these conditions exist, to us it seems clear that the new trading agreements should provide for competitive equity and access on a continuing basis. This implies a series of negotiated details and specificity in agreements that can be negotiated, not by across-the-board concepts, but—in industries that themselves reach tens of billions of dollars—on the basis of economic conditions typical of each such industry within all the major trading nations.

3. The sectorial technique is equally applicable to the smaller developed nations whose product diversities are fewer and home markets are obviously lacking in large potential opportunity. Moreover, since it is well known that those smaller developed countries generally favor sector negotiations, we believe that utilization of that technique by the United States affords a basis for achieving the larger objectives of this country.

4. By focusing on generic industry conditions, sector negotiating provides the highest level at which negotiated trade-offs can be analyzed for their effective results. Attempts at trade-off analyses that tackle bigger chunks of the U.S. economy—such as the over-all results of an agreement on U.S. employment or the GNP—are almost certain to produce erroneous conclusions.

5. Many of this country's trading partners among the developed nations define their negotiating objectives by sectors and conduct their own analyses of trade-offs within a sectorial approach. They rely heavily on the advice of industry associations and similar groups in order to assess the domestic impact and external advantages of trade-offs proposed in the course of bargaining. In effect, then, our industrialized trading partners will, in the future as in the past, pursue sector bargaining—in manufacturing sectors as in agriculture. They will do so out of experience and conviction that the sector technique is

simultaneously appropriate to the development of liberalizing international trade agreements and to defending and enhancing a national economy and its parts.

6. Sector bargaining accommodates itself to the use of any or all of the different negotiating techniques which might best achieve the objectives of the negotiation as a whole. For example, taking as an objective the goals set forth in Section 2 of H.R. 10710, in the instance of tariff reduction for one manufacturing sector, this might best be achieved by the use of linear techniques, but another sector and its trade might be better handled by resorting to tariff harmonization. Again, a particular level of linear reduction is appropriate to one industry sector but not to another; sector negotiating can accommodate both sectors by establishing different levels for each in accordance with the prevailing and foreseen circumstances of competitiveness that inevitably differ between industries. What *is* important is the growth of two-way international trade—not the mechanistic symmetry of a bargaining technique or the greatest convenience of the various trade negotiators. It follows, therefore, that our effort to achieve the negotiating objectives of H.R. 10710 should be carried out *not* by across-the-board negotiating techniques, but by a multiplicity of techniques, each adapted to a particular sector.

7. Since the objectives of the Bill can be satisfied only by an expanded international trade in tangible goods, we suggest that the negotiating method most appropriate to trade growth is that which deals constructively with all the specific conditions—tariffs, nontariff barriers, and other distortions—which inhibit the market opportunities and promote unfairness in each particular industry. Within our own industries, we know that the significant inhibiting elements differ substantially from one sector to another. In respect to each group of products, the combinations or barriers and distortions that affect trade volumes are different. The specific differences, in our opinion, are more likely to be treated and resolved by specific solutions that attack each particular combination of barriers. Thus, because the sector approach assures such specificity, we believe it preferable to the more generalized and less interrelated bargaining techniques that characterize across-the-board negotiations.

8. Even though we advocate sector negotiating as a primary technique, we recognize that particular trade barriers may affect several or many industries in the same or similar manner. In such instances, a more general approach is obviously desirable and warranted. As a nontariff barrier and trade distorter, border taxation would appear an examplary candidate for broader, cross-sector negotiations. The distortions caused by the various forms of concessionary financing that have the effect of subsidy are another.

In this connection we should clarify the closely-relevant matter of negotiation of International Codes. We are aware of about nine proposed International Codes—one on International Standardization which we consider excellent, one on Government Procurement as to which we would have many questions but in which we can see significant potential, and half a dozen other less developed proposals. Some of these are being advanced through GATT, and others through O.E.C.D. The maturing of any of these will depend on the enactment of H.R. 10710. Although these are *not* sectorial in nature, we see in them no incompatibility with—and much utility for—the sectorial approach.

However, multi-sectorial barriers are by no means always subject to elimination or reduction through across-the-board negotiating methods. We suggest that assertions to the effect that generic negotiation will more readily bring such barriers under control—whether by code or otherwise—are likely to overstate the promise of results. We invite the Committee's attention particularly to the recent experience of government and industry alike in seeking multilateral agreements on two of the most pervasive of nontariff barriers—standards and restrictive government procurement. Standards agreements have traditionaly been achieved on an item-by-item basis—whether by international technical bodies concerned with discrete products or by governments concerned with postal rates.

International agreements on government procurement have yet to yield to across-the-board efforts—as efforts in the O.E.C.D. demonstrate (where, it should be noted, the members of the EEC do not necessarily act as a unit). Yet, within the EEC, these countries have been able to reduce intra-Community government procurement barriers by means of sector agreements. Construc-

tion of civil buildings and public housing, *including supply of construction materials*, is now open to international competition while other sectors—such as equipment for government-operated public utilities, transportation systems and telecommunications—remain closed. Most office equipment and supplies are now open to general bidding, even though computers remain an item of restriction. This progress, though not all-inclusive, is progress nevertheless. It has been achieved by sectorizing rather than generalization.

In sum, without claiming excessive applicability for sector negotiating, we think it evident from the foregoing that this technique inherently provides for sharper perception of the impact of bargaining proposals (specific or general) while isolating specific areas of disagreement. The technique thus affords negotiators and industry alike a continuing understanding of the probable reach of negotiating proposals—singly and in combination. In doing so, it also provides a realistic view of the limits of solutions.

In this context, we regard with dismay the statement of the Special Trade Representative that Section 102(c) "is not intended to prevent opening the *negotiations* on an across-the-board basis," (page 41, emphasis added) and his call to eliminate Paragraph 2 from the Section (at page 43). Such an approach suggests an attempt to avoid the sector negotiating technique and the benefits in trade expansion which it can bring to the U.S. economy. If such an attempt does indeed come to pass, the entire thrust of Section 102(c) will have been reduced to a species of inaccurate bookkeeping device and the clearly-stated, wise instruction of the Congress will have been frustrated. Deletion of the implementing method for sector equivalency would substantially reduce the possibilities that the negotiatons will satisfy the purposes of the Act.

For these reasons we specifically endorse, in its entirety, Section 102(c) of the bill, and we urge its retention without change. We also urge that your report on the bill contain strong language to advance this point of view, for the sake of U.S. consumers, employers and employees.

NEED FOR TIMELY AND ADEQUATE PUBLIC PARTICIPATION

In what all of us expect to be a protracted and difficult round of bargaining, EIA appreciates that this country's negotiators need great flexibility. We also accept the need for a five-year grant of negotiating authority, but we believe a fuller mechanism should be provided for continuing inputs from legitimately interest parties.

We support the objectives and procedures outlined in Section 135 with respect to "Advice from the Private Sector." We have the following specific comments about this section:

First, it is essential to an effective trade negotiation that there be a two-way flow of information and advice between government and industry on a timely and continuing basis. Moreoever, this exchange must occur directly between the responsible negotiators and industry spokesmen. Our experience with previous trade negotiations causes us to be concerned that industry information and advice would not be sought, or would not be heeded, or would be cut off at lower levels of a department or agency and never transmitted to the U.S. negotiators. We have also been concerned that the flow of information would be unilatearl, industry to government but not vice versa. These are the reasons for our emphasis on the need for a two-way flow of information directly between U.S. trade negotiators and industry representatives.

The Congressional intent in Section 135 is clear: Full and effective exchange between the Special Representative and industry advisory committees on policy and technical matters is mandatory. We believe the Special Representative recognizes this legislative intent, and we commend his explicit assurances in this regard: "The Special Representative must adopt procedures to consult with the advisory committees to obtain their information and advice, *and to provide them with timely information on significant issues and developments during the negotiations . . .*" (pp 77-78 of his testimony for the record; exphasis added) We note also that the STR statement says the reports of the industry advisory committees "will . . . be submitted directly to the United States negotiators." (p. 80)

The consultative obligations and responsibilities of the STR are spelled out clearly. We agree with the Special Representative that "Section 135 requires by far the most extensive consultations with the private sector ever undertaken

in preparation for trade negotiations," and we emphasize that the real value of these consultations will, indeed, justify the time and effort to be expended by our negotiators and our industry executives.

This is a valuable feature of H.R. 10710 which should be retained in full.

On the subject of timely and continuing exchange of both policy and technical advice, we note that STR and Commerce have recently established a series of 26 industry sectorial advisory committees for multilateral trade negotiations to "advise the Secretary and the Special Representative on matters which are of mutual concern to (the particular) industrial sector and the United States." Each committee is to meet "at least semiannually." Obviously such advisory committees can serve a useful function prior to passage of the trade reform bill, but it should also be recognized that they are no substitute for the consultative mechanism spelled out in Section 135 of the bill because (a) they appear to be technical committees only, without the policy responsibilities contemplated by Section 135; (b) semi-annual meetings would not meet the requirement in Section 135 of consultation on a "continuing and timely" basis; and (c) they are not exempt from certain requirements of the Federal Advisory Committee Act. We believe that these committees should have clearly-defined responsibilities for developing both policy recommendations and information.

Second, we vigorously endorse STR's recommended amendment of Section 135(c) to exempt meetings of industry advisory committees from Section 11 of the Federal Advisory Committee Act. This change is imperative if the work of the industry advisory committees is to have any value. Without this change, any spokesman of any foreign country or industry will be made fully privy to the recommendation of these committees.

Third, we endorse STR's recommended amendment of Section 135(c) to provide for one general policy advisory committee each for industry, labor, and agriculture. In this connection, we note that for some time STR and the Department of Commerce have been planning to use two types of industry advisory committees. One of these is an Industry Policy Advisory Committee which has recently been activated. We believe your Committee could improve H.R. 10710 by adding language both to give statutory status to this Committee and also to charge it with these functions:

1. To provide consultation to the STR on issues that cut across industry sector lines.
2. To develop, when possible, coordinated inter-industry positions.
3. To review the effectiveness of rules and procedures that govern the workings of the industrial advisory process, especially in regard to the relationships between the industry sector committees and STR/Commerce.
4. To render assistance to the U.S. negotiators in reconciling different positions among the separate industries.

Fourth, we urge an additional amendment to provide the Special Representative (and only STR) with more staff assistants for trade negotiation purposes. Since all interested U.S. industries should have the right to participate in the advisory process, it follows that the negotiating team must be adequately staffed with a sufficient number of experienced persons in order to conduct effective, two-way liaison. An inadequate staff will simply be unable to assimilate and utilize effectively the huge volume of information involved. Unless the STR staff is adequate, we must expect to repeat the errors of past negotiations. While the Committee on Finance may feel that staffing is a matter outside its normal considerations, we believe this aspect is so critical to the proper use of the negotiating authorities in H.R. 10710 that it requires your review. Such review, we believe will convince the Committee of the inadequacies of the STR budget and staff with which—through no fault of STR—the United States proposes to enter the international negotiations which will set the world's trading rules and practices for the next decade.

We further believe that the senior personnel should, by statute, be under the full, direct control of the Special Representative and that the past practice of staffing the negotiations largely with persons detailed from other agencies cannot be expected to provide an independent, fully competent staff.

We therefore urge the Committee, at a minimum, to include authorizations for adequate appropriations and for an adequate number of supergrade positions for STR. Such positions could well be authorized outside normal civil service requirements, because they would be established only to carry out the purposes

of H.R. 10710 and only for the limited duration of the trade negotiation. Unless these authorizations are included in H.R. 10710, we anticipate that future negotiations will fall short of achieving their full potential benefits for U.S. manufacturers and their employees.

ANTIDUMPING DUTIES AND COUNTERVAILING DUTIES

Our industries, our companies, and our employees have suffered to an undue degree from unfair practices in many foreign nations—practices intended to be counteracted by U.S. antidumping and antisubsidy statutes. Consequently, many companies have made filings seeking relief under these statutes. Unfortunately, we have found that relief is not often granted, and if granted, it comes so late and is so limited as to be relatively useless. Accordingly, our Board has voted explicit EIA support for "full, legitimate, fair and rapid enforcement of both the countervailing and antidumping laws."

Under present law there is no way an injured company can force action, nor has a United States company had the right of recourse to the courts on substantive matters in the event of an adverse decision. Consequently, we endorse Section 341, which would give U.S. citizens the right of judicial review, and we urge that your Committee retain completely without change that Section 341 of the Bill.

We endorse the intent of H.R. 10710 to clarify the processes and to speed up the imposition of antidumping and countervailing duties. The Supreme Court has construed the existing statutes, and they should be preserved unchanged except for the changes suggested below:

First, time is of the essence in aiding a U.S. industry injured by unfair trade practices. Hence, we support the fastest feasible processing of the complaint; we also urge that the Committee's report on the Bill contain language stressing the importance of speedy determination and instructing the agencies involved to take all feasible administrative steps to expedite these procedures. In this connection we applaud the requirements in Sections 321(a) and 331(a) for speedy processing of antidumping and countervailing duty determinations.

Second, unfortunately Section 331 of H.R. 10710 proposes adding a new subparagraph 303(e) to the countervailing duty law, to be entitled "Temporary Provision While Negotiations are in Process." This would provide that after the use of a bounty or grant has been determined, the Secretary of the Treasury may nevertheless, for four years from the enactment of H.R. 10710, decline to impose any additional duty. This would defeat the purpose of the countervailing duty statute, which offers by far the best help our Government could give us. Accordingly, we vigorously oppose the proposed subparagraph 303(e), and we urge that your Committee eliminate it from the Bill.

BALANCE OF PAYMENTS AUTHORITY

Section 122 provides a method whereby the President may impose "a temporary import surcharge" and "temporary limitations through the use of quotas on the importation of articles" when necessary "to deal with a large and serious United States balance-of-payments deficit." We favor this approach and the granting of this authority to the President.

Subsection (c)(1) of Section 122 prescribes that actions of this sort shall be applied consistently with the principle of non-discriminatory treatment. Section 122(c)(2), however, would permit the President to make exceptions. We oppose this discretionary authority, in part because we believe that our international obligations should be honored in all cases where the United States is committed to non-discriminatory treatment.

There is also an economic justification for application of surcharges, if they prove necessary, on a broad rather than a selective basis. Balance-of-payments deficits and surpluses arise, as we all know, from a very wide and ever-changing flow of goods and services, private payments and disbursements, and Federal Government activities. They are also affected by currency valuations. Some of these flows are the result of long-term trends of supply or demand, as for example in basic materials; others change as quickly as the fluctuations in foreign purchases and sales of securities on the New York Stock Exchange. It is impracticable for the United States to attempt to maintain a zero balance with each separate and distinct country with which we have economic relations. Yet

that is the direction that could be taken if selective authority were conferred on the President.

Worse still, the onus for correcting the national balance of payments would, by this proposal, be placed wholly on the back of our merchandise trade without addressing purchases and sales of securities, currency revaluations, tourism, services, triangular trade, government spending and many other equally relevant factors.

For these reasons we recommend exclusion from the Bill of this authorization for selective restrictive actions. To that end we urge eliminating subsection 122(c)(2).

ITEMS 806.30 AND 807.00

Next, we refer to the proposal in Section 203(f)(1) that the President be authorized to suspend, in whole or in part, the application of Items 806.30 or 807.00 of the Tariff Schedule of the United States.

These Items of the Tariff Schedule reflect what has long been the U.S. practic to help both our Industry and our employees: Encouraging the use of U.S.-made parts in products which are processed or assembled abroad, by charging duty only on the value added in the foreign country. Eliminate these Items and the present U.S. content in such products will be reduced. In the process you will subtract American jobs now involved in making the products which are shipped abroad.

If Items 806.30 and 807.00 are repealed or suspended, the manufacturers affected by these Items tell us that in the great majority of cases they will be forced to reduce employment in their U.S. operations. This judgment is supported by the conclusions of the U.S. Tariff Commission in their report entitled "Economic Factors Affecting the Use of Items 807.00 and 806.30 . . ." (1970–# 332-61) The Commission found that the net effect of repeal would be both a $150–$200 million deterioration in the U.S. balance of trade and also a net loss of jobs in the United States.

Most users of the Items show a favorable balance of trade. Semiconductor manufacturers, for example, have been generating a trade surplus well over $125 million a year. Moreover, semiconductors are building blocks for the electronic products which United States companies are most successful in selling abroad. Semiconductors represent from 15% to 25% of the cost of computers, and, to a significant degree, are responsible for the United States leadership in computer technology. In 1972, these two industries contributed a favorable balance of trade of approximately one billion dollars. Elimination of the Items would threaten U.S. technological and competitive leadership of these segments of our industry utilizing these tariff provisions. In fact, these favorable situations, and the U.S. employment they provide, are so directly dependent on Items 806.30 and 807.00 that they would be very seriously jeopardized if those Items were to be eliminated or suspended.

Repeal of these provisions would cause a decline in U.S. production and U.S. employment; repeal would make worse the U.S. net trade balance and the U.S. balance-of-payments deficit. The competitive position of U.S. producers would deteriorate to the direct advantage of foreign producers.

To put the mattermore baldly, retention of Items 806.30 and 807.00 is essential if U.S. manufacturers are to compete in U.S. electronic markets.

For all these reasons we strongly urge the retention of Items 806.30 and 807.00. This can be done very simply by deleting subsection 203(f)(1) of H.R. 10710, and by deleting from 203(f)(3) the words "the application of item 806.30 or 807.00, or from." We emphatically urge that your Committee delete those provisions.

AMENDMENTS REGARDING ACCESS TO SUPPLY

Since H.R. 10710 was passed by the House of Representatives, the United States has been living under an embargo on oil which has made the world, including ourselves, far more sensitive than before to the importance of continuing and assured access to supplies of all kinds. The recent repricing of petroleum has already led to attempts to reprice other essential materials, and no end is in sight.

Knowing that your Committee will be considering Senator Mondale's amendments regarding access to supplies, our Board voted in March to support the

grant of authority to the President to retaliate against any nation which embargoes exports to the United States of any important supplies or material, thereby causing shortages.

SUMMARY

In summary, we believe that the United States Government should take all practical steps to increase international trade and investment, and should vigorously negotiate reciprocally fair trade conditions with our trading partners. We regard this as of paramount importance, and consequently we urge that the Congress give the President authority needed to accomplish these purposes, by early enactment of H.R. 10710.

We also attach great importance to the maintenance of conditions under which our firms can be competitive in foreign and domestic markets. We urge that the Congress enact no legislation which would compromise this objective.

We support the concepts of H.R. 10710 and most of its specifics. Among many important details in the bill, we attach special importance to these:

1. *Sectorial negotiations.*—We urge retention of all language now in Section 102(c), which requires that "trade agreements entered into under this Section shall be negotiated, to the extent feasible, on the basis of each product sector. . . ."

2. *Consultation with industry.*—We urge retention and strengthening of Section 135, entitled "Advice from the Private Sector." We vigorously endorse STR's recommended amendment of Section 135(e) to exempt meetings of industry advisory committees from Section 11 of the Federal Advisory Committee Act. This change is imperative if the work of the industry advisory committees is to have any value. Without this change, any spokesman of any foreign country or industry will be made fully privy to the recommendations of these committees. We also endorse STR's recommendation that you amend H.R. 10710 to create an Industry Policy Advisory Committee, and we add our recommendation that you charge this Committee with the four specific functions listed above.

3. *Staffing of the office of the Special Trade Representative.*—In order that the United States have a strong negotiating team, EIA urges that the Senate Finance Committee (1) review the adequacy of the STR staff in terms of numbers of professionals and their knowledge of U.S. industry; (2) stipulate their views on the matter in the bill or in the Committee's Report; and, in any event, (3) seek to insure that STR have the authorization and funds for adequate numbers of suitable staff persons reporting directly, by statute, to STR as contrasted with being detailed by other Federal agencies.

4 *Countervailing duties.*—EIA applauds the fact that H.R. 10710 provides judicial review for American companies, and we continue to urge the full, legitimate, fair and rapid enforcement of both the countervailing and antidumping laws. We urge the deletion from Section 331 of the proposed new paragraph entitled "Temporary Provision While Negotiations Are In Process." This would provide that after the use of a subsidy has been determined, the Secretary of the Treasury may nevertheless, for four years from the enactment of H.R. 10710, decline to impose any additional duty. This would defeat the purpose of the countervailing duty statute, which offers by far the best help our Government could give us. Accordingly, we vigorously oppose the proposed subparagraph 303(e), and we urge that your Committee eliminate it from the Bill.

5. *Items 806.30/807.00 of tariff schedule of the United States.*—EIA opposes any change in the present Items 806.30 and 807.00 because changing them would decrease U.S. production and employment. Accordingly, we strongly urge elimination of Section 203(f)(1).

6. *President's authority to levy surtaxes.*—If surtaxes or import quotas become necessary to protect our Balance of Payments, EIA favors authority for their application across the board, rather than selectively against one or a few countries. Hence, we urge deletion of subsection 122(c)(2).

7. *Amendments regarding access to supplies.*—EIA supports carefully-drawn amendments which would authorize the President to retaliate against any nation which embargoes exports to the United States of any important supplies of material.

Mr. Chairman, we appreciate the time and attention of the Committee.

Thank you very much.

APPENDIX TO MR. KENNEDY'S STATEMENT

The provisions of section 135 "Advice from the Private Sector" are, from an industry point of view, a key feature of the House bill. The Special Trade Representative has suggested two amendments to section 135. The first of these would provide an exemption from section 11 of the Federal Advisory Committee Act relating to availability of transcripts at cost. We believe this exemption from section 11 is necessarily implied in the exemption from sections 10(a) and 10(b) of that Act, a provision already incorporated in section 135, but a clarification would be useful.

The STR has also suggested an amendment which would provide for establishment of an overall Industry Policy Advisory Committee, as well as an overall committee for labor and for agriculture if these are desired. We support this amendment, but believe the Finance Committee report and the Conference Committee report should make clear that these overall committees are not to detract in any way from the statutory role of the product sector committees.

We have some concern based on some of the Commerce/STR documents on industry consultation, that the overall committee may be regarded by the Administration as a screen or filter or supervisory body for the product sector committees; there are even some implications in those documents that the product sector committee role might be minimized or phased down early in the negotiations after submission of a so-called sector report. This approach is inconsistent with section 135 as adopted by the House which calls for continuing exchanges of views with the product sector committees throughout the negotiations.

– AFTERNOON SESSION

Senator FANNIN. The hearing will come to order.

The first witness this afternoon will be George Collins, assistant to the president, International Union of Electrical, Radio & Machine Workers, AFL-CIO.

Mr. Collins, we welcome you here this afternoon. If you will identify the gentlemen with you for the record, we would appreciate it.

STATEMENT OF GEORGE COLLINS, ASSISTANT TO THE PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO AND MACHINE WORKERS, ACCOMPANIED BY: MELVIN BOYLE, LEGISLATIVE REPRESENTATIVE, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS; AND REGINALD NEWELL, ASSOCIATE RESEARCH DIRECTOR OF THE INTERNATIONAL ASSOCIATION OF MACHINISTS

Mr. COLLINS. Thank you.

On my left is Mr. Melvin Boyle, the legislative representative of the International Brotherhood of Electrical Workers; and Mr. Reginald Newell, associate research director of the International Association of Machinists.

I am George Collins, assistant to the president of the International Union of Electrical, Radio & Machine Workers.

Senator FANNIN. Excuse me for interrupting you; I just want to explain we are limiting the testimony to 10 minutes and you can proceed as you like. Your full statement will be made a part of the record.

Mr. COLLINS. Thank you, sir.

We have provided the committee with a text, and we do have a brief statement.

We represent the views of more than 2 million members who have been prime victims of the decline in this nation's international trade position and the lack of a comprehensive foreign trade policy.

We oppose enactment of S. 10710, the Trade Reform Act of 1973. This bill is not the answer.

It is a special interest bill. It does nothing about industry's massive investment abroad, about tax loopholes on overseas profits, about the shifting of production beyond our shores or the export of taxpayer-subsidized technology.

By giving the President power to remove tariffs from the products of underdeveloped countries, this bill will promote the further export of jobs.

By permitting the President to remove tariffs and quotas as a so-called anti-inflation device, this bill opens up new opportunities for imports to preempt the U.S. market. In addition, S. 10710 will lower U.S. standards, rather than raising those of other nations.

The aerospace, electronics, and communications industries are among the Nation's biggest research and development spenders and among the top recipients of taxpayer funds for R. & D. Since 1960, electro outlays for this purpose have exceeded $2.5 billion annually, reporesenting more than 20 percent of the country's entire outlay. Most of this is Federal money. In 1971, the electro and aircraft-missile industries received 81 percent of the total Federal assistance for R. & D. and were the only industries to receive more than half such moneys from the Government.

What is being done with results of these expenditures is shocking. A Commerce Department study entitled "U.S. Industrial Outlook, 1974," calls the aerospace industry "the largest single contributor to the Nation's positive balance of trade," but it points out that the sale and licensing of technology and production to foreign countries "could accelerate the loss to the United States" of this valuable asset.

The Department has estimated that if U.S. airlines go abroad to buy their twin engines, wide bodies, STOL's and supersonics, the aerospace balance of trade could become negative by 1976. This could grow to an unfavorable total of $4.5 billion by 1985.

In spite of these warnings, our multinational aerospace corporations are moving production overseas and exporting technology. Lockheed has sent to Japan the design, tools, and equipment for building the F104 Starfighter. Boeing has entered into an agreement with Japan to develop a wide-bodied airbus. McDonnell-Douglas has contracted to sell Japan plans and production capability for the Thor-Delta launching system.

The Soviet Union, which is extremely hungry for our technology in all fields, reportedly is talking with U.S. aerospace firms about a commercial jet aircraft production complex in Russia and joint design efforts on both derivative and new aircraft, using advance technologies. The Soviets are interested in buying wide-bodied transports, but they want licensing rights and production know-how, too.

The process is even farther along in electronics. Through licensing agreements and sale of technology, American firms have enabled

foreign companies to threaten or out-compete them in radio and TV set manufacture, picture tubes, semiconductor technology, circuitry, transistorized tape recorders and other audio devices, desk calculator systems, switchgear devices and controls, and numerous other products.

Technology is practically a one-way exchange. Last year's International Economic Report of the President states that:

U.S. income from these sources, royalty and license fee transfer payments, has consistently and widely outstripped the payments by U.S. companies to foreign firms.

From 1960 to 1971, according to the report, the nearly $20 billion in receipts exceeded outlay by 10 times.

It is no wonder this country has higher unemployment rates than most other industrialized nations. R. & D. does not put many people to work unless the products which come out of it are used for that purpose where jobs are needed. That is not happening in our industries.

U.S. firms have been eager to merge with and acquire compatible facilities all over the globe. They have invested heavily in other countries and transferred production to foreign plants. From 1960 to 1973, expenditures on new plant and equipment by foreign manufacturing affiliates of U.S. electrical-electronic firms amounted to nearly $4.9 billion. In 3 years, 1974–76, such investment will probably exceed $2.3 billion, according to the Commerce Department.

This process is encouraged by items 807 and 806.30 of the U.S. Tariff Schedule. These loopholes permit our corporations to import products and components assembled in foreign plants for export to the United States and to pay duty only on the value added abroad, rather than on the full import value. The importation of electronic products produced under these loopholes is a $1 billion business annually.

The rapid transfer of production to low-wage areas has resulted not only from tariff loopholes, but from tax concessions and other inducements granted U.S.-based corporations.

Taiwan, for instance, has three duty-free "export processing zones" with a capacity of 100,000 workers and potential annual exports totaling $400 million. Incentives include technical and financial assistance, a 10-year tax exemption and wages pegged to the lowest in Asia.

South Korea, which offers probably the most generous investment incentives in Asia, also has a special free export zone. Strikes are specifically outlawed in that zone. Other nations around the globe vie with those two in attempting to attract profit-hungry U.S. multinationals.

Such efforts have paid off. Over the past few years, we have seen numerous domestic plants shut down and the work shifted to other countries. This has happened from one end of the industry to the other, in almost every product line—including even national defense items. Almost all of the big-name companies have been involved.

RCA closed its Memphis color TV plant which employed 4,000 people at the peak of its short 4-year history. Westinghouse dropped out of consumer electronic production in the United States, costing

more than 2,000 workers their jobs in Edison, N.J., alone. Philco-Ford, expanding in Taiwan and Brazil, is phasing out its flagship plant in Philadelphia. Other powerful manufacturers, including General Electric, Sylvania, Admiral, Whirlpool, and Zenith all have closed large U.S. plants while expanding off-shore operations.

This development has put thousands of people out of work. In our full statement is a table on employment in the three main categories of the electrical-electronics industry. Since the latest figures in the table are for 1972, I would like to update them for the record, as follows: Average employment in 1973 totaled 979,700. Of these, 393,300 were in components and accessories; 148,600 in radio and TV receiving sets; and 437,800 in communications equipment.

Thus, comparing those figures with the table, we find that industry employment dropped by nearly 78,000 from 1968 to 1973. Here we showed there was 109,000 in these categories from 1966 to 1970. This decline, though somewhat arrested, has not in any instance shown a resumption of production in any of those 12 that made up those totals in that earlier period. So we submit it is a dangerous decline in a young growth industry that is vital to the Nation's security. It makes no sense at all at a time when the labor force is expanding.

In conclusion, our three unions have been wrestling with the imports problem for 8 years. We have resorted to all of the safeguards in current U.S. laws and regulations. We have used antidumping, countervailing duty, adjustment assistance, and escape clause provisions. Most of our efforts have been in vain. As a result, literally thousands of our members have come to Washington at various times to discuss the need for fair international trade legislation with their Senators and Representatives. Others have written letters and signed petitions. We are solid in our conviction that something must be done. A recent poll by one of our unions shows overwhelming membership support for regulating the export of capital and technology, for closing tax loopholes on overseas profits, and for denying the President authority to ease restrictions on imports.

We believe that most other Americans agree with us.

We urge the Senate to reject the measure before the committee and to write a new trade bill that contains the realistic provisions that will prevent the abuses outlined. For further details, we commend to your attention our full statement, as well as the statement of the AFL-CIO, to which we subscribe completely.

Thank you.

Senator FANNIN. Mr. Collins, do you have anybody else who is going to testify?

Mr. COLLINS. No.

Senator FANNIN. In your statement, Mr. Collins, you state that:

> The Department has estimated that if U.S. airlines go abroad to buy their twin engines, wide bodies, STOL's and supersonics, the aerospace balance of trade could become negative by 1976. This could grow to an unfavorable total of $4.5 billion by 1985.

Do you think that this is happening to the extent that you are stating in your testimony?

Mr. COLLINS. Mr. Newell of the Machinists Union is the expert of our group, as far as the aircraft sector.

Senator FANNIN. I am very much in sympathy with you in trying to curtail the export of jobs and the retention of industry in our country.

We have introduced legislation that we will talk about later. I would like to have your thoughts as to just what is happening.

Mr. NEWELL. We are very concerned that the domestic aerospace industry is going to become, actually follow the fate of the shipbuilding industry, in terms of sending its technology overseas and finding, in essense, finding that we have to go overseas to get the aircraft we need.

For instance, the short-body plane, the STOL, the Marines had to go to England to get a plane. We are very concerned about this. We realize that there are real problems that the industry faces in terms of financing the domestic industry, and we certainly have given serious thought to joining with the U.S. industry in finding some method of financing the development and manufacturing plants so these planes are produced here.

As it stands now, we definitely foresee the European aerospace industry building the planes that we need.

Senator FANNIN. I am concerned and I am sure the other Senators are, too. I voted to do something with the supersonic plane, not only from the standpoint of having the leadership of the world in that field, but because of the tremendous trade-offs that are possible with research and development on the SST.

Now I just do not know what is happening now. Not too many years ago we were in the seventies, as far as the manufacturing of the planes, worldwide, other than the Soviet Union.

Do you have any idea what percentage we manufacture today?

Mr. NEWELL. I think it is certainly the majority, the great majority.

Senator FANNIN. Up to the sixties and seventies, now, do you think?

Mr. NEWELL. The last figure was in the low seventies.

Although I agree with you in what you are trying to do, I feel that we do have a very difficult situation. I know Labor has great influence around the world. If we could in some way use that influence to help inequities in the GATT negotiations, it would be very helpful.

One of the great problems we face is the barriers that you mentioned; you mentioned Japan—Japanese electronic equipment. Earlier we were talking about cars. I know that is not in your field, but it is certainly of tremendous importance to us. Shipping a car in here for 3 percent and having all these tariff barriers, any here from 6 percent right on up, in the economic community, somewhere—11 or 12 percent. It makes it very difficult for our friends to compete and stay in this country.

Is that not quite a factor?

Mr. COLLINS. No question about it. The earlier shift of American industry—at least in electronics overseas—where in the first instance was a resistance or defense against the unfair competition from the reflection of the low-wage cost in Japan. Actually, I think American industry, by that move overseas, has sort of leap-frogged over their

problem to a point now where they are really maximizing profit levels by the low-cost production running in the foreign plants, to a point where the Japanese and all of them to Southeast Asia to all of these locations. So you know, this process of one leap-frogging over the other can go on to the point to the lowest possible wage cost. At some point the production continues to come into this market.

Mr. Meany made the point the other day, and I think Mr. Abel amplified it—how are we going to maintain this structure that we have or are all somewhat dependent on. The standard of living that we are all enjoying now, if this process goes on, where we are all manufacturing—where all our manufacturing is running to where the lower cost is, Japanese or other.

This morning's discussion with Mr. Bergsten and Mr. Gardner touched on monetary questions that none of us pretend to be experts on. Just following the pattern in television production, since the Smithsonian evaluation, which I think was in the end of 1971, immediately month after month television exports from Taiwan, that pegs its currency somewhat to the U.S. dollar, just took off in every month and ever since, TV exports from the American-owned plants in Taiwan have fairly dealt with so-called Japanese competition.

Senator FANNIN. I know we have been able to hold some color TV—certainly not the black and white; we are losing it.

Mr. COLLINS. We are feeling the pressure. When I say "we," it is our members, who are part of the industry. The solutions of the corporations are not their solutions.

Senator FANNIN. I will ask a few other questions. I happen to be the only one here. We are limiting our time.

Our great need that we have, I think, is educating the American people to realize that a consumer cannot long be a consumer unless he produces or someone produces for him. He has to produce in some way or another to obtain income. It seems that we have many people who want to lower the tariffs without taking into consideration a quid pro quo.

Do you not think the American people should realize that when they want these cars in here at 3 percent tariff or no tariff, or they want the electronic equipment, that they should support a quid pro quo from these other countries? Or just not bring the equipment in?

Mr. COLLINS. I tend to agree with you in general, Senator, but there is also a development in the economics of it that is not a textbook model, in that the price charged to the consumer does not reflect the saving which the low wage and the other low production costs generate. It really has had the effect of maximizing the profits of a corporation. So the consumer is not getting the benefit reflection of those savings in labor costs and production costs.

Senator FANNIN. Of course, if the equipment is coming in here, it is displacing production in this country, it is costing jobs, so we lose all the way around. And although there may be some side effects, the facts are that this is very detrimental to the working people of this nation.

Mr. COLLINS. It certainly has been.

Senator FANNIN. There is one place where I perhaps disagree with you. That is on the 806.30 and 807 of the tariff schedules.

Do you not think it is better to have part of the production outside the country than to have all the production outside the country? Some particular unit?

Mr. COLLINS. If faced with the possibility that we lose everything, I think we ought to try to hold on to a portion of it. I wonder, to the extent that the use of the 807 and 806.30 have really been in a great measure responsible for the sliding out of so many sections of industry. The combination of all these factors, plus the lubricant, as it has been described as, that 807 and 806 has provided, has just caused industries to slide right out of our country.

And I listen to the offer of the industry people to provide the committee with some facts in letter form about just what the results have been in generating new jobs on this side of the border. That, the treatment of that, goes all the way to Asia, too.

Senator FANNIN. That is what I am concerned about. I am talking about a personal interest, from a standpoint of my own state of Arizona. We are a border state, and we have been benefiting by—I admit, we have been benefiting by these tariff provisions. But I am more interested in what is happening from the standpoint of the nation.

Do you have any thoughts in that regard?

Mr. COLLINS. We appealed to the Tariff Commission at least to appear before the Tariff Commission in that investigation at that time. We indicated that it was a matter of grevious concern. That was in 1969 or 1970. The results just followed that pattern. We, along with the AFL–CIO, have indicated that those so-called loopholes should be eliminated for a period of time to see just what its effect will be.

I think—perhaps localized in an area that did not exist in the industry, perhaps, or along the border portions of the USA—California, Texas—there might have been a buildup. There also has been a buildup in the past from highly industrialized areas to lesser industrialized areas without this, so that I would just wonder, on balance, if the whole program has been useful to the general work force and to the American consumer, or whether it has just been another profitable mechanism for industry—you know, to go wherever the labor costs can be reduced to a lower point.

Senator FANNIN. We have a very wonderful neighbor to the south, Mexico; and they have been in the position to work with us, as you well know. They have had their problems over the years, economic problems.

Do you not feel that we have to help considerably in stabilizing their economy?

Mr. COLLINS. I know that it has had the effect of improving a lot of a number, perhaps a large number, of people along the border. It has also had the effect, as we see it here in the States, too, where there is an improved situation people will come to it from a lesser developed situation, whether it be from the South, the North or whatever. So there are a lot of people from the interior of Mexico who have come up to the border, just as there are still people who go across the border in different industries into the States.

I wonder if the improvement has been, substantial enough to warrant, continuation of the program.

Senator FANNIN. I asked, as you heard, for statistical information. I have an open mind in this regard.

Mr. COLLINS. If I may add one point to that, Senator. There must be, it seems to me, and all factors of the society must be able to play their role in those situations. The labor movement, for instance, in Japan and other places where they have been able to perform their role, have been able to transfer to their members substantial improvements in their standard of living and their life styles because of their ability to get their share of the profits. However, this requires a labor movement that can perform its function and cannot be limited. Unfortunately, in my own personal experience with the activities along the Mexican side of the border, the labor movement there has not been able to discharge that function. The fact of the matter is that most of the labor officials are part of the party in power that has been in power in Mexico for a long time. Such things as the OSHA and other things that Congress has legislated for our benefit are not applicable in the situation. There must be an opportunity for the labor movement to play its role there. We are not satisfied with the achievements of that group of labor leaders.

Senator FANNIN. Labor unions in Mexico have played an important part. I was in business in Mexico, so I am very familiar with it. I can recall when we first went into Mexico with a company and we started to unload a car, freight, we were told no, you do not touch that freight; that is all handled by the union. So we called and they came over and unloaded it. It was a very efficient operation; we were very well satisfied. That was just a new way of doing business. We thought they would do it with lift forks; they only did it by hand. It was entirely different.

I cannot speak on what they are doing in the electronics field. I only observed the agricultural industry and the commercial business, as far as merchandising is concerned, marketing, equipment of that nature.

Thank you gentlemen very much. We appreciate that you were here with us today. I am sure that the other members of the Committee will read your remarks.

Mr. COLLINS. Thank you.

[The prepared statements of the preceding witnesses follow. Hearing continue on p. 1704.]

STATEMENT IN BEHALF OF THE INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, IAM, AFL–CIO, THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, IBEW, AFL–CIO, THE INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS, IUE, AFL–CIO

The lack of a comprehensive foreign trade policy has had a harmful effect on the domestic well-being of the workers of the electrical, electronic and aerospace industries of the United States. The failure of the Congress to enact realistic and up-to-date measures has left our industries saddled to obsolete trade laws of another era. The circumstances of foreign trade of 1962 do not apply to the real trade world of 1974–1975.

The workers of the electro and aerospace industries have suffered from the impact of increased imports of foreign produced goods and the transfer of their jobs to the overseas plants of multinational companies.

We represent the viewpoints of more than two million members of the IAM, IBEW and IUE, three major unions with jurisdiction in these vital industries. We oppose enactment of the House passed "Trade Reform Act of 1973". We urge the Senate to reject such a measure.

There is an acute need for responsible trade legislation. The rise of multinational corporations, the changed economic relationships among nations and the decline of the dollar make this obvious even to those who have not been injured directly by the flood of imports. The need is even more evident to the members of our three unions, many of whom have seen plant gates shut in their faces, production transferred overseas and opportunities for new jobs erased—all as a result of the very conditions which require reform.

Instead of attacking directly the complex roots of the trade crisis, H.R. 10710 has these deficiencies:

1. *It's a special interest bill.* Although massive investments abroad, tax loopholes on overseas profits, the shifting of production beyond our shores, and the sale and licensing of taxpayer-subsidized technology are responsible for much of the trade crisis, the bill does nothing about these evils created or exploited by multinational corporations. Indeed, it was written solely on the basis of big business recommendations, while the harsh experience of American workers and the unanimous testimony of their representatives was ignored.

2. *It promotes the export of more jobs to low-wage countries.* By giving the President power to remove tariffs from their products, the bill invites a new wave of imports from Taiwan, Singapore, Haiti, Brazil and other nations where runaway U.S. manufacturers are riding high, where wages are miniscule and where trade unionism is oppressed or illegal.

3. *It prescribes a poisoned placebo for inflation.* By permitting the President to temporarily remove tariffs and quotas as an "anti-inflation" device, the bill will simply open up new opportunities for imports to preempt the U.S. market. It will have no effect on inflation. If imports cured inflation, U.S. prices would be at rock bottom today.

4. *It lowers U.S. standards, rather than raising those of other nations.* In the name of promoting trade, the President can negotiate the removal of such "non-tariff barriers" as consumer protection and product standard laws. He can agree to elimination of required country-of-origin identification on products, including those carrying American brand names. Without muscle behind it, the bill's nod in the direction of international fair labor standards means nothing; in fact, by encouraging further export of jobs to low-wage countries, the bill will undercut U.S. wage and benefit standards.

5. *It offers nothing to cope with imports.* Existing laws against other nations' unfair trade practices are weakened. Qualifications for adjustment assistance and for relief from the subsidized competition of foreign exporters are toughened.

THE EXPORT OF AEROSPACE TECHNOLOGY

The trade bill fails to provide safeguards against the continued export of technology to other parts of the world where corporations can maximize profits and minimize costs at the expense of United States production and jobs.

Lack of restraints on the export of technology leaves the aerospace industry free to sell off more production of parts and aircraft to foreign nations. Imports of aircraft parts in the first six months of 1973 rose 56.6% over the same period of 1972. At the same time exports of aircraft engines and parts dropped by 63%.

It was reported in the article '1973/1974 Facts and Figures' published by "Aviation Weekly" that the balance of trade for aerospace products declined from $3.8 billion in 1971 to $3.3 billion in 1972. A part of this downward trend was accounted for by increased imports of aerospace products, up from $375 million in 1971 to $565 million in 1972.

A Commerce Department study entitled "U.S. Industrial Outlook 1974" credits the aerospace industry as being 'the largest single contributor to the nation's positive balance of trade', but concludes with a warning that we could lose this valuable asset. The report points out that the sale and licensing of U.S. technology and production to foreign countries 'could accelerate the loss to the United States of the last high technology marketing advantages. . . .' Once the increasingly strong foreign competition eliminates the present day U.S. advan-

tage, the next generation of aerospace hardware can be developed without U.S. assistance or participation.

The Commerce Department has estimated that the aerospace balance of payments could become negative as early as 1976 if U.S. airlines go abroad to buy their twin-engines, wide bodies, STOLS and supersonics. This could grow to an unfavorable total of $4.5 billion by 1985.

In spite of these warnings there is a continuing trend by the multinational aerospace corporations to move aerospace production overseas and to sell licensing agreements.

When Japan wanted the F104 Starfighter which had been built by Lockheed in California, it arranged to have it built in Japan. Lockheed not only shipped over the design, tools and equipment, but also supplied the supervision to train the Japanese workers.

Recently the Boeing Company entered into an agreement with the Japanese Government to develop a new wide bodied airbus. Technology would come from Seattle and the work done in Japan by employees of three manufacturers, Mitsubishi, Kawasaki and Fuji.

The export of the Thor-Delta system to the Japanese has meant that the capability of satellite and intercontinental missile launching system is no longer the exclusive property of the U.S. and Russians. For several years the Japanese attempted to develop a system of their own and after its failure made a contract with the multinational McDonnell-Douglas Corporation to buy plans and production capability for a modified Thor-Delta rocket system. The basic system was developed at taxpayers' expense and cost the American taxpayers millions of dollars in research and development funds before becoming operational. It has been used to launch satellites for other countries and has provided the U.S. with millions of dollars helping to provide jobs and offsetting the U.S. balance of payment deficit.

Cessna Aircraft of Wichita, Kansas in cooperation with Reims Aviation is building aircraft in France and Cessna planes are also being built in Argentina.

Boeing is working in a joint effort with Aeritalia in building a 7-7 medium-range transport and is also manufacturing parts for the 747 in Australia.

These are only some examples of projects being manufactured in other countries involving the export of technology by licensing, patent agreement or direct transplant. In addition to allowing this situation to continue the trade bill would permit special zero tariffs on imports from so-called emerging nations such as Taiwan, Singapore and other low wage enclaves which have already taken over huge segments of production of U.S. electronics and have now announced that they will concentrate on attracting industries with a high degree of technology.

Russia is also attempting to acquire United States technology. A recent issue of the "Armed Forces Journal" reports that Russia has asked Boeing, McDonnell-Douglas and Lockheed to build a commercial jet aircraft complex that would employ 80,000 people with an annual output of over 100 planes. American know-how is one of the several conditions laid down by Soviet negotiators as a prerequisite for buying up to 30 wide bodied U.S. jet transports.

Soviet negotiators, it was reported, also have approached Lockheed, Boeing and McDonnell-Douglas about undertaking joint design efforts on derivative models of the DC-10, L-1011 or 747, and in some cases on completely new aircraft using advanced technologies. Concurrently Russia is pressing for a bilateral airworthiness agreement with the U.S. Government that would permit Soviet planes to operate and be sold in the United States as if they had already been certified to the Federal Aviation Administration's stringent airworthiness standards.

The Soviet negotiators have also asked for licensing rights and U.S. production know-how to build in Russia a substantial part of whatever many wide-bodied jets it might buy.

THE EXPORT OF ELECTRONIC TECHNOLOGY

Our nation's foremost position in the world of advanced technology has been developed and maintained by the remarkable discoveries of the electrical-electronic laboratories and the miracles of rationalized automated production of its parts, components and end-products.

Numerous applications of this technology now serve other industries. A list of the tasks that electrical-electronic devices and systems perform in the fields of communication, transport, manufacturing, aerospace, government, banking, retailing, education and other industries would fill many pages.

The development of this nation's electronic capability came about as a result of the investment of billions of dollars of national treasure to fund research and development. In a large sense the fundamental ownership of what this research and development has produced resides in the eminent domain of the American people.

When industry's managers seek to disperse this technology beyond the control of the Congress and to transfer its growth across our borders, Congress must act to impose safeguards. For this technology and its many and varied applications may well be the greatest potential producer of employment opportunities in our country's history.

This most sophisticated technology, developed with federal assistance and public funds, has been exported wholesale for profit by American industry. American firms have licensed major foreign producers in radio and television set manufacture, in picture tube (including color TV tubes) technology, semiconductor technology, circuitry, etc. Japanese manufacturers alone have been flourescent lamps, complex integrated circuitry, aeronautical instruments, transistorized tape recorders and other audio devices, photo conductive elements, desk calculator systems, microwave systems, switchgear devices and controls. licensed by U.S. companies to produce items as diverse as electric blankets.

Other witnesses can testify in more detail of the magnitude of the export of technology through licensing and patent sharing agreements in other industry groupings. We hope to demonstrate that the electrical-electronic companies of the United States have been responsible for putting their foreign competitors in business, at the cost of our jobs and at the loss of our country's economic advantage.

A distinguishing feature of the American electrical-electronics and communications industries is the sizeable annual expenditure on research and development. Since 1960, such expenditures have exceeded $2.5 billion annually, representing more than 20% of the nation's annual R&D outlay by all industries. During 1970 and 1971 electro-related industries devoted more than $4.4 billion a year to R&D. The $4.5 billion outlay during 1971 equalled 25% of the total for all U.S. industries.

Most of these funds come from the taxpayer. During 1960–1970 a total of $30.7 billion was spent on electro-related R&D, of which $21.14 billion (57.5%) was contributed by the Federal Government. The 1971 electro-industry R&D outlay of $4.5 billion included a federal contribution of $2.3 billion, 30% of the government's entire expenditure for R&D support. Only the aircraft and missile industry received a greater direct contribution from the public purse, $3.9 billion (51% of the Government's total) during 1971. These two industries, electro and aircraft-missiles, received 81% of the total federal assistance for R&D budget, and were the only industries to receive more than half of their R&D expenditures from public funds.

The Federal Government—particularly the Defense Department and the Space Agency (NASA)—has not only provided most of the funds and inspiration for the electronic industry's R&D, it has also functioned as its major market. Sales of industry products to agencies of the U.S. Government since 1967 have ranged between $10.4 billion and $12.6 billion annually, almost half the industry's total sale. In 1968, sales to government were $12.6 billion, compared with total industry sales of $27.3 billion (revised). In 1970, government sales fell to an estimated $11.3 billion, compared with total industry sales of $26.6 billion (revised). In 1972 government sales continued to decline sharply to $10.4 billion compared with total industry sales of $29.9 billion.

Research and development is becoming increasingly significant worldwide, particularly with regard to sophisticated technologies such as electronic data processing and integrated circuitry. R&D breakthroughs, as well as improvements and advances in the state-of-the-art resulting from R&D, are increasingly—and more quickly—shared internationally through licensing agreements and foreign joint ventures as well as through product shifts and plant relocations. American firms have exported technology, developed largely with government funds, on a massive scale for their private profit, and now we are

concerned about whether we can maintain our technological lead in order to stimulate our economy and provide badly needed jobs.

American firms of this important job-producing group of industries through their licensing agreements have aided and encouraged foreign competitors so that the latter have been able to out-compete them in the U.S. market on a variety of commercial and consumer products.

The International Economic Report of the President transmitted to the Congress in March, 1973 shows that "U.S. income from these sources (royalty and license fee transfer payments) has consistently and widely outstripped the payments by U.S. companies to foreign firms. From 1960 to 1971, receipts totaled almost $20 billion, while U.S. payments to foreign companies aggregated less than $2 billion." The report clearly shows a surplus from our technology sales. For 1972, net royalty and fee earnings rang the bells of our national cash register at $2.8 billion.

The magnitude of U.S. technological marketing becomes conspicuously clear when we note that consumer electronic imports in 1972 rose to 74.4 million units ($1.7 billion) as opposed to the meager 1.2 million units ($131 million dollars) we exported.

In his book, "World Without Borders," Lester Brown of the Overseas Development Council refers to the technological balance of payments, "the foreign exchange spent versus that earned in importing and exporting technology. Japan, Brown points out, "has the largest technological balance of payments deficit of any country . . . The United States has the largest . . . surplus." U.S. exports of technology account for about one-half of the world total.

Referring to the U.S., Brown writes:

"Receipts from the sales of technology abroad increased from $362 million in 1956 to an estimated $2.2 billion in 1970 . . . U.S. exports of technology now exceed the total exports of countries such as Colombia, Nigeria or the United Arab Republic. This rapid growth of international technological transactions is closely associated with the phenomenal growth in the size and number of multinational corporations since 1950."

Research and development doesn't put many people to work unless the products which come out of it are used for that purpose where jobs are needed. That's not happening in the electrical-electronics and communications industries.

The American taxpayer has paid most of the costs for research and development, including that conducted by corporations and universities. In 1972 these research and development activities cost $28 billion and 63% of the cost of basic research was borne by the Federal Government.

The end result of all this investment has been the development of the world's most sophisticated and advanced technology. As this technology has become available it has been freely turned over to private corporations for use and exploitation. Although the working people shared heavily in the costs.

It was assumed that America's technology would be used to create new products, more jobs, higher wages and general prosperity in America and would provide a foundation of rising productivity that would offset foreign wage differentials and make it possible for American-made products to compete in world markets.

These assumptions were verified in the so-called Kennedy Round of the early 1960's when organized labor was asked to support liberalized trade policies. At that time labor's fear of being drowned in a flood of imports was answered by the argument, from both industry and government that America would remain competitive because of its vast lead in technology.

Had that technology been retained in the United States this might have been true, but the emergence of multinational corporations changed the rules. Such corporations were not content with the profits they could make on American production. They took, and have been permitted to get away with American technology bought and paid for by the American people and they have transferred, licensed and sold it overseas.

In the last two decades Japan alone has bought $15 billion worth of American technology for which it paid $1.5 billion. In other words it bought American technology for ten cents on the dollar. As was stated in the February 7, 1972 issue of "Chemical and Engineering News" 'Japan's shopping (for American technology) brought it one of the most incredible bargains in history.'

The trade bill would continue to permit private, profit-making corporations to sell off our technology at give away prices for which the American public would

be made to suffer by higher rates of unemployment, adverse balance of trade and eventually the bankruptcy of the one economy upon which the welfare and the protection of the free world chiefly depends.

FOREIGN INVESTMENT

From the earliest period of the industry's development, the companies of the electro industry have been in the forefront of the firms that have licensed off our government-financed, taxpayer-supported technology to all corners of the globe. They also have been among the leaders in the surge of overseas private investment by American firms.

Electronics firms have been eager to merge with and acquire compatible facilities all over the globe. They invest heavily in new plants in other countries, and with increasing frequency transfer production from America to foreign plants. Foreign-based electro industry companies have also expanded their operations outside the borders of their home countries. But in terms of frequency of acquisition and merger, the scale and amount of capital involved, the restless search for new product lines, the relocation of production facilities and worker displacement, American multinationals are easily the biggest and most active force in this industry.

From 1960 to 1973, expenditures on new plant and equipment by foreign manufacturing affiliates of United States electrical-electronic firms amounted to nearly $4.9 billion, growing steadily from $105 million in 1960 to $400 million in 1969 and to $800 million in 1973. In three years, 1972–74, such investment should exceed $2.3 billion, according to U.S. Department of Commerce.

PLANT RUNAWAYS

The electronics industry's performance has earned for it a poor image in the eyes of the workers in the industry. Many workers have suffered from the erratic patterns of seasonal layoffs and model change shutdowns. Whole plants have been closed down temporarily because of the failure to balance production of consumer market products with government contract schedules.

The industry's export of capital and licensing of technology to foreign producers have been felt by workers, many of whom put in 20 to 40 years of service only to see their plants close down and their jobs eliminated. As the flood of imported parts, components and end-products surged into the domestic market, electrical-electronic workers, members of our unions, became the first victims of these short-sighted practices. The rapid transfer of production to low wage areas by electronic companies has resulted in thousands of lost jobs.

The incentives for moving production to Taiwan, South Korea, Singapore, Hong Kong, Mexico and the Caribbean, as a way of meeting increasingly sharp Japanese competition, were not only the pitifully lo wwages and substandard working conditions in such countries, but tax concessions and other relocation inducements granted to U.S.-based corporations. In addition, plant removals and transfers of production are encouraged by Items 807:00 and 806:30 of the United States Tariff Schedule. These loopholes permit United States firms to import products and components assembled in foreign plants for export to the U.S. and pay duty only on value added abroad, rather than on the full import value of such products and components.

The importation of electronic products produced under these loopholes is currently a $1 billion business. For 1972, the U.S. Customs Bureau reports that over $100 million in U.S.-made parts were transferred abroad for processing or assembly prior to duty-free re-import into the United States. Import duty, under the minimal rates applicable, was assessed on some $600 million of value-added, mainly low wage assembly labor performed by exploited foreign workers in Asia, Mexico and the Caribbean.

Customs records published by the Census Bureau (Report 1A245A) show that the electro industry and its divisions were major utilizers of these job-stealing tariff loopholes during 1972. The industry's reliance on 806/807 grew 25% over 1971 when $750 million was involved ($350 million U.S.-made, $400 million value-added foreign processing).

U.S.-based multinational electronic companies are the biggest users of the loophole. Electronic products amounted to one-third of the $3.4 billion of total

value imports under 806/807 during 1972. Total value imports under 806/807 jumped 57% during the first 10 months of 1973 compared with the same period in 1972.

Countries as widely separated as Mexico, Taiwan, Hong Kong, Singapore, South Korea, the Philippines, Malaysia, Jamaica and others have been used as bases to penetrate the U.S. market under the tariff loopholes. The practice of these countries has been to grant tax concessions, import duty exemptions on equipment and materials, and, in some cases, immunity from local laws and regulations. The greatest attraction perhaps is generally an unlimited supply of labor at hourly rates as low as 10 to 50 cents.

The trade paper *Electronic News* carried advertisements promoting "low cost Caribbean assembly in Trinidad-Tobago" where "the English speaking workers average 40¢ an hour."

Advertisements in the *Wall Street Journal* invite inquiries from U.S. firms interested in opening assembly plants along the American border in Mexico. The lure that's used is to get away from the costs imposed domestically by the Occupational Safety and Health Act, enacted by Congress in 1970. When President Nixon signed that bill into law, he hailed it as an important advance for American workers. But thanks to the 806:30 and 807:00 tariff loopholes, hundreds of our firms are negating that advance with their U.S.-export-only factories in foreign countries.

All over the Far East, countries have set up special manufacturing zones, to which American firms are induced to come to produce goods for export to the U.S. The companies in our industry have responded in great numbers.

Taiwan has three duty-free "export processing zones" with a capacity of 100,000 workers producing annual exports totaling $400 million. The number of plants anticipated is over 400. The first of these zones, at Kaohsiung Harbor, is operating at full capacity with 101 plants employing 40,000 people. Incentives include technical and financial assistance, a 10-year tax exemption and wages pegged to the lowest in Asia.

Taiwan used to be a trade deficit country, but in the first five months of 1972 it had a trade surplus of $35 million. Its trade surplus with the U.S. for that period was $169 million, which means that U.S. multinational corporations singlehandedly turned the picture around.

South Korea offers probably the most liberal and attractive investment incentives and safeguards in Asia. Among them are: tax exemption for five years and 50% tax reduction for the next three years; exemption from customs duties and commodity taxes on goods imported for investment purposes; exemption from personal income tax for foreign personnel (these same people are also exempted from U.S. income taxes); unlimited remittance of profits; protections against expropriation; reinvestment of profits and sole ownership.

An ad run by the "Public Relations Assn. of Korea" in the December 27, 1972, *Washington Post* reports that "one of the most promising new inducements is the Masan Free Export Zone, legislated in 1970 to expedite the establishment of foreign-invested export industries . . . Korean workers employed at plants in the Free Zone will be considered in the same category as public utility workers, meaning that labor disputes will be compulsorily arbitrated by the government, avoiding the possibility of strikes or slowdowns."

A partial list of American firms in Korea: Fairchild Semiconductor, Signetics Corp., General Motors, Keystone Valve, Komy Corp., Motorola, Control Data, Illinois Condensor, American Microsystems, Midtex, Royalpac, Applied Magnetics Corp., Electro-Voice, Ford Motor Co., Borg Warner, Dana Corp.

A partial list of American firms in Taiwan: Admiral, Ampex, Arvin Ltd., Bendix, Control Data, Cornell Dubilier, General Instrument, IBM, 3M, Motorola, Philco-Ford, RCA, Singer, Sprague Electric, Texas Instruments, TRW, Wang Laboratories, Corning Glass, Zenith.

A partial list of American firms in Mexico: Bendix, Zenith, Control Data, P.R. Mallory, Sprague Electric, Union Carbide, Singer-General Precision, Curtis Mathes, Sarkes Tarzian, Transitron, Standard Kollsman, Advance Ross Electronics, RCA, Ensign Coil, Airco Speer, Lear Jet Stereo, General Electronics, Motorola, Erie Technological, Raytheon, Fairchild Controls, Warwick Electronics, Solitron Devices, Litton Industries, Burroughs.

Equally extensive lists could be compiled for many other countries.

JOB LOSSES

From 1966 to 1972, employment in the three main categories of the electrical-electronics industry declined by nearly 109,000 jobs. This decline is not a temporary process: the situation is not improving. In fact, as the following table shows, the bulk of these job losses has occurred since 1968:

	Annual averages				
	1966	1968	1972	1966 to 1972	Change 1968 to 1972
Electro components and accessories	388,600	381,400	340,700	−47,900	−40,700
Radio and TV receiving sets	161,700	153,500	139,200	−22,500	−14,300
Communications equipment	467,700	522,500	429,500	−38,200	−93,000
Total	1,018,000	1,057,400	909,400	−108,600	−148,000

Job losses have hit production employee classifications at a sharper rate as the growth side of the industry has been transferred offshore. A compilation of plant closings and departmental shutdowns embraces virtually all companies in the industry.

Strongly entrenched firms, as well as more marginal operators, have suspended domestic production.

Domestic production of home radios has been almost totally eliminated; automobile radio production is on the verge of complete transfer to Asia and Brazil.

The importation of television sets, first from Japan, and now also from Taiwan, Mexico and Korea has been a direct cause of the shutdown of numerous plants across the country. American television manufacturers have subcontracted their production to Japanese companies. TV sets and other consumer electronic goods made in Japan for the American market are retailed under the familiar U.S. brand names and labels. Parts and components produced in Japan under license from U.S. companies are heavily imported both as parts and as elements of assembled products. Japanese-brand sets and systems have "competed" with the Japanese-made U.S. brands for a significant share of the U.S. market.

Television sets and other consumer electronic products from Taiwan, Korea and Mexico have become a stronger force in the recent past. Because the Republic of China (Taiwan) pegs its currency to the U.S. dollar, the December 1971 Smithsonian currency revaluations generated a massive surge of TV set imports from Taiwan. American multinational companies are dominant in the electronics industry of Taiwan. Taiwan is now the largest exporter of TV sets to the U.S., having passed Japan last year. The General Instrument Company, which once employed thousands of our members in the U.S. and Canada, is now the largest private sector employer in Taiwan (25,000).

Major U.S. employers have closed down modern automated electronic plants to transfer production to Taiwan and elsewhere. In 1970, RCA shut down its Memphis, Tenn., color TV plant which employed 4,000 people. When it opened in 1966, the Memphis RCA plant was the most modern color TV production plant in the U.S.

The Westinghouse Electric Company dropped out of consumer electronic production in the U.S. during 1969–1970 and has curtailed production in its Canadian plants. More than 2,000 Westinghouse workers lost their jobs when the company closed its modern plant in Edison, N.J., a town named in honor of the American who founded the world's electrical technology.

While expanding its overseas plants in Taiwan and Brazil, Philco-Ford is phasing out its flagship plant in Philadelphia.

The Emerson TV and phonograph plants in Jersey City were closed down in 1970 and U.S. production of the respected Emerson and DuMont labels ceased. (Radio production had ended there long ago.) Admiral Corporation was engaged to produce those labels in its Taiwan plant.

Other powerful electrical manufacturers, including General Electric, Sylvania, Admiral, Whirlpool and Zenith, have closed large U.S. plants while

expanding offshore operations. Parts and components plants producing the whole range of consumer, industrial and military electronics have ceased stateside production in favor of low wage areas around the globe.

When expanding, these firms show a marked preference for foreign locations over American communities. Texas Instruments, a leading manufacturer in the semiconductor field, has announced that it will open four new solid state products plants, three of which will be offshore—in Hiji, Japan; Kuala Lumpur, Malaysia, and Campinas, Brazil.

INADEQUACY OF EXISTING SAFEGUARDS

The workers of our industries have suffered from the inadequacy of existing safeguards in U.S. laws and regulations. While foreign imports have captured greater and greater shares of the market and thousands of our members have been thrown into unemployment, relief that should have been available has been nonexistent.

We have appealed in vain to government agencies for remedial action. Existing regulations under anti-dumping, countervailing duty and "escape clause" provisions have been essentially useless and unavailable.

Adjustment assistance, as provided under the Trade Act of 1962, has proved to be nothing more than an illusion. Petitions before the Tariff Commission for the unemployment compensation, retraining and relocation benefits intended by the Congress have been struck down by an unrealistic eligibility formula. Only an infinitesimal number of the thousands of victims of imports have qualified for the inferior benefits provided, and then only after frustrating delays.

None of these measures anticipated the phenomenal development of the multinational companies, their export overseas of our jobs and technology, and the vast amount of capital devoted to foreign investment.

A recent poll taken by the IAM with participation from two per cent of its membership indicates that many union members are extremely worried by the increasing volume of foreign imports and by the constant export of American capital and American technology by U.S. based multinational corporations.

The following are the questions asked with reference to world trade and the results: 1. Should Congress give the President authority to ease restrictions on imports in dealing with other nations?

14.1 percent, Yes; 72.2, No; 9.4, Undecided; No Reply, 4.1.

2. Should Congress direct the President to regulate the export of American capital and American technology in the national interest?

79.0 percent, Yes; 11.8, No; 5.4, Undecided; No Reply, 3.6.

3. Should Congress order the President to limit the export of food, petroleum products and other commodities when supply is short in the United States?

94.0 percent, Yes; 3.6, No; 0.8, Undecided; No Reply, 1.4.

4. Should Congress amend the laws to tax overseas profits of U.S. multinational corporations on the same basis as their profits on business done in the U.S.A.?

87.5 percent, Yes; 3.9, No; 5.9, Undecided; No Reply, 2.5.

We agree with the statement of the AFL–CIO Executive Council. The administration's so-called "Trade Reform Act of 1973" is totally obsolete. Its provisions bear no relation to the events of the day. Indeed, the bill passed by the House late last year is worse than no bill at all.

We urge the Senate to reject the bill before the Committee and to write a new trade bill that will contain more realistic legislative provisions that will prevent the abuses we have outlined above. We commend to your attention the statement of the Executive Council of the AFL–CIO attached hereto.

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON INTERNATIONAL TRADE AND INVESTMENT

The international economic structure has been seriously shaken. Normal trade patterns are being shattered. National currencies are in disarray. Nations with once-comfortable trade balances are desperately seeking larger export markets to earn the price of oil for industrial survival.

Much of the blame can be laid to the staggering price increases levied by the oil-producing nations, which have further fueled a global inflation carrying with it the possibility of worldwide recession and unemployment of crushing proportions.

These events have made the Administration's so-called Trade Reform Act of 1973 totally obsolete. Its provisions bear no relation to the events of the day. Indeed, the bill passed by the House late last year and now pending before the Senate Finance Committee is worse than no bill at all. A total reexamination of U.S. trade and investment needs is in order, utilizing the realities of the Seventies—particularly 1974—and abandoning the dead and unworkable dogmas of the past.

The energy crisis comes on the American economy at a time when it already is in deep distress, much of it traceable to the nation's misguided and misapplied foreign trade and investment policies. The American worker, consumer and businessman are all suffering from a deepening erosion of the U.S. industrial base. A tide of imports has wiped out more than a million jobs as products and whole industries have been engulfed. The export of technology and capital at reckless rates have funneled American production and productivity abroad, costing the U.S. economy not only badly-needed new jobs and job opportunities but the benefits of more efficient production means. Multinational corporations, manipulating U.S. tax laws, have transferred jobs and production overseas at the expense of the American economy, costing the nation badly-needed tax revenues.

The Administration's trade bill fails to address itself to these problems. In addition to granting the President unprecedented and sweeping new powers which he could use to permanently alter the structure of foreign trade and the structure of the U.S. economy, the bill contains these serious deficiencies:

It provides no specific machinery to regulate the suffocating flow of imports or to curb the export of materials in short supply at home.

It does not deal with the export of U.S. technology and capital to other parts of the world where corporations—mainly American-based multinationals—can maximize profits and minimize costs at the expense of U.S. jobs and production.

It does nothing to close the lucrative tax loopholes for multinationals which make it more profitable for them to locate and produce abroad.

It does nothing to repeal Items 806.30 and 807 of the Tariff Code, which encourage U.S. firms to locate abroad and take advantage of low-wage foreign production and a special low tariff rate on goods exported to the U.S.

It fails to assure action against unfair trade practices of other nations.

It does not assure adequate U.S. responses against new and old barriers to U.S. products raised by other nations, particularly at a time when nations of the world are re-examining these barriers with an eye to greater self protection.

It encourages the entry of goods from low-wage nations of the world at special or zero tariffs.

It ensures the further heavy erosion or stunted growth of badly-hit U.S. industries such as steel, apparel, chemical and allied products, rubber, shoes, stone, clay and glass, autos, aircraft and electronics.

It ignores the fact that America's industrial base and productive strength have been weakened by current foreign trade and investment policies, and makes no provision for restoring the nation's critically needed industrial health.

For these reasons Congress should reject the bill now before it and write a new trade bill which will contain legislative provisions that are comprehensive, flexible and realistic.

The new legislation should:

1. Regulate U.S. imports and exports as a means of establishing an orderly flow of international trade. Specific flexible legislative machinery is needed to control imports. This flexible mechanism should also be applied as a restraint on the excessive exports of farm goods, crucial raw materials and other products in short supply domestically. Exports, imports and U.S. production should be linked in relation to needs for supplies, production and job opportunities in the U.S.

Shortages of raw materials in the U.S. and new demands by countries which have those raw materials have led to new problems. Many raw material producers are requiring companies to use those raw materials within their borders. This interchange has led to a new threat to the American industrial

system. As long as the U.S. has a policy of freedom of investment abroad and other countries have policies to seek their own rapid industrialization, the shortages of raw materials here will be used as an excuse to help industry to move abroad and further undermine production facilities within the U.S.

Interwoven into this problem is the recent change in the value of each nation's money. The value of the yen, the franc and other currencies have become lower. Many countries are competing to export as much as possible to improve their balance of trade and balance of payments. Imports from any part of the globe into the U.S. can shoot up very rapidly and the U.S. has no system to prepare for the rapid influx of any product from any part of the world.

2. Modernize trade provisions and other U.S. laws to regulate the operations of multinational corporations. Regulation of multinational firms, including banks, is necessary because these concerns are the major exporters and importers of U.S. farm products, crude materials and manufactured products. They use U.S. tax, trade and other laws in combination for their worldwide advantage. They export production facilities, money and jobs and juggle prices and credit to maximize their own worldwide company advantage. They license the newest technology for use abroad and combine in joint ventures with foreign companies and governments regardless of the impact on the U.S. need for jobs, production or supplies.

3. Eliminate U.S. tax subsidies and other advantages for corporations investing abroad. Specifically, the tax laws should eliminate tax deferral of income earned abroad and foreign tax credits. These provisions allow U.S. corporations to pay no income on the profits of their foreign subsidiaries until these profits are brought home—if ever—and the foreign tax credit permits corporations to credit taxes paid foreign governments, dollar for dollar, against their U.S. tax liability. These provisions contribute to the export of jobs, the erosion of the U.S. industrial base, the denial of needed raw materials and components for U.S. production and job needs, and encourage foreign governments to change their rules to the disadvantage of the U.S. The present provision in the tax laws allowing the establishment of Domestic International Sales and Corporations (DISCs) should also be repealed. This provision now gives the largest multinational firms and banks windfall tax breaks on their exports.

The annual cost to the U.S. Treasury of these tax loopholes amounts to at least $3 billion in needed revenue.

4. Repeal flagrant incentives and subsidies to encourage U.S. firms to move or expand abroad. These are Items 806.30 and 807 of the Tariff Code, which encourage the foreign production and foreign assembly of goods for sale in the U.S. These provisions are used to shift production to cheap labor markets for the profits of the multinational corporations. Imports under these provisions have risen from $1 billion in 1967 to $3.4 billion in 1972; in the first ten months of 1973, imports under these provisions were 55 percent higher than in the like period of 1972.

5. Re-examine and limit the operations of the Export-Import Bank which provides loans at interest rates much lower than those paid by American businesses, consumers and home buyers. These loans help U.S.-based multinationals expand foreign branches and assist foreign governments, including the Soviet Union and other Communist countries, in getting America's newest production facilities. Particular emphasis should be given to the impact on U.S. jobs, and potential cost to the U.S. taxpayer.

6. Clear provisions should be written into new legislation to regulate exports of capital and new technology. Other nations are demanding only the newest kind of U.S. technological facilities and U.S. firms are licensing or producing America's newest inventions abroad with the help of U.S. and foreign governments.

7. Multilateral trade agreements with other nations, such as the textile multifiber agreements, should be administered in keeping with the flexible machinery devised to regulate imports and exports. This flexible machinery would be a safeguard against a misunderstanding of America's intent and assure continued U.S. sovereignty over its trade and other domestic laws.

8. Since almost any federal, state or local law can be considered a non-tariff barrier to trade, any legislative provision to authorize negotiation on non-tariff barriers should be limited and should require specific Congressional approval for the removal of any barrier, with full information about the products

affected. U.S. tax laws, consumer protection laws and other social legislation, including occupational health and safety standards, should be barred from such negotiations.

9. New provisions are needed to speed and assure action against foreign dumping of products on the U.S. market—the sale of these goods at a price artificially lower than in home countries—or other subsidized imports into the U.S. These provisions should emphasize U.S. producer and worker needs and rights to participate in proceedings.

10. Clear labelling on imports of products and components to mark the country of origin of the product and the components within it is needed. Advertisers also should be required to designate the country of origin of products they handle. All consumer protection legislation should be strictly enforced on imports.

11. Trade with Communist countries should not be viewed as ordinary commercial exchange. The U.S. should end the extension of low-interest loans and insurance of private loans by U.S. government agencies to Communist countries. Senate legislation must contain the restrictions on Soviet trade written into the House bill over the opposition of the Administration.

12. The need for improved U.S. statistics on imports, exports and production has become urgent. Neither the U.S. government nor interested U.S. producers and workers can obtain adequate statistics in sufficient detail on the impact of imports or exports of industrial commodities. A comprehensive system of reporting on investment abroad, licensing of production and other technology flows is needed. Firms which operate within the U.S. should be required to segment their U.S. and foreign production in reporting to government agencies.

The energy crisis has demonstrated that over-dependency on foreign sources of any material can be costly and perhaps fatal. It also has demonstrated that nations, when faced with a choice, are quick to act in their own self-interest. And it has graphically demonstrated that multinational corporations hold corporate allegiance above national allegiance. New trade legislation must recognize these factors.

By every test, the House-passed trade bill fails to relate to the realities of the Seventies. The Senate now has an opportunity and an obligation to fully re-examine U.S. trade and investment policies and write legislation that meets America's needs.

Senator FANNIN. The next witness will be Mr. Karl G. Harr, Jr., president, Aerospace Industries Association of America, Inc.

Mr. Harr, we welcome you this afternoon; we are very pleased to have you with us. You have furnished us with a summary of your testimony and also your testimony, and you may proceed as you desire. You know that the limitation is 10 minutes.

STATEMENT OF MR. KARL G. HARR, JR., PRESIDENT, AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

Mr. HARR. I thing in view of the fact that we have presented you with a statement and a summary of it, it might be more useful if I summarize our main points and perhaps address myself to the aerospace point of view on some of the issues that have been talked about this morning.

We of course support the bill in general, and we urge its prompt passage. I might say the aerospace industry, as has been testified to by several people this morning, is a large exporter. Over the five year period from 1969 to 1973, 61 percent of our civil aerospace production was exported. It came to a total of $14 billion. The total of military and civilian exports during that period was $19 billion, with a net aerospace trade surplus of about $17 billion.

Senator FANNIN. That was $17 billion in what period?

Mr. HARR. $17 billion net surplus in the 1969 to 1973 period.

Senator FANNIN. 1969 to 1973. Do you have figures as to whether it has dropped off from 1969 to 1973?

Mr. HARR. It went up, it actually went up. The total sales of the industry went down because of domestic retrenchment, but the exports went up, and last year we exported in excess of $5 billion. About $3.8 billion was civil, and about $1.4 billion was military and military relatel.

We conservatively——

Senator FANNIN. Is this equipment military related.

Mr. HARR. Yes, sold by us.

Senator FANNIN. Not sold to the U.S. Government?

Mr. HARR. No, sold abroad, exported. This $1.4 billion over that same period, which was the amount of civil aircraft material exported, accounted for 125,000 full time direct jobs and about 210,000 jobs in supporting industries and services, just to give you a rough yardstick. Our overall industry now has about 900,000 employees in the total work force, and I would say if you took military and civilian exports, it would come to about 200,000 direct jobs.

We have been successful in the past decade in dominating the free world civil aircraft market. The U.S. aerospace industry probably accounts for, as far as figures can be accurate, on the order of 80 percent of the free world aircraft, has done so, does so today, and will do so for the foreseeable future, notwithstanding the rising foreign capability and the rising foreign competition. The reasons for that, in oversimplified terms, are several. One, we get a great bonus from our intense domestic competition. The big market has always been the United States. The big producers of transport aircraft in this country have been furiously competitive, and the result has been products which have been very attractive, not only here, but also abroad. That is one clear element of our success.

Another has been the large domestic base. By this I mean not only the existence of a market here that is broadly based, but also the fact that because of the history of the post World War II period, there has been an injection into our high technology development of money, effort, attention, resources of all kinds that most other countries have not been able to match. We have had invaluable help in our export achievements from the Export-Import Bank. But having said all of these things, we also have to attribute a lot of our success to a relatively free and open trading environment abroad.

We have been able, with some pain and some effort and some frustration, to penetrate the world's aircraft market fairly comprehensively outside the Bloc countries.

Now, our basic position, again in oversimplified form, is that we believe that our Government should upgrade the status of trade and investment policies relative to other international policies. We think that the United States, for a lot of reasons, has been notoriously diffident about, and relatively laggardly in, giving its international trade and investment policies the kind of status they ought to have if we are to compete with the rest of the world and adequately protect our economic position.

We think that one of the objectives in the immediate future, certainly within the framework of the upcoming GATT negotiations, should be that U.S. products be able to compete fairly abroad, on the basis of cost and quality. To that end, we would have as a major policy, reciprocal elimination of all tariff and nontariff barriers on aerospace products.

Our fourth general recommendation is that we think that it should be incumbent upon the Government to continuously review domestic policies which affect foreign trade and adjust these as necessary to simplify and encourage world trade.

So, having made these general recommendations, we think that the authority conveyed to the President in title I is good and is essential to the kind of negotiations that we are entering into. We think he should get rid of all aerospace tariffs, including those now imposed by this country, as well as nontariff barriers, and we think that this is best done by sector type negotiations.

We are on the threshhold of zero duty in the aircraft business, in terms of practical effect. At least as far as the nations that receive nondiscriminatory treatment go, the duty is 5 percent, which the European Community almost always waives. Our 5 percent duty, which is not waived, does not really have much of an impact of a competitive nature on international trade and transport aircraft.

So, we think zero duty should be and probably will be achieved during the course of this round of negotiations. We hope that elimination of nontariff barriers among our trading partners will also be negotiated. Certainly if zero duty is achieved, particularly with the European countries and Japan, this will be the last round of aircraft tariff negotiations. We therefore think it is particularly important that everything be tidied up and cleaned up and that the President and the negotiators have the proper authority to do the best job.

As has been noted by several witnesses this morning, and will be said again, two principal nontariff barriers are directed procurement and offset requirements. Now, directed procurement, which you can easily visualize, is particularly onerous with respect to high unit cost, high prestige items such as transport aircraft.

Senator FANNIN. If I may interrupt, I must go vote. Mr. Best will continue with the hearings until one of the Senators returns.

Mr. BEST. Please continue.

Mr. HARR. I was just pointing out the degree to which the nature of the product that we are talking about here, transport aircraft, is susceptible to and attracts the use of directed procurement by foreign governments which in many cases, in most cases, have a large degree of control over, if not ownership of, the airlines. It is awfully hard to document the degree to which the existence of this directed procurement has cost American aerospace manufacturers sales that they otherwise would have made. We think, conservatively, that it has cost us a couple of billion dollars or more already, and it certainly could get worse with the projected consolidation of European aerospace companies.

Every country wants to fly its own airplanes, and prefers to do so from an economic point of view because they are expensive items.

They like it from a prestige point of view, and they like it from the point of view of developing and supporting their own industrial base.

Secondly, with respect to offset requirements, we again run into this as the world marketplace for aerospace products becomes increasingly contested. That is to say, a western European country, let's say, one that is laying out a lot of money for American aerospace equipment, whether it is military or civilian, is increasingly inclined to avoid or mitigate any adverse economic impact on that country by requiring some sort of offsetting purchase as part of the deal. It could be a joint venture, an investment, technical assistance, the manufacture and purchase of equipment in that country, or some other arrangement. They do not want to continue to keep giving the United States all of the advantages of its predominant position in the production of transport aircraft, and to the degree which we live in the real world, and to the degree to which these offset requirements are conditions of the sale, they have to be fulfilled in whatever form they ultimately are negotiated.

These are very, very troublesome, expensive nontariff barriers to the development of freer and fairer world trade. They almost always result in added cost to the manufacturer that cannot be passed on to the consumer.

Continuing with the summary of our position, we also agree with the electronics industry that the one aspect of this proposed legislation we do not support is giving the President the power to suspend Tariff Schedules 806.30, and 807.00. We think these carefully devised schedules have considerable utility and in reality enhance the economy of this country from every aspect, certainly including the health of the job market. To the degree they are designed to make us competitive, they make us competitive at home and abroad; to the degree they fulfill that objective, they maintain jobs. To the degree their absence would make us noncompetitive, their suspension would threaten jobs.

The remedy for import injuries spelled out in title II which we would support is the use of adjustment assistance.

In title III, we support the countervailing duty amendments. We think they are essential in dealing with certain nontariff barriers and direct government assistance by foreign governments.

We think, with respect to title IV, that the President should have the power to extend nondiscriminatory tariff treatment to countries not so favored at present. We think that such decisions should be made on a pragmatic basis, weighing a considerable number of factors, and we certainly feel that the potential markets available in some of the Bloc and Asian countries to which we have not thus far been making sales are important and useful. However, we feel that a careful analysis would probably be available only to the President and the Congress in making the judgment as to whether favorable treatment should be extended in a given case.

With respect to title V, we support generalized preferences, provided potential inequities that arise can be handled through the countervailing duty process.

Finally, in summary, we support the bill and we urge its passage. We stand ready to consult with the negotiators. We are already tooled up to meet the preliminary requests that have been made for consultant advice, and we are prepared to be as active as would be welcome and appropriate in providing industry input.

We have also submitted, at the end of our statement, some suggestions for Government action, in addition to the trade bill, to expand aerospace exports.

Mr. BEST. Thank you very much.

Let me just ask a few questions on behalf of the Senators who could not be here.

Could you give us for the record some data on employment in the aerospace industry over some period of time as well as on your trade balance situation?

Mr. HARR. We have them all. I can rattle quite a few off now.

Mr. BEST. Has employment increased significantly in the aerospace industry?

Mr. HARR. It has gone down since the peak of 1968.

Mr. BEST. Has your trade balance improved?

Mr. HARR. The trade balance has gone up.

To explain that, roughly what happened is that the industry grew very rapidly in the decade from 1958 to 1968. There was the parallel expansion of missiles and aircraft for defense, the mushrooming of the space program and the coming of the jet engine for commercial aircraft, all three of which led to industry expansion at a very rapid rate from the late 1950s until 1968–69. At that point there was a simultaneous downturn in all three factors that had sparked the growth. We had a cutback in defense, a cutback in space, and a softness in our general economy that had a great impact. All of a sudden, a downward turn.

Our peak employment figure in 1968 was about 1,450,000 people. The gross sales of the aerospace industry were on the order of $30 billion, perhaps a little less. They went down, I believe, in 1973. Our sales were about $23.8 billion and our employment hovers around the 900,000 mark at present.

Mr. BEST. The point is that there is no clear relationship between your export surplus and the employment situation in the industry.

Mr. HARR. Well, there is in terms of the kind of jobs that are supported by our exports, yes. I do not know whether it could be documented or whether anybody would want to do it, but it is inconceivable that we could have produced the kind of transport aircraft that we now produce at the price that we now produce them, which price and which quality makes them attractive to foreign airlines as well, had we not had the foreign market. We could just not have done it. Therefore, we would lose all the jobs entailed if we were not able to sell those aircraft.

Mr. BEST. Could you give us just a little more detail in the kinds of tariff and nontariff barriers within Europe and Japan that affect the exports to *Canada*?

Mr. HARR. There is quite a range of them affecting U.S. exports. I would say I identified the two most obvious ones which are used in a variety of forms and sometimes in what does not seem to be a very

important way, but they do throw the pricing mechanism off. Directed procurement is one. There are many others.

Mr. BEST. Perhaps you could supply it for the record.

[The following was subsequently supplied for the record:]

Although directed procurement and offset requirements are, by far, the most troublesome of the nontariff barriers affecting the export of U.S. transport aircraft, such sales may also be restricted by foreign import license requirements, discriminatory international standards, foreign government subsidies, bilateral air transport agreements, and state trading enterprises (Japan).

Mr. BEST. Were there any benefits from the Kennedy Round as far as reduction in these barriers were concerned, or was that viewed by your industry as not a very successful negotiation?

Mr. HARR. I think that we had some concerns about the Kennedy Round, but on the other hand I think it also led us onto some proper paths. We got some subjects out on the table.

We got involved in the much discussed issue of the sectoral or nonsectoral treatment of the industry. We got reductions in some tariffs. We paved the way for a successful round this time in that nontariff barriers are now included in the discussion. To go beyond that would exceed my knowledge.

Mr. BEST. One or two other questions.

You support, as I understand your statement, a very vigorous enforcement of the dumping and countervailing laws.

Mr. HARR. Yes.

Mr. BEST. Does that mean you do not favor the 4 year moratorium or discretionary authority in the House passed bill?

Mr. HARR. I do not think we have a position on that at all. I am not aware of it.

Mr. BEST. Do you know that the House passed bill will give the President the authority in the national interest not to apply countervailing duties in any situation which might obstruct negotiations? It seemed to go in the opposite direction of your testimony.

Mr. HARR. I would prefer to confess ignorance with respect to that rather than answer it incorrectly. I pass it by.

Mr. BEST. You do support the sector approach?

Mr. HARR. Yes.

Mr. BEST. That is as much as I have at the moment. We might submit more questions for the record. I apologize for the fact that I am the only person here.

[The prepared statement of Mr. Harr and material requested follows. Hearing continues on p. 1715.]

PREPARED TESTIMONY BY KARL G. HARR, JR., PRESIDENT, AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

SUMMARY

General remarks

Contributions of aerospace exports to U.S. economy. Sold abroad more than $14 billion worth of civil aerospace products and services from 1969 through 1973, providing full-time employment for 125,000 aerospace employees and an additional 210,000 employees in other industries. In 1973, civil aerospace exports totaled $3.8 billion and military exports added $1.4 billion more to the trade account. Aerospace exports (both military and civil) constitute one of the few consistently positive elements of the trade picture, with a total surplus of $17 billion in the 1969–1973 period.

Recommended Government actions. (1) Give overseas trade and investment policies equal status with other elements of foreign policy, (2) Insure that U.S. aerospace products are able to compete fairly in foreign markets on the basis of cost and quality, (3) Achieve reciprocal elimination of all tariff and non-tariff barriers on aerospace products, and (4) Continually review and, where necessary, change domestic policies which affect trade and investment.

Aerospace and the Trade Reform Act

Title I. Support broad negotiating authority for the President and urge elimination of all duties on aerospace products on a sector basis. Inasmuch as non-tariff barriers penalize aerospace exports as much or more than tariff barriers, NTBs should be negotiated, also. AIA is mobilizing on a policy and technical level to assist in any way appropriate during the negotiations.

Title II. Do not support giving the President the power to suspend Tariff Items 806.30 and 807.00 as a means of import injury relief. However, adjustment assistance provisions seem reasonable and desirable.

Title III. Support amendments to countervailing duty law, particularly those which would make non-dutiable items subject to such regulations under some circumstances. This constitutes an important safety-valve.

Title IV. Support virtually any language which would ease the present impasse on giving the President authority to grant nondiscriminatory tariff treatment to East European and Asian non-market economy countries with which the U.S. has trade agreements.

Title V. Support generalized preferences to developing countries as long as any resulting inequities can and will be handled through the countervailing duty process.

CONCLUSION

Urge prompt passage of this comprehensive and urgently needed legislation.

STATEMENT

Mr. Chairman and members of the committee, I am Karl G. Harr, Jr., President of the Aerospace Industries Association of America, Inc. On behalf of 49 of the nation's leading manufacturers of aircraft, spacecraft, missiles and their components, we appreciate this opportunity to comment on H.R. 10710 from the unique viewpoint of the aerospace industry.

Aerospace products have long been one of the nation's largest commercial exports. Over the past five years, from 1969 through 1973, this industry sold more than $23 billion worth of civil aerospace products and services, of which $14 billion worth, or 61 percent, were exported. Expressed in terms of impact on the national economy as a whole, these civil export sales provided, on an average annual basis, full-time employment for approximately 125,000 aerospace employees, and supported an additional 210,000 employees in other manufacturing and service industries, for a total of more than 335,000 American jobs. Last year, U.S. exports of civil aerospace products and services totaled $3.8 billion and represented 5.4 percent of all U.S. exports. In 1973, also, an additional $1.4 billion worth of military aerospace products and services were exported, with proportionate contributions to the economy.

There have been several reasons for the success of the United States in exporting aerospace items. The industry has enjoyed a large and relatively steady domestic market for both commercial and military products, which our foreign competitors have not always had. Furthermore, there has been brisk competition between domestic suppliers, which has resulted in superior products. The support of the Export-Import Bank in providing essential credits and guaranteeing loans from private banks for our foreign customers has also been an invaluable aid.

Fierce competition within the U.S. aerospace industry constantly works to enhance the appeal of U.S. products to foreign customers. This strong competition between aerospace companies includes devoting a substantial share of their resources to advancing the state of the art in future transportation systems in order to maintain the competitive advantage they now enjoy.

Nevertheless our success in maximizing exports would have been much less impressive had we not enjoyed a relatively free and open trading environment. The members of our Association recommend that the U.S. Government work along the following lines to promote freer and fairer world trade:

Give greater priority to overseas trade and investment policies; in effect putting them on a par with other aspects of U.S. foreign policy.

Use its influence to insure that U.S. aerospace products are permitted to compete fairly in foreign markets solely on the basis of cost and quality and that they are not constrained by non-tariff barriers or political considerations.

Make a concerted effort to achieve reciprocal elimination of all tariff and non-tariff barriers on aerospace products. Such barriers have a particularly significant impact on high cost units such as aircraft and aerospace equipment.

Continually review those domestic policies which affect foreign trade and investment, repealing those laws which hinder the development of world trade and issuing administrative directives which would simplify and encourage world trade.

Overall, in short, we are committed to policies which would preserve the competitive position of the United States in the world's marketplaces. The Trade Reform Act appears to be an important step in that direction.

AEROSPACE AND TITLE I

Insofar as the specific provisions of the bill are concerned, we support Title I, giving the President broad authority to negotiate adjustments in tariff and non-tariff barriers. Executive Branch authority to negotiate with our trading partners in Geneva is an essential prerequisite for achieving the acceptance of our position by the other members of the General Agreement on Tariffs and Trade (GATT).

The aerospace industry recommends the total elimination of duties on all aerospace products, both foreign and domestic, on a reciprocal basis with all nations having similar statutes. We also urge the mutual elimination of non-tariff barriers restricting free and equitable marketing opportunities.

Inasmuch as aerospace is one of the few consistently positive elements of the trade picture, with a total surplus of $17 billion for the 1969–1973 period, it is of such importance to the U.S. trade balance as to warrant consideration of its trade and investment concerns on an industry or sector basis. We would urge strongly that this course be taken with respect to aerospace products. This legislation would enable such a priority to be assigned.

One of the principal reasons for requesting sector-type negotiations for aircraft, aircraft parts, aircraft engines and aircraft engine parts during the forthcoming negotiations is to resolve long-standing problems in our trade with the European Community. Ever since the Kennedy Round, the ministers of the European Community have annually waived the Common Market External Tariff of 5 percent on U.S.-manufactured transport aircraft imported into the Community. Conversely, because it is never waived, even the modest-sounding 5 percent U.S. duty on high unit cost aircraft remains a serious irritant to our trading partners.

The U.S. tariff provides little real protection. However, its existence provides foreign nations with the psychological justification for countermeasures. We firmly believe its removal would minimize the chances of more foreign barriers being erected.

Inasmuch as it appears that the U.S. duty will inevitably be reduced to zero during the forthcoming GATT negotiations, we regard this round as the final aircraft tariff negotiation. We therefore urge the U.S. negotiators to work toward a mutual zero duty on aircraft with the European Community, Japan and other principal trading partners.

Another threat to U.S. aircraft exports lies in the erection or formalizing of non-tariff barriers by our trading partners. A practice called "directed procurement" is one example. This often occurs when a foreign government owns or effectively controls both its aerospace industry and its airlines or any other end-user of aerospace products. In such instances, the government can, and often does, direct that the end-user purchase some or all of its equipment from domestic suppliers. Such directives preclude purchase of more appropriate equipment elsewhere. Substantial losses in export sales of commercial transport aircraft have resulted from such practices. Particularly with the trend toward consolidation of the aerospace companies in the European Community, we are concerned that our sales opportunities in this vital market area may be further restricted if this type of non-tariff barrier remains unchallenged.

Another example of a foreign trade practice which directly and adversely affects the aerospace industry involves so-called "offset requirements." Foreign governments and foreign government-owned industries are, to an increasing degree, demanding various forms of offset concessions from the United States. These concessions can take the form of sharing production, purchasing or arranging for a third party to purchase goods and services within the foreign country, providing technical and industrial assistance, making equity investments and supporting foreign economic development. Offsets generally result in added product costs to the prime manufacturer which can seldom be passed on to the customer. I might add, furthermore, that there is no similar restraint imposed by the United States Government on commercial sales by foreign aerospace companies.

Section 135 of Title I, Chapter 3, provides for industry consultation. The aerospace industry is already mobilizing to provide consultation from both a policy and a technical point of view. We are ready to take as active a role as would be welcome and appropriate.

TITLE II

With respect to Title II, we have serious reservations about giving the President the power to suspend Tariff Schedules 806.30 and 807.00 as a means of import injury relief (Section 203(f)(1)). As you know, these Tariff Schedules provide for duty-free entry, except for value added, of products assembled or partially manufactured abroad using components furnished for this purpose by U.S.-based companies. This has been seized upon as an issue by some who feel that import injuries have resulted from the use of so-called "cheap" foreign labor. They claim that jobs performed outside the country would otherwise have gone to American workers. This allegation completely ignores the fact that the decision to process outside our borders was based on the desire and need of the American firm to remain competitive in a frequently marginal profit situation.

The effect of any suspension of these Tariff Schedules would be to place an import duty on the U.S.-manufactured components of the end product including the contribution of U.S. labor. This would have to be recovered in the price whether the end product is sold domestically or internationally. In the latter case, it would counteract the very purpose of choosing this production method, which is to maintain competition with foreign nations. We respectfully submit that tampering with these carefully devised provisions would be inequitable and would result in an even more serious deterioration of the employment situation in a number of domestic industries.

Title II also contains changes relating to import relief for industries seriously injured by increasing imports and would provide new adjustment assistance for displaced workers. We recognize that support of this type must be forthcoming and feel the proposed legislation is responsive in this respect.

TITLE III

In Title III, we strongly support the amendments to the countervailing duty law, particularly those provisions which would make non-dutiable goods subject to such regulations under certain conditions. These tools will be essential in dealing with non-tariff barriers and indirect government assistance which benefit our foreign competitors. Such provisions represent an important safety-valve which may never be used but which definitely should be available in the case of zero duty imports.

TITLE IV

In our view, Title IV, empowering the President to grant nondiscriminatory treatment to imports from countries which receive Column 2 duty rates, should be approached from a strictly practical and pragmatic viewpoint. Under the terms of the GATT, each member must grant every other member trading terms and concessions equal to the most favorable offered any country. In terms of tariffs on aerospace items, for example, the most favorable duty is 5 percent. For non-Most Favored Nation countries, this duty is 30 percent on airframes and 35 percent on engines. Moreover, many European countries, our competitors for these non-MFN markets, grant nondiscriminatory treatment not

only to members of the GATT but also to non-members in exchange for guaranteed, planned increases in import levels.

New market areas for a broad range of aerospace products are emerging in Eastern Europe and China. Without granting them MFN, we cannot compete effectively for such markets. It is simply good business for our national balance of payments, our balance of trade, our domestic employment picture, and our economy as a whole to grant nondiscriminatory tariff treatment to all East European and Asian non-market economy countries with which we have trade agreements. We would strongly urge that the President be given authority to do so when he feels the time is appropriate. Accordingly, we would support virtually any compromise language which would ease the present impasse on this subject.

TITLE V

We also concur with Title V on generalized preferences, provided that any resulting inequities could and would be handled through the countervailing duty process under Title III.

This concludes our comments on specific portions of the bill. Overall we regard it as an effective piece of legislation which will do much over the years to discourage or alleviate disadvantageous trading situations which penalize U.S. exports.

Apropos of changing world conditions, however, I might add that the United States should not permit energy problems to force it to adopt measures involving embargoes and quotas which might jeopardize our ability to penetrate foreign markets. The recent gains in our balance of payments are modest. It would be difficult to find a substitute for the economic support we gain from exports. The aerospace industry has for the past 15 years relied heavily on its export trade for the economic development of new jet transport aircraft. It would be regrettable indeed if stern, long-term measures were taken to counteract what might well be localized or even temporary inequities susceptible to remedy by other means.

For your reference, we have prepared an appendix outlining certain actions which could be taken by the United States Government, in addition to those contained in this bill, to insure a continued high level of aerospace exports.

The aerospace industry appreciates this opportunity to discuss some of these problems. We support this much needed legislation and urge its timely enactment.

APPENDIX.—RECOMMENDATIONS FOR UNITED STATES GOVERNMENT ACTION IN ADDITION TO TRADE REFORM ACT

TAXES

The tax system should neither aid nor hinder one domestic competitor in relation to another. Some U.S. tax regulations penalize exporters; some proposed tax changes would penalize American investors in international ventures. To help remedy this situation, the Aerospace Industries Association of America, Inc., recommends:

Retention of provisions for treating foreign taxes as credits to U.S. tax returns, rather than expenses.

Retention of the present U.S. tax treatment of undistributed profits on foreign operations.

Retention of the Domestic International Sales Corporation (DISC) provisions, since such tax deferrals only partially compensate for the competitive advantage of indirect tax rebates granted to exporters in those countries which rely more heavily on indirect taxes (e.g., value-added taxes).

Retention of the current U.S. tax laws allowing accelerated depreciation of foreign assets where permitted by the country involved.

EXPORT CONTROL PROCEDURES

Careful review of U.S. controls on certain exports should be continued and modified, where necessary, to enable the U.S. aerospace industry to remain competitive with foreign aerospace manufacturers. Detente between the United

States and the Sino-Soviet bloc has accentuated the significance of these activities. Specifically, the Aerospace Industries Association recommends:

Elimination of controls on a number of items unilaterally restricted by the United States over and above the COCOM list. Control should be exercised only on items critical to our national security.

Continued review of the COCOM list by the United States and participating countries (the NATO countries minus Iceland, and Japan). Further decontrol may be expected to result from joint government/industry review of the applicability of certain technology to national security.

Revision and simplification of the administrative procedures for obtaining an export license, reducing the time required to obtain licenses.

Revision of the strict procedures and controls on aerospace parts and subassemblies which now exist when such items are to be exported to third countries.

GOVERNMENT-SUPPORTED FINANCING IN PRODUCT MARKETING

The Export-Import Bank has assisted the aerospace industry directly by providing the credit essential for the sale of nearly half the jet transports exported by the United States and, indirectly, by guaranteeing funds for this purpose from private banking institutions. In this connection, the Aerospace Industries Association recommends:

Basing of Eximbank loan policies on the long-term capital requirements of foreign customers. Loan applications should not be disallowed because of the short-term dollar position of the customer's central bank.

GOVERNMENT-SUPPORTED R. & D.

There is a direct correlation between the level of investment in research and development (R&D) and the rate of technological advancement. Public funding of R&D for European civil aircraft has increased substantially. To maintain the competitive advantage of U.S. manufacturers in aerospace products, the Aerospace Industries Association recommends:

U.S. Government participation in funding of the development and production of new civil transport aircraft, to be accomplished with minimum interference in the existing competitive structure of the free enterprise system and with minimum adjustment of the existing manufacturer/customer relationship. AIA supports the creation of a national policy pertaining to federal Government support for research and development programs which will, wherever possible, assure that required new technology will be in-hand on a timely basis. When a foreign government subsidy of development and production programs, including the offer for sale of new civil transports at less cost, occurs, the national aviation policy should permit counteractions by the U.S. Government where such actions are deemed to be in the national interest.

Development of innovative Government/industry relationships in high cost, high risk technological areas with worthwhile potential for the nation's employment picture and trade balance.

Establishment of an independent Government financial organization, such as a "national technology bank," which would provide the private sector with financial aid, either through direct loans or guarantees, for the purpose of stimulating additional private investment in R&D for both public and private programs of national and international importance to the United States.

INTERNATIONAL JOINT VENTURES

International joint ventures must balance the need to cooperate with foreign countries in order to maintain our share of their markets or promote new product development against the need to preserve competition in the United States, domestic employment opportunities and a viable export industry. Therefore, the Aerospace Industries Association recommends:

Clearer interpretation and elaboration of guidelines governing extra-territorial applications of domestic laws such as antitrust and re-export controls, permitting international joint ventures with foreign corporations and foreign government-controlled industries where such cooperation is deemed consistent with the promotion of U.S. trade.

Issuance of long-term licenses for technological cooperation and export of products and services.

Passing of legislation to empower the U.S. Government to recompense a U.S. corporation for reasonably incurred out-of-pocket expenses in the event an export license or sale is cancelled for reasons of foreign policy.

AEROSPACE INDUSTRY SALES AND AEROSPACE INDUSTRY FOREIGN TRADE ACTIVITY

[In millions of dollars]

Year	Sales	Exports	Imports	Trade balance	Exports as percent sales
1961	$17,997	$1,653	$152	$1,501	9.18
1962	19,162	1,923	128	1,795	10.03
1963	20,134	1,627	95	1,532	8.08
1964	20,594	1,608	90	1,518	7.80
1965	20,670	1,618	159	1,459	7.82
1966	24,610	1,673	303	1,370	6.79
1967	27,267	2,248	287	1,961	8.24
1968	28,959	2,994	333	2,661	10.33
1969	26,126	3,138	307	2,831	12.01
1970	24,930	3,397	308	3,089	13.62
1971	22,182	4,196	373	3,823	18.91
1972	22,609	3,807	565	3,242	16 83
1973	23,771	5,136	754	4,382	21.60
5-year average, 1969-73	23,942	3,934	461	3,473	16.43

Aerospace industry employment

Calendar year:	*Employment*
1961	1,178,000
1962	1,270,000
1963	1,267,000
1964	1,209,000
1965	1,175,000
1966	1,375,000
1967	1,484,000
1968	1,502,000
1969	1,402,000
1970	1,166,000
1971	951,000
1972	922,000
1973	948,000

Source: AIA Economic Data Services, Apr. 12, 1974.

Mr. BEST. I think we will call Mr. Christopher Phillips, president of the National Council for United States-China Trade.

STATEMENT OF CHRISTOPHER H. PHILLIPS, PRESIDENT, THE NATIONAL COUNCIL FOR UNITED STATES-CHINA TRADE

Mr. PHILLIPS. I am very happy to have this opportunity, Mr. Chairman, to appear today before you and the committee to address the important matter of U.S. trade with the most populous nation on earth, the People's Republic of China. I appear on behalf of the National Council for the U.S.-China Trade which is a nonprofit membership association of some 200 American firms, large and small, importers and exporters, all interested in doing business with China.

I have, as the Chair requested, submitted a detailed statement on this subject for the record. With your permission I should like to focus for the next few minutes primarily on a brief summary of title

IV of the Trade Act relating to trade relations with the countries not enjoying nondiscriminatory tariff treatment.

In brief, we favor passage of that provision in the form that would permit the President to negotiate extension of most favored nation tariff treatment to the People's Republic of China. We likewise favor the repeal of the present embargo on the import into the United States of certain furs and skins from China.

It is no exaggeration, Mr. Chairman, to say that the whole world welcomed the Shanghai Communique of February, 1972, in which this country and China pledged themselves, among other things, to work to facilitate bilateral trade.

This committee and the 93d Congress can take the course of U.S. relations with China an important step forward by providing, in this Trade Reform Act, for removal of the last remaining major impediments to Sino-American trade. It was with great interest this morning that I read Senator Mansfield's statement on this issue in the Senate, I believe, yesterday.

Those of our members engaged in importing from China know from personal experience that the imposition of discriminatory duties on goods from China makes business development with the Chinese extremely difficult. But, in addition to these business difficulties, there are even more compelling reasons, we believe, why nondiscriminatory tariff rates should apply on Chinese goods.

First, the Shanghai Communique requires genuine good faith efforts by both sides toward removal of trade obstacles. China imposes no such restrictions on imports from the United States, and we should, wherever possible, lead, not retard, the movement toward normalized trade relations with China. The United States reaffirmed its desire to improve trade relations in a joint communique issued at the conclusion of Secretary Kissinger's visit to Peking in November, 1973. In that joint statement, the two sides agreed that, and I quote, "it is in the interest of both countries to take measures to create conditions for the further development of trade on the basis of equality and mutual benefit."

Second, as a practical matter, China cannot be expected indefinitely to buy from United States firms if she is denied reasonable access to our markets. In 1972, we had a favorable balance of trade with China of nearly two to one. Last year, we sold China nearly 11 times as much as she sold us. Indications are that trade could balance even more heavily in our favor during 1974, with our exports exceeding $1 billion and imports from China barely reaching $100 million. Most-favored-nation access to the United States can help China earn some of the foreign exchange necessary to pay for large agricultural and industrial sales American companies are now making, or hoping to make, to China.

Third, China was removed from among our trading partners during the Korean War, when American and Chinese troops faced each other in armed combat. We have now returned to peaceful relations, and our foreign trade policy should reflect that fact.

Fourth, China has inexpensive yet high quality products to offer American consumers. At present, many potential consumer savings

are effectively nullified by tariff duties. With nondiscriminatory tariff treatment on Chinese imports, American consumers, at a time of rising domestic prices, can have access to less expensive Chinese foodstuffs and other consumer goods.

Fifth, we believe the fears expressed by some, that China will compete unfairly in our market, are unfounded. Australia, Canada, Germany and Japan, for example, currently admit Chinese goods on a most-favored-nation basis and none has experienced difficulty in this respect. Moreover, the pending bill provides ample relief measures should imports from China ever cause market disruption and material injury to domestic industries. Similarly, it is most unlikely that China would jeopardize the evolution of important political gains by pursuing unfair trade practices.

Sixth, the United States naturally has among its own interests as a trading nation the desire for reciprocity for tariff concessions, such as agreements on certain commercial practices with our trading partners. A future Sino-American trade agreement can achieve, in addition to most favored nation treatment, agreement respecting commercial arbitration, protection of American patents, copyrights and trademarks, and various trade promotion activities of mutual benefit. Good trade relations based on equality and mutual benefit can serve the cause of peace. Good commercial relations between the American and Chinese people can lead to contact, cooperation and friendship in other ways. All of us benefit when the threat of tension, conflict and war is reduced.

Seventh, the United States now appears to be pursuing a commendable foreign policy, in pursuit of a stable and peaceful world, which treats the U.S.S.R. and the People's Republic of China evenhandedly. Now that a trade agreement has been concluded between the United States and the Soviet Union, we believe progress should be made without delay toward a similar agreement with China.

Eighth, The view of a few that China should be denied most-favored-nation treatment on strategic or political grounds is, we believe, unsound. The Soviet Union is unquestionably more militarily dangerous to our country than is China, and yet this objection has not been seriously raised with respect to the U.S.S.R.

Ninth, for the Congress to fail to enact legislation providing for nondiscriminatory tariff treatment for China, thereby continuing into the 1970's a sanction the roots of which are in the Cold War at its coldest would, in fact, be taking a step backward from hope represented by the Shanghai Communique of 1972. Examining U.S.-China trade relations from the point of view of the Chinese, discrimination is present in our trade relations with them as long as our discriminatory tariff policy adversely affects them. We are thus open to the criticism that it is the United States, not China, which is impeding progress in our economic relations.

Tenth, good trade relations conducted on the basis of equality and mutual benefit, can serve the cause of peace. Good commercial relations between the American and Chinese peoples can lead to contact, cooperation and friendship in other spheres. All of us benefit when the threat of tension, conflict and war is reduced.

Mr. Chairman, I would like to add a word about section 402 of title IV, that is Freedom of Emigration and East-West Trade. It is well known that the House proponents of section 402 and the Senate supporters of language similar to title IV are directing their concern to the plight of Soviet citizens whose desire to emigrate has been frustrated by the Soviet State's imposition of a substantial exit tax and other measures.

Commendable as the objective here may be, we believe it does not properly belong in trade legislation. One illustration of the potential mischief of section 402 is that its terms have prompted some speculation that, though never evidently intended by Senator Jackson or his cosponsors, the section may be interpreted to prevent reduction of tariffs on imports from China, to deny credit and credit guarantees to China, and to rule out a trade accord of any kind between China and the United States. We support deletion of the unduly restrictive language of section 402 which could impede if not prevent altogether necessary efforts to bring about improved Sino-American trade relations.

It is well known that most countries in the world impose conditions of some sort on emigration. These range from certain application procedures to the payment of exit taxes of one kind or another. Communist countries are not alone in establishing conditions of this kind—a fact which is implicitly recognized by section 402(c) which exempts non-Communist countries from free emigration standards. In other words, free emigration is, under section 402, to be a condition of benefits in East-West trade but it need not, apparently apply in what is sometimes referred to as free world trade.

The language of the full section 402 as it applies to Communist countries, would deny tariff concessions, credits and trade accords even though the conditions imposed on emigration by a given country are reasonable and nondiscriminatory. The United States, to cite admittedly extreme examples of reasonable restrictions on emigration, would not, I understand, permit the emigration of a graduate of one of our military academies until the young man has satisfied his military obligation, or of a taxpayer who has not paid Federal income tax due, or a convicted criminal who has not served his sentence.

The Universal Declaration of Human Rights, which is frequently cited by proponents of this section, does not go nearly as far as does this section in demanding freedom to emigrate. The declaration does of course speak of the right of a person to leave one country for another, but subject to "such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirement of morality, public order and the general welfare in a democratic society."

In testimony before the House Committee on Ways and Means, an eminent Chinese legal scholar, Professor Jerome Cohen of the Harvard Law School, said unequivocally that the provision, and I quote him, "would necessarily apply to the PRC." He testified that the People's Republic of China is, and I quote "a nonmarket economy country that plainly restricts emigration, although its restrictions are

not designed to discriminate against any racial, religious, ethnic or other subgroup of its society, nor do they appear to have such a discriminatory effect."

While China, among most other nations, may have certain restrictions on emigration, an emigration or exit tax is not among them. The fact is that permission to emigrate has been granted by Peking to thousands of Chinese, yet these people are unable to leave China for the simple reason that no other land on earth appears willing to have them.

Mr. Chairman, are we to permit ourselves to be put into the awkward position of denying to China the tariff and other benefits of the Trade Reform Act on the grounds that China restricts emigration, and at the same time deny, through our immigration laws, the entry of Chinese persons already free to emigrate, to come to the United States? In this light, and in view of the infamous alien exclusion laws directed principally against the Chinese in our own national past, the Chinese might be entitled to view such trade legislation as bordering on hypocrisy.

If, as it appears, Chinese nationals are permitted to emigrate on a nondiscriminatory and yet restricted or conditional basis, then the present section 402 would make it impossible not only to extend nondiscriminatory tariff treatment on imports from China, but also would prevent China's participation in any U.S. program which extends credits, credit guarantees, or investment guarantees, directly or indirectly. In addition, it would prevent conclusion of any commercial agreement with the Chinese.

I submit that restrictions of this kind would harm us more than the Chinese. China is presently embarked upon a large-scale effort to modernize agriculture and industry. This is a major opportunity for American exporters. Already we have supplied or contracted to ship advanced aircraft, ammonia plants, mining and oil field equipment, machine tools, and materials handling equipment. These major export sales mean jobs for American workers and assure a needed infusion of revenue to our balance of payments.

I believe that we have only begun to realize the benefits to be derived from major industrial, technological, and agricultural exports to China. While the Chinese have until now financed imports on a pay-as-you-go, cash-on-the-barrelhead basis, and have resisted debt-financing of import trade, this practice might change. China already makes major purchases on a deferred payment basis. And, in any event, credit guarantees can assuredly help American firms reach the Chinese market.

A prohibition on commercial agreements between this country and China just as United States-China relations are normalizing, would be a very unfortunate situation. We should be working positively toward air and sea agreements with China, and toward agreements on commercial arbitration and the protection of the industrial property rights and trademarks.

We also support repeal of the current prohibition of the entry into the United States of ermine, fox, kolinsky, marten, mink, muskrat, and weasel furskins, raw or not dressed, which are the product of the People's Republic of China. This would require repeal of headnote 4

to schedule 1, part 5, subpart B of the Tariff Schedules of the United States. Its elimination will remove an unwarranted irritant in our relations with China, and yet domestic producers will have the benefit of the protective devices in the pending bill against injurious import competition.

In conclusion, Mr. Chairman, let me simply stress that since 1972, after a hiatus of nearly a quarter of a century, our trade with China has been a positive experience for the United States.

As for the future, the recent past indicates that our trade with China can and should grow measurably. From zero exports in 1971 we can look forward to more than $1 billion in exports in 1974. About 80 percent of this amount will be exports of agricultural commodities—wheat, corn, cotton, and soybeans—but the industrial and technological portion of this export trade is growing larger.

Imports from China, up to $64 million in 1973, from $4.9 million in 1971, continue to be small relative to our exports. China's major exports to this country are either duty-free, such as antiques, or come in at nondiscriminatory duties. This points up the fact that our discriminatory tariffs, among other reasons, do limit China's ability to export to the United States.

The fear of a flood of Chinese imports in the U.S. market, by the way, is largely ill-founded in my opinion. China's foreign trade corporations have a great deal to learn about the U.S. market, the largest and most complex in the world, before any measurable penetration can begin.

Like all trading nations, China seeks to balance trade, and to do so bilaterally where possible. The kind of imbalance that presently exists between our two countries, if continued for long, is almost surely bound to have an adverse effect on U.S. sales to China. This disparity, indeed, is a potential peril to the normalizing of our political as well as economic relations with China.

In 1973, trade with China accounted for almost 40 percent of our total trade surplus with the rest of the world. This year, the contribution of Sino-United States trade to this country in balance of payments terms is also certain to be considerable. Few would disagree that the cause of world peace and stability has also been well served as political relations between our two countries have likewise improved, ending more than 20 years of suspicion and discord.

It is no surprise, then, that the American people have responded with so much interest and approval to the breakthrough to China; rarely have they responded as well to any national diplomatic initiative in this century.

Suspicion and fear are giving way gradually but steadily to mutual understanding on both sides. Trade can foster this welcome trend.

If this Trade Reform Act lives up to its name, it will mark the removal of the remaining obstacles to trade imposed in another era, and can give our people the framework for expanded peaceful commerce with those countries of the world with which we most need better understanding.

I thank you.

Senator FANNIN. Thank you, Mr. Phillips. I could not agree with you more that we need a better understanding. I know that we have

a very serious problem in working on a program that will be beneficial to our country and will accommodate the Chinese as you have described.

I am sorry I was not here to hear all of your statement. I am sure you have given a great deal of thought to this, and we will benefit by it.

Are there strategic materials that we might be able to get from China that are now coming from other countries?

Mr. PHILLIPS. I am not sure I can give you expert advice on this. What comes to mind is the future prospect of petroleum imports from China. We do import from China certain minerals—tin and tin alloys, for example. There are others which unfortunately I cannot give you at the moment. I think as one looks ahead in the next 5 to 10 years, the possibilities of petroleum purchases from China are not to be discounted. We know that China has very substantial offshore petroleum resources and very substantial onshore resources. We know China has just begun to export oil for the first time. We have good reason to believe that they will continue to expand their exports for both economic and political reasons as one looks ahead. But certainly not sooner than 5 to 10 years, the United States may be importing petroleum from China.

Senator FANNIN. I did not realize that there were proven reserves of any great consequence. It is always a projection. But in the listing of the proven reserves of the world, China is never listed as having any appreciable amount of petroleum.

Mr. PHILLIPS. I think that is correct, because proven reserves would be difficult to assess. The best estimates one can get are not based on strictly proven reserves. But the Economic Commission for Asia and the Far East, for example, has estimated that China may have 20 to 25 billion tons of petroleum, offshore petroleum resources, in the Gulf of Pohai, the Yellow Sea, and the East China Sea. And I think other estimates based on better knowledge, indicate onshore reserves of something in the order of 10 billion tons, and an additional possibly 10 to 15 billion tons from shale oil, of which China has very substantial amounts.

Senator FANNIN. Looking to the future, the tremendous population and masses in China represent perhaps the largest market remaining to be developed in the world. But we still lack so much information. Naturally, you have given us additional information.

What do you feel is the timing as far as progressing to a point where there would be a market for manufactured goods or equipment that we want to export in any large quantity?

Mr. PHILLIPS. We estimate that the proportion of our exports to China represented by industrial and manufactured goods will increase substantially. At the present time our exports are largely agricultural commodities, but already in recent months there has been a substantial increase in contracts for the delivery of complete plants, fertilizer plants, transportation equipment, oil production equipment, and other electronic and more sophisticated equipment.

The Chinese, I think, are increasingly turning to us for industrial goods in a higher proportion.

Senator FANNIN. Capital goods?

Mr. PHILLIPS. Yes, sir.

Senator FANNIN. As far as the marketing of the domestic equipment, do you foresee that in the next 10 years—what is your estimate?

Mr. PHILLIPS. It is just a question of defining what one means by industrial equipment.

Senator FANNIN. I am talking about the domestic market now, other than the capital equipment, tractors and everything else that we are talking about, generators.

Mr. PHILLIPS. The tendency would be for the Chinese to purchase from us more capital goods and equipment because they are interested in building up their industry, far less than what we would call consumer items. So I think it would be a greater proportion of heavy industrial equipment, capital equipment.

Senator FANNIN. As far as the ability of the United States to compete in those markets, we are a considerable distance from there.

Do you feel that the Japanese and other countries will have a distinct advantage over the United States?

Mr. PHILLIPS. I think, Mr. Chairman, we have a certain advantage at this point because the Chinese are disinclined to put too many eggs in one basket. At the moment Japan is their biggest trading partner. I think something like 25 percent of their total trade is with Japan. This would certainly leave open the possibility of increased trade between the United States and China. I do not think the matter of distance would be a serious factor.

I think it would be largely a question of Chinese judgment as to what we have that they want, and our technology they consider second to none, particularly in the field of oil production, and their unwillingness to commit a disproportionate amount of their trade to one country.

Senator FANNIN. Do you feel that their reluctance to depend upon the Japanese will be a factor involved, then?

Mr. PHILLIPS. Yes. Yes, there will be a limit to the amount of trade that China would want to commit to Japan.

Senator FANNIN. I am sorry that there are so many votes.

Thank you, Mr. Phillips, very much for your testimony. As I say, I did not have a chance to listen to your remarks, but I will read the testimony. I appreciate very much your being with us this afternoon.

Mr. PHILLIPS. Yes, sir.

[Mr. Phillips' prepared statement follows. Hearing continues on p. 1738.]

TESTIMONY BY CHRISTOPHER H. PHILLIPS, PRESIDENT, NATIONAL COUNCIL FOR U.S.-CHINA TRADE[1]

Mr. Chairman and members of the Senate Committee on Finance:

It is a privilege and pleasure to appear before you today to address the important matter of our foreign trade policy and, specifically, the subject of United States trade with the most populous nation on earth—the People's Republic of China.

[1] This statement is drawn in part from "Congress and the Question of Most Favored Nation Status for the People's Republic of China" which appeared in the Catholic University Law Review, Volume 23, Number 2, Copyright 1973 by the Catholic University of America Press, Inc. The article was authored by Eugene A. Theroux, of Counsel to the law firm of Baker & McKenzie. Mr. Theroux is vice president of the National Council for U.S.-China Trade.

The National Council for U.S.-China Trade is a nonprofit membership association incorporated in the District of Columbia. Our membership consists of some 200 American firms, large and small, importer and exporter alike, interested in doing business with China. As an Appendix to this statement, I have included further information about our organization. We are not in any way a representative of or spokesman for the People's Republic of China or any of its agencies.

My testimony will touch upon the matter of most immediate concern to American businessmen undertaking business with China—that of our tariff policy on imports from China. I would also like to address the related matter of Title IV of the Trade Reform Act before you, H.R. 10710, which conditions certain tariff and credit benefits. Another subject that I believe should be discussed is that of certain furs and skins currently barred from the United States for no other reason than they originate in the People's Republic of China.

Before proceeding to these main points, I would like to dwell for a moment on the historical background of this country's trade with China.

Twenty years ago, to ringing applause in the chamber, a Member of the House of Representatives warned his colleagues that those who favored trade with China were "like the foolish woman who imagines that the way to reform a brute is to marry him." Three years later, in 1957, a U.S. Senator denounced the suggestion of trade with China as part of an effort "to make every American child a Communist."

As early as 1959, however, there was a sign that the era of Korea and the Cold War might be passing, and that trade between the United States and China might be resumed. That year a recommendation by Charles O. Porter, a Congressman from Oregon, provoked a spirited debate on U.S.-China relations. His suggestion was simply that a U.S. trade mission be sent to China "to gather facts about the conditions and potentiality of trade." Representative Porter reminded the House that in 1931, two thirds of all wheat exported from the Pacific Northwest went to China and that, in the same year, Oregon and Washington had exported more lumber to China than they had world-wide in 1956.

The trade embargo then in operation, Porter said, was not only ineffective in denying China the benefits of foreign trade, but it "penalizes our businessmen and hence our economy." Porter's proposed trade mission did not occur, and it was not until fifteen years later that the first commercial delegation representing the American business community visited the People's Republic of China. I am referring to the ten-man mission of the National Council for U.S.-China Trade which went to Peking in November, 1973, for discussions with Chinese trade officials.

THE ALLURE OF THE CHINA MARKET

The size and mystery of China have always fascinated the Western businessman. The resurgent interest in Sino-American trade taking place today recalls earlier periods of enthusiasm. Ever since the 13th century journeys of Marco Polo, China has held a fascination for Western merchants. From the Chinese the West learned of exquisite painting, silks, paper-making, spices and books. China gave us the compass and gunpowder, and Chinese noodles introduced by Polo into Italy were to become spaghetti.

Importers and exporters alike have seen in China the ultimate commercial opportunity. Since the clipper ships sailed from my native Boston, a century ago, China for Americans has enraptured the mercantile spirit. Then, even as now, the enormous Chinese population was seen by many as an utterly inexhaustible market of eager buyers. You may have heard, as I have, speculation about the prospect of 800 million vitamin tablets daily, and even the staggering annual chewing gum needs of 800 million souls.

China will have in excess of one billion people in ten years. This is, surely, a huge potential market. But it is a very specialized kind of market, governed by priorities and practices unknown in the rest of the world. Only some 15% of the Chinese work force is engaged in industrial or other production, while about 85% of the work force is employed in agriculture. Some 6% of the U.S. labor force, but contract, is engaged in agriculture.

It is not a "consumer" society at all in our sense. In the U.S., there is almost one automobile for every two people; in China there is one for every 1,000

people. The Chinese are virtually without privately owned radios, but we in the U.S. have one for every man, woman and child—and 130 million on top of that!

It would be a mistake to conclude from this that the Chinese aspire to our consumer society. Evidence is to the contrary. One of our party in China last fall asked a Chinese peasant if he eventually expected to replace his donkey with a truck and was astonished when the man replied in the negative. "My donkey doesn't consume fuel, which is necessary in the factories" he said, "and he also produces fertilizer. A truck doesn't produce fertilizer."

CHINESE-AMERICAN TRADE IN HISTORICAL PERSPECTIVE

Early American trade with China is a chronicle of inequality which colors China's trade outlook today. Beginning in the mid-1800's, Sino-U.S. commercial relations were characterized by the wresting from China of treaties and trade concessions she was too weak to resist.

Beginning with the proclamation of a Communist China on September 21, 1949, and with the Korean conflict shortly thereafter, the United States embarked upon a wholly different strategy, namely to wall off China from the benefits of trade not only with us, but with the rest of the non-Communist world as well. The maiden once so assiduously courted had become the object of vengeance.

The first American ship anchored at Canton in 1784. Yankee traders thereafter followed the British example of market penetration for the following half century, eventually participating in the infamous opium trade.

Chinese of the 19th century were bewildered by Western mercantilism, bedeviled by Western naval and military tactics, ruined by opium, corrupted by bribery, bankrupted by predatory trade practices and made strangers and outcasts in their own cities. Western enterprise gained an economic stranglehold over China unparalleled in the whole history of international trade. An insular and agrarian civilization which had no foreign trade tradition of its own, and which neither wanted nor needed trade relations or any relations outside the Middle Kingdom, was plundered by unrestrained capitalist enterprise.

In one attempt to repel the invaders, Chinese destroyed thousands of chests of British opium, thereby bringing down on themselves the rage of British militia in the "Opium War." By the Treaty of Nanking in 1842 which ended the war, China ceded Hong Kong to the British, and a number of Chinese ports were opened to trade under British consular supervision. In addition, the Chinese agreed to pay the British some $50 million as compensation for the destroyed opium. This was only the beginning of nearly a century of outside exploitation.

It is an interesting fact that the first American treaty with China was negotiated for the United States by Caleb Cushing, a former Member of Congress from Massachusetts, in 1844. Under this 1844 Treaty of Wanghia, the U.S. gained access to the same British "treaty ports" under the treaty's "preferred nation" principle. This "preferred" or "most favored nation" principle operated to gain automatically for the U.S. any benefits the Chinese might thereafter extend to any other nation. As the British, French, Germans, Russians, Portugese and Japanese later won concessions individually, all benefitted by the same "most favored" provision. It is an ironic fact that we have before us today a trade measure which could deny most-favored-nation treatment to China.

By the Treaty of Tientsin in 1858, China granted Great Britain, France, the United States and Russia access to eleven more ports, permitted trade missions into the interior, agreed to a maritime customs service with a foreign inspector general and staff, and legalized the importation of opium. Two years later, British and French troops went to Peking where they pillaged and burned the fabulous Summer Palace to avenge Chinese attacks on their nationals.

Defeated by the Japanese in the Sino-Japanese War of 1894–1895, the Chinese signed the Treaty of Shimonoseki, which added still more treaty ports to which the traders of other countries had preferred-nation access.

The Chinese in the latter 19th century had been visited by an economic scourge. In an awful dilemma, they recognized their military weakness, but also realized that to gain the capital necessary to develop a needed military,

transport and industrial capacity would be to surrender to further foreign encroachment and control.

By 1898, in what had become a full-scale foreign scramble for concessions, the British secured rights to open inland waterways to foreign steamers, to appoint the Inspector General of Customs, and to hold Kowloon for 99 years. The Germans gained rights to build and operate their own network for mines and railroads. The Russians leased vast amounts of territory and the rights to construct railways, and the French forced a 99-year lease of Kwangchow Bay with collateral rights to build rail lines to service their trade.

By 1900, there were dozens of treaty ports inland as well as coastal, where foreign goods could be introduced with only nominal tariffs, where foreigners were exempt from Chinese law and jurisdiction, where the Chinese were denied control over foreign commerce and customs, and where foreign machinery could be installed for manufacturing subject neither to Chinese permission nor regulation. The British, meanwhile, had organized a postal service and were improving rivers and harbors in order to accommodate their own maritime trade. China had virtually no meaningful sovereignty left.

The Boxer Rebellion in 1900 was the first major expression in nearly 50 years of growing anti- foreign sentiment in China. The Rebellion was put down and the Boxer Protocol signed in 1901.

Another reflection of the growing anti-foreign feeling occurred with a boycott of American goods in 1905, and the boycott device was repeated though with marginal impact over the next two decades against the British and Japanese.

The revolution which installed Dr. Sun Yat-sen in 1911 and the chaos that prevailed in China into the 1920's reduced the value of trade concessions. Dreams of fabulous wealth from China trade had begun to fade, and by the late 1920's many of the special privileges had been withdrawn or were surrendered. Yet, the U.S., Britain, Japan and France held to the extraterritoriality privilege until 1939. In the early 1930's the Japanese invaded and occupied northeast China, seeking not only markets for their goods but also the industrial centers necessary to augment domestic iron and steel production in the assembly of a war machine.

Although the event went largely unnoticed at the time, the Chinese Communist Party was formed in 1927. Born in the chaos of national strife, misery and despair, the Party has its roots in the conditions created by the Western exploitation which destroyed the old China. It is no wonder, then, that there may be an evident wariness and caution in Chinese foreign trade policy today.

THE EMBARGO

If the pre-World War II century had exemplified to the Chinese the insatiable capitalist appetite for profit, the post-War period illustrated that hell hath no fury like a profit motive spurned. The economic embrace which smothered the life out of the old China was, in the imposition of the trade embargo, replaced by a stranglehold deliberately calculated to crush the new China.

Not until November 22, 1972, with the announcement that a ban on travel by American aircraft and ships to China had been lifted, did the United States remove the last major non-tariff component of the trade quarantine.

At its peak, the embargo was an attempt by the United States, at the time of the Korean war, to prevent all U.S. trade with China, and all trade in strategic goods by every non-Communist nation. At that time, this country believed it could hasten the end of the conflict by denying to China the goods and capital necessary to wage war.

The embargo consisted in part of trade controls instituted in 1950 by President Truman acting under the authority of the Trading with the Enemy Act of 1917 and the Export Control Act of 1949. In 1951, Comgress passed the Trade Agreements Extension Act which directed the President to withdraw most favored nation tariff treatment from Communist countries, including China, a policy which is continued to this day.

The United States also initiated in 1950 and 1951 international efforts aimed at denying trade to China. A Congressional resolution successfully memorialized the United Nations in 1951 to request its Member States to restrict trade in strategic goods to China. And the U.S. launched COCOM to establish and

maintain control over certain listed exports to Communist countries including China.

While the embargo may have been justified as a wartime measure, its purpose and usefulness after the armistice was signed in July, 1953 are questionable. Between 1953 and the first steps by President Nixon to relax it in 1969, the embargo became more and more an anachronism. It failed to deny China needed goods; it failed to undermine and bring down the Communist government; it failed to force changes in Chinese foreign policy; it failed to bring unity to the U.S. and her allies. It did manage to deny U.S. farmers and businessmen access to the China market while allied business conducted a flourishing trade.

That the embargo failed to achieve its intended purposes after 1953 made it no less obnoxious to the Chinese. As long as it remained in effect it stood, in Chinese eyes, as a monument to American Cold War intransignece and as a continuing political insult. Consequently, it was a useful place for President Nixon to begin the series of steps which culminated in his Peking visit in February, 1972.

CHINA'S TRADE PATTERNS AND PRINCIPLES

Two decades ago, as China pursued her "lean to one side" foreign policy, the Soviet Union and other socialist countries accounted for two-thirds of China's foreign trade. Presently, Chinese trade with communist countries has declined to about one-fifth of the total with another fifth accounted for by trade with developing countries and the three fifths balance with non-Communist developed countries. Excluding Hong Kong, the United States is now China's second largest trading partner, and China's second largest source of imports.

"Autarky" one observer has written, "is alive and well in China." Certainly no country in recent history has more zealously pursued the goal of economic self-sufficiency. The Chinese are attempting not only national, but regional and provincial self-sufficiency. Each area and community seeks to develop the agricultural and industrial capacity that could assure survival in the event of a crisis elsewhere in the country.

This striving for self-sufficiency has its roots in a tradition of self-reliance, in the absence of a trading tradition common to maritime nations, in the bitter experience of foreign economic encroachment, in the ideology of Marxism-Leninism, and in the works of Chairman Mao.

But self-sufficiency, for the Chinese, is a dynamic not a static concept. China does not abstain from trading altogether and, indeed, Chairman Mao has instructed his people to "let foreign things serve China." With careful trade, China can improve her ability to be self-sufficient. China can enlarge agricultural output by adopting certain foreign methods and machines; she can better distribute a more bountiful harvest if she has the transportation system and fuel that can come, in part, with foreign equipment and technology. It is therefore not inconsistent for the Chinese to be engaged simultaneously in a self-sufficiency campaign and in foreign trade. The self-sufficiency principle does mean that China will import only those items for which she feels she has a genuine need, and this would rule out importation of consumer goods or other luxury items.

Another principle which guides China's foreign trade is that trade must be conducted on the basis of "an exchange of what one has in surplus for what one lacks and needs—on the basis of equality and mutual benefit."

The present concerns of the Chinese are especially understandable in view of China's unhappy historical experience in trading with more developed countries.

NONDISCRIMINATORY TARIFF TREATMENT FOR CHINA

It is no exaggeration, Mr. Chairman, to say that the whole world welcomed the Shanghai Communique of February, 1972, in which this country and China pledged themselves, among other things, to work to normalize relations and facilitate bilateral trade.

This Committee and the 93rd Congress can take the course of United States relations with China an important step forward by providing, in this Trade Reform Act, for removal of the last remaining major impediments to Sino-American trade. The principal such obstacle, we believe, is the continuance of a statutory prohibition against nondiscriminatory tariff treatment on imports from China. Congress can remove this obstacle either by repeal of Section 231

of the Trade Expansion Act of 1962 and Section 5 of the Trade Agreements Extension Act of 1951, by passage of Title IV of this Trade Reform Act unencumbered by Section 402, or by special legislation according nondiscriminatory tariff treatment to China on a specified country basis.

TEN REASONS SUPPORTING MFN FOR CHINA

Those of our members engaged in importing from China know from bitter personal experience that the imposition of discriminatory duties on goods from China makes business development with the Chinese extremely difficult. But, in addition to these commercial hardships, there are even more compelling reasons, we believe, why nondiscriminatory tariff rates should apply on Chinese goods. Let me briefly recite ten such reasons:

First, the Shanghai Communique requires genuine good faith efforts by both sides toward removal of trade obstacles. China imposes no such restrictions on imports from the U.S., and we should, wherever possible, lead, not retard, the movement toward normalized trade relations with China. The United States reaffirmed its desire to improve trade relations in another joint communique issued at the conclusion of Secretary Kissinger's visit to Peking in November, 1973. In that joint statement, the two sides agreed that "it is in the interest of both countries to take measures to create conditions for the further development of trade on the basis of equality and mutual benefit."

Second, as a practical matter, China cannot be expected indefinitely to buy from United States firms if she is denied reasonable access to our markets. In 1972, we had a favorable balance of trade with China of nearly two to one. Last year, we sold China nearly eleven times as much as she sold us. Indications are that trade could balance even more heavily in our favor during 1974, with our exports exceeding one billion dollars and imports from China barely reaching $100 million. Most-favored-nation access to the United States can help China earn some of the foreign exchange necessary to pay for large agricultural and industrial sale American companies are now making, or hoping to make, to China.

Third, China was removed from among our trading partners during the Korean War, twenty-three years ago, when American and Chinese troops faced each other in combat. We have now returned to peaceful relations, and our foreign trade policy should reflect that fact.

Fourth, China has inexpensive yet high quality products to offer American consumers. At present, potential consumer savings and consumer choice are effectively nullified by tariff duties. With nondiscriminatory tariff treatment on Chinese imports, American consumers—at a time of sharply rising domestic prices—can have access to less expensive Chinese foodstuffs and other consumer goods.

Fifth, we believe the fears expressed by some, that China will compete unfairly in our market, are unfounded. Australia, Canada, Germany and Japan, for example, currently admit Chinese goods on a most-favored-nation basis and none has experienced difficulty in this respect. Moreover, the pending bill provides ample relief measures should imports from China ever cause market disruption and material injury to domestic industries. Similarly, it is most unlikely that China would jeopardize the evolution of important political gains by pursuing unfair trade practices.

Sixth, the United States naturally has among its own interests as a trading nation the desire for reciprocity for tariff concessions, such as agreements on certain commercial practices with our trading partners. Moreover, a future Sino-American trade agreement can achieve, in addition to most-favored-nation treatment, agreement respecting commercial arbitration, protection of American patents and trademarks, and various trade promotion activities of benefit to both sides.

Seventh, the United States now appears to be pursuing a commendable foreign policy, in pursuit of a stable and peaceful world, which treats the U.S.S.R. and the People's Republic of China evenhandedly. Now that a trade agreement has been concluded between the United States and the Soviet Union, we believe progress should be made without delay toward a similar agreement with China.

Eighth, the view of a few that China should be denied most-favored-nation treatment on strategic or political grounds is, we believe, unsound. The Soviet Union is unquestionably more militarily dangerous to our country than is

China, and yet this objection has not been seriously raised with respect to the U.S.S.R.

Ninth, for this Congress to fail to enact legislation providing for nondiscriminatory tariff treatment for China, thereby continuing into the 1970's a sanction whose roots are in the Cold War at its coldest would, in fact, be taking a step backward from hope represented by the Shanghai Communique of 1972. Examining U.S.-China trade relations from the point of view of the Chinese, discrimination is present in our trade relations with them so long as our discriminatory tariff policy adversely affects them. We are thus open to the criticism that it is the United States, not China, which is impeding progress in our economic relations.

Tenth, good trade relations, conducted on the basis of equality and mutual benefit, can serve the cause of peace. Good commercial relations between the American and Chinese peoples can lead to contact, cooperation and friendship in other spheres. All of us benefit when the threat of tension, conflict and war is reduced.

CURRENT PROBLEMS FOR AMERICAN IMPORTERS

Mr. Chairman, there is a Chinese saying: "You cannot thaw three feet of ice in a single day." The morning sun has only just shone on the Cold War ice of Sino-U.S. economic relations.

In the Shanghai Communique, the United States agreed that Sino-U.S. "economic relations based on equality and mutual benefit are in the interest of both countries." Part of our responsibility of the Congress and the private sector is, we believe, to encourage and facilitate trade relations equitable to both sides: to accelerate the warming trend in our relations with the People's Republic of China.

Trying to gauge the effects on U.S.-China rtade of most-favored-nation treatment—the difference between column one and column two duties in the U.S. Tariff Schedule—is not easy. In a recent survey by the Council among hundreds of U.S. importers the response was extremely varied.

We asked the potential increase in each firm's imports from China, by individual product, if MFN were granted this year. The overwhelming majority did not really know what the effect would be, and were reluctant to make forecasts.

We have been advised of one U.S. Government study that concludes that imports from China may rise 15-20 percent should nondiscriminatory tariff status be granted.

What we do know for sure is that the present discriminatory rates are a major problem to the ordinary company, all or part of whose business may depend on importing from China. It is this kind of firm, often a small company with a turnover in the millions rather than tens or hundreds of millions, that now handles most imports from China and, consequently, bears the brunt of the higher duties.

I should like to give you a glimpse of how the tariff problem adversely affects these firms.

As you know, importing successfully ordinarily requires volume sales at small profit margins. The importer of Chinese goods must for a start attend the twice yearly Canton Fair: a roundtrip to Hong Kong, where he takes the train to Canton. Total expenses per individual trader for each Fair ordinarily well exceed $2,500. Thus, if he works on a one percent profit margin, this importer must do a half million dollars worth of business just to meet his expenses for traveling to each of China's biannual Canton Fairs.

That the American importer, working on margins that are small and uncertain, needs tariff relief on his trade with China can be illustrated with an example. Suppose we take a single item in the home furnishings area, wooden chairs. For a wooden chair the column one tariff rate is 8.5 percent *ad valorem*. The column two rate, applying to China, is 40 percent.

The rates I am quoting you are the current rates. Ironically, over the past five years, the effects of the Kennedy Round have made the differential between column one and column two even larger. Using our example of the wooden chair: In 1967 the column one duty on it was 17 percent *ad valorem*. Each year since, in accordance with the Kennedy Round, the rate of duty has been reduced. By last year it was half the 1967 level. Meanwhile, the column

two rate, to which China is still subject, remains the same, and the disparity between the rates has grown.

When any new round of tariff reductions begins, our discriminatory tariffs will become progressively more discriminatory, unless something is done by this trade legislation to reverse that unfortunate trend.

THE MATTER OF RECIPROCITY

The quid pro quo which a country ordinarily receives for extending most-favored-nation treatment—the return of equivalent treatment by its trading partner—admittedly poses a special problem in trade with state trading economies such as China. While the most-favored-nation principle proposes equal access for all foreign exporters to a domestic market, subject only to the forces of competition, nonmarket economies lack the element of private market forces. Exporters to state economies confront but one consumer—the government. In the case of China, the eight foreign trade corporations in Peking may make purchases on other than purely economic considerations, and almost never will the decision-making process be made public.

It has been estimated by Professor Robert Dernberger of the University of Michigan that the present import-export imbalance in Sino-U.S. trade will continue essentially unchanged until 1980, though the volume of trade could grow appreciably, depending upon the degree of China's interest in economic advancement and her ability to earn foreign exchange. The dizzying prospect of some 800 million consumers, however, which has put stars in the eyes of many American exporters, and the excitement of would-be importers of irresistible bargains from the Middle Kingdom, must be seen in light of the fact that our trade with China is relatively small and has never in history exceeded 2 percent of total U.S. foreign trade. This suggests that the problem of reciprocity for the United States for most-favored-nation status extended to China is likely to be non-economic in the trade sense.

Many observers have argued that the influence of political factors in the decision-making process of nonmarket economies has made the process inherently discriminatory and that, as a result, the exchange of unlimited most-favored-nation treatment between a capitalist country and a state-trading nation would be an unequal exchange. In considering nondiscriminatory tariff status for China, then, both sides are likely to experience difficulty in negotiating a trade agreement if commercial factors alone are contemplated.

One of the first comprehensive proposals for dealing with state trading countries and the reciprocity problem was the "commercial considerations clause." This required the state economy to base its purchases of foreign products exclusively on commercial considerations. Such a provision may be found in Article 17 of GATT and it has been used in the 1953 Treaty of Friendship, Commerce and Navigation between the United States and Japan. As a practical matter, however, this provision cannot prevent discrimination which, though evidently political, has an economic basis.

It is interesting to recall that the conditions for admission of Poland and Yugoslavia to the GATT suggest that the GATT members felt there was a significant threat of discrimination in trade agreements with state trading nations, and both were initially denied membership. Yugoslavia was admitted in 1961 after having developed a provisional tariff applicable to commercial imports, and Poland was accepted in 1967 after having offered to increase the total value of its imports by not less than several percent per year.

Consideration of nondiscriminatory tariff status for China then, as with any nonmarket economy, must take into account the very real question of what the United States might obtain by way of *quid pro quo*. China's assurance of reciprocal most-favored-nation treatment for U.S. exports, and related arrangements designed to secure fair market access for American goods, need not be the sole benefits which could be sought by the United States in a trade agreement with China. As a practical matter, the United States may seek something more than marketing opportunities on a par with third countries, since, as a nonmarket economy, China cannot grant foreign goods the same benefits as those enjoyed by her own. In addition, China is not a consumer society, and thus the range of American exports marketable in China is limited.

This is not to say the United States should return to the predatory ways of a 19th century foreign trading nation, seeking reciprocity all out of proportion to

what is granted. Longstanding political and economic isolation affords ample opportunity for reciprocal nontariff benefits in any trade agreement between the United States and China. Among these could be the settlement of financial and property claims, both publi and private; establishment of trade and tourist promotion facilities and opportunities; exchange of trade missions and expanded travel for commercial representatives; access to local judicial tribunals; payments agreements; pledges against market disruption; arrangements for the settlement of commercial disputes; accords for the protection of trademarks and industrial rights and processes; and arrangements for the financing of trade, among others.

In the past, the United States has used a number of devices to ensure reciprocal concessions in the granting of most-favored-nation status; (a) A purchase commitment of a certain minimum value of goods annually. In 1937, the United States extended most-favored-nation treatment to the Soviet Union (withdrawn in 1951) in exchange for a pledge to purchase at least $40 million worth of goods the following year. (b) An agreement to settle existing financial claims. Poland agreed to settle $40 million in claims as part of the consideration for most-favored-nation treatment in 1960. More recently, the Soviet Union agreed to settle $722 million in lend lease debts as part of the trade agreement concluded in 1972. (c) Provisions against patent and copyright infringement. The People's Republic of China does not currently adhere to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, or the World Intellectual Property Organization.

While the United States would be concerned with securing appropriate concessions for extending most-favored-nation status, it is likely that Peking, too, may be unwilling simply to exchange assurances of most-favored-nation treatment. Indeed, classical socialist theory rejects the most-favored-nation concept, and China has contended that "equal opportunity" access to a capitalist market is a tool to weaken smaller nations.

China bases its commercial arrangements, like its political relations, on the principle of "equality and mutual benefit." By this is meant an exchange in terms which will be equally beneficial to both countries, or nearly so; an exchange of what one has for what one lacks without undue economic advantage to either.

Despite a certain ideological aversion to the most-favored-nation principle, China has, for example, included such a clause in several trade agreements. Article 4 of the 1971 trade agreement between Italy and the People's Republic of China provides a typical example. That provision is tailored essentially for a market economy, which regulates trade only through tariffs or similar restrictions, rather than to a state trading nation which itself directly controls the purchase and sale of merchandise.

Since the recent American-Soviet trade agreement may serve as a model for the extension of most-favored-nation status to other Communist countries it is notable that the most-favored-nation clause in that agreement is similar in substance to the one contained in the agreement between the People's Republic of China and Italy.

THE FREEDOM OF EMIGRATION ISSUE

Mr. Chairman. I would also like to address Section 402 of Title IV, "Freedom of Emigration in East West Trade." The substance of this section, popularly known as the "Jackson Amendment," had its genesis in the current Congress on April 10, 1973. On that day, Senator Henry Jackson introduced it with the explanation that his amendment was directed, and I quote, to "the Soviet Union and the countries of Central Europe." It is well known that the House proponents of Section 402 and the Senate supporters of language similar to Title IV are directing their concern to the plight of Soviet citizens whose desire to emigrate has been frustrated by the Soviet State's imposition of an exit tax and other measures.

Commendable as this objective may be, we believe it does not properly belong in trade legislation. Section 402 has prompted speculation that, though never evidently so intended by Senator Jackson or his co-sponsors, it might be interpreted to prevent reduction of tariffs on imports from China, to deny credit and credit guarantees to China, and to rule out a trade accord of any kind between China and the United States.

It is well known that most countries in the world impose conditions of some sort on emigration. These range from certain application procedures to the payment of exit taxes of one kind or another. Communist countries are not alone in establishing conditions of this kind—a fact which is implicitly recognized by Section 402(c) which exempts non-Communist countries from the Free Emigration standards. In other words, free emigration is, under Section 402, to be a condition of benefits in East-West trade but it need not, apparently, apply in what is sometimes referred to as free world trade.

The language of the full Section 402, as it applies to Communist countries, would deny tariff concessions, credits and trade accords even though the conditions imposed on emigration by a given country are reasonable and nondiscriminatory. The United States, to cite admittedly extreme examples of reasonable restrictions on emigration, will likely not permit the emigration of a graduate of one of our military academies until the young man has satisfied his military obligation, or of a taxpayer who has not paid Federal income tax due, or a convicted criminal who has not served his sentence.

The Universal Declaration of Human Rights, which is frequently cited by proponents of this Section, does not go nearly as far as does this Section in demanding freedom to emigrate. The Declaration does, of course, speak of the right of a person to leave one country for another, but subject to "such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society."

In the debate over this Section in the House of Representatives, Congressman Mayne of Iowa warned that the effect of the language of this Section would be "to deny future trade with the People's Republic of China." In testimony before the House Committee on Ways and Means, an eminent Chinese legal scholar, Professor Jerome Cohen of the Harvard Law School, said unequivocally that this provision "would necessarily apply to the PRC." He testified that the People's Republic of China is "a non-market economy country that plainly restricts emigration, although its restrictions are not designed to discriminate against any racial, religious, ethnic or other subgroup of its society, nor do they appear to have such a discriminatory effect."

While China, among most other nations, may have certain restrictions on emigration, an emigration or exit tax is not among them. The fact is that permission to emigrate has been granted by Peking to thousands of Chinese—yet these souls are unable to leave China for the simple reason that no other land on earth appears willing to have them. Hong Kong and other areas have admitted some, but continue to deny entry to thousands more. In 1973, Hong Kong alone received 50,000 emigrating Chinese. Some may go to Australia or to Canada, with whom the Chinese People's Republic has agreements on this subject.

Mr. Chairman, are we to permit ourselves to be put into the awkward position of denying to China the tariff and other benefits of the Trade Reform Act on the ground that China restricts emigration—and at the same time deny, through our immigration laws, the entry of Chinese persons already free to emigrate to come to the United States? Are we willing to permit the unrestricted immigration of those whose unrestricted emigration we insist upon? In this light and in view of the infamous alien exclusions laws directed principally against the Chinese in our own national past, the Chinese might be entitled to view such trade legislation as bordering on hypocrisy.

If, as it appears, Chinese nationals are permitted to emigrate on a nondiscriminatory and yet restricted or conditional basis, then the present Section 402 would, it seems, make it impossible not only to extend nondiscriminatory tariff treatment on imports from China but, also, would prevent China's participation in any United States program which extends credits, credit guarantees or investment guarantees, directly or indirectly. In addition, it would prevent conclusion of any commercial agreement with the Chinese.

I submit that restrictions of this kind would harm ourselves as much if not more than the Chinese. China is presently embarked upon a large scale effort to modernize agriculture and industry. This is a major opportunity for American exporters. Already we have supplied or contracted to ship advanced aircraft, eight ammonia plants, mining and oil field equipment, machine tools,

and materials handling equipment. These major export sales mean jobs for American workers and assure a needed infusion of revenue to our balance of payments, and I believe we may have only begun to realize the benefits to be derived from major industrial, technological and agricultural exports to China. While the Chinese have until now financed imports on a pay-as-you go, cash on the barrelhead basis, and have resisted debt-financing of her import trade, this practice might change. Already China makes major purchases on a deferred payment basis. And, in any event, credit guarantees can assuredly help American firms reach the Chinese market.

A prohibition on commercial agreements between this country and China just as U.S.-China relations are normalizing would be a tragic thing. We should be working positively toward air and sea agreements with China, and toward agreements on commercial arbitration and the protection of industrial property rights and trademarks. Passage of Section 402 in its present form would not stop trade altogether, of course, but it could deny to our airlines and to our merchant marine the opportunity of serving Chinese cities and seaports and would deny to our importers and exporters alike the legal framework for the proper conduct of foreign trade.

Progress toward these kinds of agreements is what we should strive for by way of reciprocity in the Trade Reform Act. The condition of internal emigration policies is, by contrast, a far more modest, as well as badly misplaced, concern.

In a letter to the *New York Times* in September, 1973, Mr. Chairman, former U.S. Ambassador to Moscow, George Kennan, addressed himself to this freedom-of-emigration issue. He said that most-favored-nation treatment is only an "expression of normal, nondiscriminatory customs treatment extended to another country. It involves no one-sided transfer of funds or goods, no loans, no gifts. It does not even assure that any particular sort of trade will actually take place; it assures merely that normal trade will not be obstructed by discriminatory tariff treatment on our part and is normally extended against a similar assurance on the part of the foreign country in question."

Ambassador Kennan went on to say that "a readiness on the part of our government to permit trade to proceed normally between American businessmen and parties in another country is not benevolence graciously bestowed by us on the country in question for which we would be entitled to express gratitude and propitiatory alterations of domestic policy, but merely 'the sensible support of a mutually desirable arrangement from which we, as well as they, stand to gain."

For all of the foregoing reasons, Mr. Chairman, we respectfully recommend deletion of Section 402 in its entirety.

THE "SEVEN DEADLY SKINS"

We support repeal of the current prohibition of the entry into the United States of ermine, fox, kolinsky, marten, mink, muskrat and weasel furskins, raw or not dressed, which are the product of the People's Republic of China. This would require repeal of headnote 4 to Schedule 1, Part 5, Subpart B of the Tariff Schedules of the United States. This particular trade discrimination first became a part of American foreign economic policy in 1951, when Chinese and American troops were fighting in Korea. Its elimination will remove an unwarranted irritant in our relations with China, and yet domestic producers will have the benefit of the protective devices of the pending bill against injurious foreign competition.

PROSPECTS FOR U.S. TRADE WITH CHINA

This year, as I have testified, Mr. Chairman, U.S. exports to the People's Republic of China will probably exceed $1 billion, imports from China $100 million. In 1973 two way trade with China reached a total of $754 million, a tremendous jump from the $93 million total in 1972 which, in turn, was a remarkable increase over $4.9 million in 1971.

The Chinese interest in U.S. technology is also increasing substantially. Last year, U.S. technical data approvals for China worth a staggering $350 million in potential revenues were processed by the U.S. Office of Export Administra-

tion. The $200 million sale by Pullman's M.W. Kellogg Division of eight ammonia plants to China was one of the largest single contracts landed anywhere by a U.S. firm in 1973. The Chinese are, incidentally, paying cash for these plants; there is no credit involved in the transaction.

To date China has bought the technology of Standard Oil of Indiana (AMOCO), Standard Oil of Ohio (SOHIO), Lummus, Atlantic Richfield, and Universal Oil Products. And while agriculture still dominates Sino-U.S. trade, providing a rich export market for American farmers, its proportion in exports to China fell from 97% in 1972 to 85% last year, with manufactured goods playing an increasingly important role in U.S. exports to the PRC.

But what of imports from China?

Last year the amount of imports from the PRC represented only a fraction of total Sino-U.S. trade—$64 million worth. Ten categories accounted for almost two-thirds of total imports: Tin and tin alloys; materials of animal origin (mainly bristles); cotton fabric; works of art and antiques; raw silk; fireworks; brooms and brushes; essential oils and resinoids; wood and resin-based chemical products, and fine animal hair. Significantly, the majority of these items have non-discriminatory tariffs. That is, they are either duty free or come in on a non-discriminatory tariff basis.

This imbalance in our trade with China—almost 11 to 1 in favor of U.S. exports—is good news and bad news. A positive aspect of it is that in 1973, as I have mentioned, our trade with China accounted for almost 40% of the total U.S. trade surplus with the rest of the world. The contribution of Sino-U.S. trade to the U.S. in balance of payments this year and beyond can also be substantial.

The negative aspect, as I have stressed, while China has a general policy of balancing her own trade on a multi-lateral basis, she appears to prefer, over the long term, a balanced trade with major trading partners. The kind of imbalance that now exists between our two countries, if continued for long, is almost surely bound to have an adverse affect on U.S. sales to China. This imbalance, indeed, is a potential peril to the normalizing of our political as well as our economic relations with China.

A great deal needs to be done by the Chinese before we will see a significant expansion in Chinese exports to the U.S. Solving the problem created by lack of most-favored-nation tariff treatment on Chinese goods will not, in my view, stimulate more than a fifteen to twenty percent increase in U.S. imports from China.

The fear of a flood of cheap Chinese goods on the U.S. market is largely ill-founded. China's trade corporations have a great deal to learn about the nature and workings of the U.S. market, the largest and most complex in the world, before any real penetration can begin. Questions of labeling, packaging, federal regulations, trademarks and brand names, adaptation to U.S. consumer tastes, as well as continuity of supply are among the host of other problems that China must solve in marketing her products here.

In more sensitive areas, such as cotton textiles, there is a system of quotas, applicable to all nations exporting textiles to the U.S., to preclude disruption of the U.S. market. There is every indication that China itself will take care not to precipitate any market disruption in the U.S. by mass export of cheap goods.

On the other side of the coin, there is the fact, as I have mentioned, that Chinese exports to the U.S. can provide additional jobs for U.S. workers and savings and variety for our consumers. In terms of employment, U.S. exports to China promise a substantial and increasingly favorable impact on jobs for American labor.

I want to emphasize again that in the experience of other countries, many of which have already extended most-favored-nation status to China, such as Australia, Canada, Germany and Japan, the effects of granting MFN have been readily absorbed by these economies with no significant adverse impact.

Indeed, the Chinese have enjoyed nondiscriminatory tariff treatment from Canada since the proclamation of the People's Republic of China in 1949. Yet, with a consumer market perhaps more like our own than any other country, Canada's industries have suffered no ill effects thereby.

For nearly every major industrial nation, in addition, including Japan and most European countries, there has been parallel experience of another kind—

that of preferential tariff schemes for developing nations. In general these have been beneficial to all parties concerned and, while there is no reason why a similar arrangement between the U.S. and China should not also be beneficial to both parties, China at present would probably be content to be treated simply on the basis of trade equality.

What lies ahead?

I think that, even though the U.S. is already China's third largest trading partner, after Japan and Hong Kong, trade relations between the U.S. and China have hardly begun. The commercial interaction between our two countries has hardly started.

The groundbreaking mission of the National Council's November 1973 delegation to Peking, to meet with officials of the China Council for the Promotion of International Trade, has I believe paved the way for mutually beneficial trade relations between the two countries.

Reciprocal exhibitions, possibly as early as next year or 1976, commercial missions of all types between our two countries, exchange of economic information, and sophisticated market studies are ahead of us. Gaining a real and practical knowledge of China's needs and economy is now an important educational process for all U.S. firms interested in trade with China. Trade skills and business information that other nations, with a twenty year lead on the U.S., already possess must be developed, so that companies in the U.S. can more fully acquaint themselves with China's commercial practices.

Trade is never a one-way street, we must not lose sight of the fact that China has many skills, products, and potential technology—there is already talk of cross-licensing in some areas—that can make China's future share of the U.S. market healthy, growing, and beneficial to ourselves. In this sense, particularly, I believe we have scarcely begun in our developing trade relations with the People's Republic, provided we bear in mind the spirit of the February 1972 Shanghai Communique in which we agreed with China to develop economic relations based on "equality and mutual benefit."

In conclusion, Mr. Chairman, let me simply stress that since 1972, after a hiatus of nearly a quarter century, our trade with China has been a positive experience for the United States.

In 1973, trade with China accounted for almost 40% of our total trade surplus with the rest of the world. This year, the contribution of Sino-U.S. trade to this country in balance of payments terms is also certain to be considerable. Few would disagree that the cause of world peace and stability has also been well served as political relations between our two countries have likewise improved, ending more than twenty years of suspicion and discord.

It is no surprise, then, that the American people have responded with so much interest and approval to the breakthrough to China; rarely have they responded as well to any national diplomatic initiative in this century.

Suspicion and fear are giving way gradually but steadily to mutual understanding on both sides. Trade can foster this welcome trend.

If this Trade Reform Act lives up to its name, it will mark the removal of the remaining obstacles to trade imposed in another era, and can give our people the framework for expanded peaceful commerce with those countries of the world with which we most need better understanding.

APPENDIX.—THE NATIONAL COUNCIL FOR U.S.-CHINA TRADE

The National Council for U.S.-China Trade is a non-profit membership association incorporated in the District of Columbia. Our membership consists of some 200 American firms, large and small, importer and exporter alike, interested in doing business with China. I would like to acquaint you with our background and purposes.

On February 28, 1972, at the conclusion of the President's historic visit to the People's Republic of China, a Joint Communique was issued at Shanghai in which the United States and China agreed that bilateral trade was an "area from which mutual benefit can be derived," and that "economic relations based on equality and mutual benefit are in the interest of peoples of the two countries." Both sides pledged "to facilitate the progressive development of trade between their two countries."

A year later, on March 22, 1973, a group of United States businessmen met in Washington, D.C. to undertake the formation of the National Council for United States-China Trade. At a Washington conference on May 31, 1973, the National Council was formally inaugurated.

The National Council was honored, at its inaugural conference, to welcome Ambassador Han Hsu, Deputy Chief of the Liaison Office of the People's Republic of China in Washington. His speech marked the first public appearance in the United States of an official of the People's Republic of China Liaison Office.

In remarks which bode well for future undertakings between the National Council and China's trade agencies, Ambassador Han said, in part:

" . . . I am very happy to attend, on behalf of the Liaison Office of the People's Republic of China in the United States of America, the inaugural conference of the National Council for the United States-China Trade. My colleagues and I would like to extend our sincere congratulations on the establishment of the National Council for United States-China Trade and to express our thanks to the Council for inviting us to this inaugural conference.

The National Council for United States-China Trade is founded precisely in accordance with the spirit of the principles of the Shanghai Communique. . . . [Your] purpose is to promote trade relations between the two countries. This will not only help to further develop the trade relations between the two countries, but will also certainly be of benefit to the promotion of normalization of the relations between the two countries.

One of the tasks of the Liaison Office established in each other's capitals is to broaden the contacts in various fields between the two countries, including the expansion of the trade relations between them. It can be anticipated that there will be quite a lot of contacts between the Council and our Liaison Office, and in your contacts with your counterpart—the China Council for the Promotion of International Trade, you can expect full cooperation and assistance from us.

May the work of the National Council for United States-China Trade be successful and fruitful."

The National Council is a clearinghouse for information on China's worldwide trade, and particularly her trade with the United States. Through an active program of bilateral cooperation, including reciprocal delegations and trade exhibits, the National Council is a principal focal point for the initiation of trade contacts, including those with the China Council for the Promotion of International Trade (CCPIT), the Chinese Export Commodities Fair, and the official trading agencies of the People's Republic of China.

The publications and library of the National Council promote the dissemination of commercial information to the United States business community. Specially prepared reports advise appropriate entities in the People's Republic of China of the interests and capabilities of U.S. importers and exporters. The National Council also provides a forum for the discussion of business issues at trade meetings in the United States and with officials of the People's Republic of China. Where appropriate, the National Council acts in an advisory capacity to the United States Government on issues which may affect trade and economic relations between American firms and the trade organizations of the People's Republic of China.

Specific services to our members include the following:

DIRECT CONTACT WITH CHINESE COMMERCIAL OFFICIALS

Member firms will have the opportunity to meet with officials of the China Council for the Promotion of International Trade (CCPIT), Foreign Trade Corporations, and the Commercial Section of the Liaison Office during various Chinese visits arranged by the National Council to different parts of the U.S. The Council has already sponsored visits by commercial officials from China's Washington Liaison Office to several American firms.

THE CANTON FAIR

The Council has a full-time representative at the twice yearly Chinese Export Commodities Fair. The principal purpose of these representatives is to

provide advisory assistance to American businessmen unfamiliar with doing business in China. The office at the Fair also supplies typewriters, copying facilities, introductions to Chinese officials and practical help of all kinds to visiting U.S. businessmen. In addition to a report on the Canton Fair, the Council provides a list for members of all the major products on display at the Fair, and an index of catalogues issued by China's Foreign Trade Corporations. Members may order copies of these catalogues, and are free to consult them at any time in the National Council's library. An informative film on the Canton Fair, prepared by the Chinese is circulated free to members exclusively by the Council.

PUBLICATIONS

The Council publishes a bimonthly magazine, the "U.S.-China Business Review." The magazine is oriented toward the practical and the informative.

Special Reports and booklets are also published by the Council.

THE AMERICAN INDUSTRIAL REPORT

This magazine, published by a National Council member firm and circulated only in China to China's foreign trade officials, is endorsed and supported in its aims by the National Council. Some 15,000 copies, circulated to a potential 250,000 Chinese, bring information about company products in advertisements and articles directly to the Chinese and in the Chinese language.

PRACTICAL HELP AND CONSULTATIONS

Any member company desiring information on any aspect of business with China is invited to approach Council professional staff, for practical guidance at any time, in the development of its own trade with China.

TRANSLATION SERVICES

As an aid to companies seeking to communicate with China's trade corporations in modern, simplified Chinese, the Council offers complete translation services.

RECIPROCAL EXHIBITIONS

The Council is the agreed upon contact point for the first trade exhibitions to be held by the U.S. in China and by China in the U.S.

LIBRARY AND RESEARCH SERVICE

The Council is developing a professional reference library on all China trade and economic topics, concerning both the U.S. and the rest of the world. The library includes a worldwide selection of periodicals, books and catalogues, as well as other publications from Peking.

SEMINARS

The National Council has launched a series of conferences for businessmen on China trade subjects.

TELECOPIER SERVICES

Any member firm with a Xerox Telecopier wishing to receive photostats by telephone of any information available at the Council, including pages of Chinese export catalogues, can do so by calling the Council.

IMPORTERS COMMITTEE AND REFERRAL SERVICE

A newly created Importers Committee serves the needs and special problems of the many firms interested in bringing Chinese goods into the United States.

Any request from importers in the U.S. concerning availability of Chinese products addressed to the Council is referred without charge to the relevant foreign trade corporation in China, with a request that the trading agency reply direct to the U.S. importer regarding the products.

Report of Peking deliberations

In early November, 1973, at the invitation of the China Council for the Promotion of International Trade (CCPIT), the National Council sent a delegation to Peking. It was the first broadly based commercial delegation from this country to China in nearly a quarter of a century. As a direct result of these meetings, the first Chinese trade delegation will visit the United States this year.

Discussions in Peking were led by our Chairman, Mr. D.C. Burnham, for the U.S. delegation and by Mr. Wang Yao-ting, President of the China Council for the Promotion of International Trade. Talks were conducted in a cordial atmosphere in which a free and wide-ranging exchange of views occurred.

Our delegation was received by Vice Premier Li Hsiennien for further discussions at the Great Hall of the People. A final meeting was held between the delegation and China's Minister for Foreign Trade, Li Ch'iang.

Following the meetings in Peking, the delegation visited Shanghai, Hangchow, and Kwangchow. Visits to local factories and communes were most helpful in gaining for us a better understanding of China's economy and rapidly developing production capability. At Kwangchow, the delegation visited the Chinese Export Commodities Fair and met with Fair officials and American businessmen.

The China Council for the Promotion of International Trade and the National Council for United States-China Trade reached agreement on the following points:

1. The CCPIT, as the counterpart of the National Council for United States-China Trade, accepted the National Council's invitation to send a trade delegation to the United States in 1974. This will be the first commercial mission from the People's Republic of China to visit the United States. It is expected that the delegation will include representatives of the interested Foreign Trade Corporations as well as the China Council for the Promotion of International Trade.

2. The CCPIT and the National Council agreed, in principle, to exchange trade exhibitions and act as contact points for arrangements. Details of the exhibits, including dates, will be worked out between the two sides. To date, there have been no exhibits arranged by either side in the other's country, and the commercial exhibits planned by the China Council and the National Council will be the first such events.

3. With the development of trade between China and the United States, the two sides agreed to begin the exchange of sales and purchasing missions as required to better understand each other's markets. This subject, like that of the exhibitions, will be discussed further during the visit of the China Council delegation to the United States later this year.

4. The two sides agreed to exchange trade, economic and technical information in order to better understand the economies and trade policies and practices in the two countries.

Discussions were held with the Bank of China by Gabriel Hauge on behalf of the National Council and the American banking community in light of the importance of financing and banking arrangements in the expansion of trade. These discussions will continue.

A special meeting on legal issues with the Legal Department of the CCPIT was held by Walter Sterling Surrey and Eugene A. Theroux on behalf of the National Council and the American legal community. A full and frank discussion ensued on the questions of establishment of mutually acceptable conciliation and arbitration procedures, mutual protection of industrial property rights (patents, trademarks and copyrights), insurance contracts, standard contract clauses for exports and imports and for the sale of plants, a *force majeur* clause, and the legal requirements of each country governing imports. The discussions will continue when the CCPIT delegation visits the United States.

Not surprisingly, the Chinese at all levels expressed concern at the present imbalance of trade between the two countries. Yet it was clear from the friendly reception to our delegation, as much as from the substance of the discussions themselves, that the Chinese are interested in developing trade relations with the United States. As explained in the foregoing statement,

however, the Chinese expect such trade to be conducted on the basis of equality and mutual benefit.

The National Council for U.S.-China Trade delegation was composed of:

Donald C. Burnham, Chairman, National Council; Chairman, Westinghouse Electric Corporation.

Christopher H. Phillips, President, National Council for U.S.-China Trade.

William A. Hewitt, Vice Chairman, National Council; Chairman and Chief Executive Officer, Deere & Co.

Gabriel Hauge, Secretary-Treasurer, National Council; Chairman of the Board, Manufacturers Hanover Trust Co.

Walter Sterling Surrey, Counsel, National Council; Senior Partner, Surrey Karasik and Morse.

Andrew E. Gibson, President, Interstate Oil Transport Co.

Fred M. Seed, President, Cargill, Inc.

William M. Batten, Chairman, J.C. Penney Co.

Charles H. Weaver, President, World Regions, Westinghouse Electric Corp.

Eugene A. Theroux, Attorney and vice President, National Council for U.S.-China Trade.

Officers of the national council for U.S.-China trade:

Chairman Donald C. Burnham.
Vice Chairman William A. Hewitt.
Vice Chairman David Rockefeller.
Secretary-Treasurer Gabriel Hauge.
Counsel Walter Sterling Surrey.
President and Executive Director Christopher H. Phillips.

Board of Directors

William M. Batten, Chairman, J.C. Penney Co.
W. Michael Blumenthal, Chairman, The Bendix Corp.
Anthony J.A. Bryan, President, Cameron Iron Works, Inc.
Donald C. Burnham, Chairman of the Board, Westinghouse Electric Corp.
Edward W. Cook, President, Cook Industries, Inc.
Andrew E. Gibson, President, Interstate Oil Transport Co.
John W. Hanley, President and Chief Executive Officer, Monsanto Co.
Gabriel Hauge, Chairman of the Board, Manufacturers Hanover Trust Co.
William A. Hewitt, Chairman and Chief Executive Officer, Deere & Co.
Donald M. Kendall, Chairman of the Board and Chief Executive Officer, Pepsi Co.
Joseph T. Kenneally, Chairman of the Board, International Systems & Controls Corp.
Robert H. Malott, President and Chief Executive Officer, FMC Corp.
David Packard, Chairman of the Board, Hewlett-Packard Co.
Kurt S. Reinsberg, Senior Vice President, Associated Metals and Minerals Corp.
Charles W. Robinson, President, Marcona Corp.
David Rockefeller, Chairman of the Board, The Chase Manhattan Bank.
Fred M. Seed, President, Cargill, Inc.
Walter Sterling Surrey, Esq., Attorney-at-Law, Surrey, Karasik and Morse.
Richard W. Wheeler, Senior Vice President, First National City Bank.
Thornton A. Wilson, Chairman of the Board, The Boeing Co.

Senator FANNIN. The next witness will be Mr. Henry R. Geyelin, executive vice president of Council of the Americas. Mr. Geyelin, I welcome you here this afternoon. If you will identify the gentlemen with you.

I apologize, I have to go to vote. But we have a very competent person, our counsel here, that will take over. Mr. Best will take over while I am gone.

Thank you.

STATEMENT OF HENRY R. GEYELIN, EXECUTIVE VICE PRESIDENT, COUNCIL OF THE AMERICAS, ACCOMPANIED BY: MICHAEL MILLER, VICE PRESIDENT, COUNCIL OF THE AMERICAS, AND HERBERT K. MAY, ECONOMIST AND CONSULTANT, COUNCIL OF THE AMERICAS

Mr. GEYELIN. My name is Henry R. Geyelin. I am the executive vice president of the Council of the Americas, and with me on my right is Mr. Michael Miller, vice president of the council, and on my left Mr. Herbert K. May, who is an economist and consultant for the council. These two gentlemen are assisting me on any questions that may come up.

I appreciate very much the opportunity to appear before this committee to discuss the proposed Trade Reform Act of 1973.

The structure of the U.S. trade policies, particularly as they pertain to Latin America, is of considerable concern to the Council of the Americas, an association of approximately 200 corporations which account for some 90 percent of all U.S. private investment in Latin America. We consider it important that the trade between the United States and Latin America be as large as possible.

The net direct benefits of such trade are important to both the United States and Latin America. In addition, such trade helps promote sound social, cultural, and political relations, as well as sound economic relations, between the United States and Latin America.

The council therefore endorses the purposes and, in general, the implemental provisions of the proposed Trade Reform Act. In particular, we encourage the Congress to grant the administration authority to establish the proposed system of generalized trade preferences.

In 1968, the executive committee of the Inter-American Council for Commerce and Production—CICYP—the principal business association of the Western Hemisphere, recommended that the United States and the other industrial countries adopt a system of generalized trade preferences for products of the developing countries, including Latin America. The Council of the Americas, which represents the U.S. private sector in CICYP, joined in the sponsorship and approval of that recommendation, and has reiterated its support of that position on many subsequent occasions.

For the past several years, especially since early in the 1960's, the economic policies of Latin American have been giving high priority to the promotion of exports. The governments and the people of that region recognize that their economic progress requires external resources, including external capital, technological, and managerial resources. However, they recognize that their economic progress depends above all on their own efforts, including their ability to obtain the export earnings needed to pay for the large amounts of external resources—the petroleum and other materials, the intermediate prod-

ucts, some of the capital goods, some of the durable and nondurable consumer goods and certain services—that they need and cannot expect to obtain through foreign investment and foreign loans.

Latin American exports have increased. That increase amounts to almost exactly 100 percent between 1958 and 1972. However, during that same period, exports by the rest of the world increased 324 percent. So, whereas Latin America had accounted for 10.4 percent of the world's exports in 1958, it accounted for only 5.3 percent in 1972. It is manufactured goods that have accounted for most of the expansion in world exports.

Most of the developing countries, including those of this hemisphere, have had great difficulty in breaking into the established markets for manufactured goods. The proposed extension of generalized trade preferences to those countries would give them an opportunity they need to increase their foreign exchange earnings, could stimulate their industrialization, would encourage diversification of their economies, and could accordingly accelerate their economic development.

The United States has been relying on Latin America to help meet our energy and other import requirements. Moreover, Latin America has been an important export market. In general, our balance-of-payments position vis-a-vis that region has been an important element of strength in our worldwide position. Some of the important facts in that regard, including certain facts that are not generally known, are summarized below:

The U.S. balance of merchandise trade with Latin America has been improving while it has been deteriorating with regard to the rest of the world. During 1960–64, the United States had an average annual deficit of about $25 million in its merchandise trade with Latin America. During 1970–72, that had changed to an average annual surplus of about $330 million. In 1972, the Latin American countries accounted for 15 percent of all U.S. exports and 13 percent of our imports.

Trade with Latin America in manufactured products alone has been overwhelmingly favorable to the United States, and increasingly so. In 1966, the United States had a surplus of more than $2.6 billion in such trade and that surplus increased to more than $3.6 billion in 1971. These surpluses were offset by deficits of $2.7 billion and $33 billion in 1966 and 1971, respectively, through trade in other products, including, for example, coffee and petroleum.

In 1971, the last year for which comprehensive data are available concerning trade in manufactured products alone, Latin America accounted for 16 percent of our exports of manufactured products, while it accounted for only 6 percent of our imports of such products.

Between 1958 and 1970, Latin America's total imports from the United States increased by $2548 billion or 62 percent, even though its exports to the United States increased between those areas by only $1.177 million—27 percent. In the same period, Latin America's imports from the rest of the world increased by $3.959 billion, 57 percent, even though its exports to the rest of the world had increased by $5.376 billion—96 percent.

That is, the percentage increase of Latin America's imports from the United States was actually somewhat larger than the percentage increase of its imports from the rest of the world despite the fact that the increase of its exports to the United States was very much smaller than the increase of its exports to the rest of the world.

During the full 13-year period, 1958–70, Latin America incurred a total trade deficit of $4.502 billion with the United States, as compared with a total trade deficit of only $68 million with the rest of the world. In fact, during each year of the 8-year period, 1963–70, Latin America actually obtained a trade surplus with the rest of the world while it was almost always incurring a very large trade deficit vis-a-vis the United States.

The aggregate trade surplus Latin America had with the rest of the world during 1963–70 amounted to $5.374 billion, and provided more than enough foreign exchange earnings to enable Latin America to cover its trade deficit of $3.759 billion with tht United States during those years.

What this demonstrates is the central fact that Latin America has been using a larger amount of its earnings for imports from the United States than has been true of other countries. That central fact is an important element in the reasoning that has led us to the conclusion that extension of the generalized trade preference to Latin America is not likely to constitute a significant burden for the U.S. balance-of-payments worldwide and might even help to improve it. The effectiveness of the trade preferences is likely to derive in large part from the competitive advantage that they will give to Latin American products over the comparable products now being sold to the United States by other countries. This will induce a shift in the source but not in the total of U.S. imports. And since the Latin Americans are more disposed than other countries to use their dollar earnings to pay for imports from the United States, any shift towards Latin America as a source of U.S. imports is likely to prove advantageous to the U.S. exports.

Of course, we recognize that the effectiveness of the trade preferences may be reflected not only in a shift of import sources, but also in an increase in import totals. It is accordingly reasonable that the proposed legislation should contain necessary safeguards to prevent any excessive increase in the total of U.S.. imports.

On the other hand, some of the safeguard provisions now under consideration appear unnecessarily restrictive. For instance, section 504(c), which provides that preferences shall be not applied to an article from a country that supplies 50 percent of the total value of or a quantity more than $25 million of the U.S. imports of that article during a calendar year, could be modified by one or all of the following four suggestions:

No. 1, by authorizing the President to restore the eligibility of an article for duty-free treatment in subsequent years if imports of that article fall below competitive need ceilings;

No. 2, by addition of an escalator clause whereby the $25 million ceiling would be increased each year either by a percentage equal to any increase of U.S. price levels, or, preferably, by some amount

corresponding to that increase of prices plus any increase of U.S. real gross national product;

No. 3, by providing that eligibility would not be withdrawn, even for 1 year, unless importation of the article in question has exceeded both the $25 million limit and the 50-percent limit; and/or

No. 4, by increasing the $25 million limit to a substantially larger figure.

One other thing that I would like to point out in section 502, which provides that the President may designate an "association of countries for trade purpose" as a "country" eligible for duty-free treatment under the proposed act. This could help any country within the trading association by reducing or removing any eligibility impediment that might otherwise confront it because of the 35-50-percent value-added requirement—section 503.

However, this commendable objective might be frustrated unless it is made clear in the proposed act that the $25 million, 50-percent limit would not become applicable to members of a trading association collectively.

The Council of the Americas believes that the proposed Trade Reform Act could make a major contribution to the welfare of all sectors of the American people, as well as to those of this country. We sincerely urge its enactment.

Thank you.

Mr. BEST. Thank you very much for the fine statement. As you know, Latin America is a group of very diverse countries with different levels of performance economically.

What are the major factors that explain the difference of performance, say, of Brazil in the last 3 or 4 years with, say, Brazil in the early 1960's?

Mr. GEYELIN. Let us say there are a variety of factors. I think the discontent, or let us say horror, with the political anarchy that existed there before 1964, the fact that the country was really in very dire straits and facing some truly large problems, suddenly there was a congealing of, I would say, the Brazilian spirit—the Brazilian people into a homogeneous mass. For the first time that seemed to work. It was a psychological euphoria which is very difficult to explain. It seemed to grab. It is that point at which one becomes filled with a national pride and goes forward. There was definite austerity imposed by Roberto Campos' concept of bringing the economy under control again, the type of austerity that you would have to be pretty much down in the mouth to accept.

The people accepted, saw immediate results and carried it forward.

I think most important, of course, you are asking for the difference between the 2 years, the real reason that Brazil has been able to forge ahead so rapidly is because of its size and its incredible potential wealth in human and natural resources.

Mr. BEST. Is there a marked relationship in the performance level with the attitude of the government toward the private sector?

In other words, could you show any correlation between, say, the amount of foreign investment and the activity of the private sector in Brazil and its recent performance as compared to its prior performance, and relate that to other countries as well?

Mr. GEYELIN. There is no question about it. The development process requires a tremendous amount of available capital. As soon as you encourage the inflow of that capital, primarily private, but also Government loans, you automatically increase the potential for development. I certainly feel very strongly that it has been their open door policy vis-a-vis all foreign capital which has created the rapid expansion which has taken place.

Mr. BEST. One final question.

Would you favor providing tariff preferences to any country which imposes embargoes on exports of vital raw materials to the United States?

Mr. GEYELIN. That is a rather difficult question to answer. I would say philosophically no, but it would depend on the circumstances. I would hate to see punitive action taken in any form to solve a situation. I do not think that it usually does solve it. I think it creates positions and confrontation, rather than solutions through a process and a convergence.

But I realize the political factors which may be involved in this. I do not know whether you would like to add anything to that, Mr. Miller.

Mr. MILLER. No.

Mr. BEST. Let me ask one other question. Several witnesses have suggested that there might be some precedent in the oil situation for other raw materials producers—bauxite, tin, et cetera.

Do you feel this is a possibility as far as any Latin American countries are concerned, that they might form an export cartel in products like copper, things we might be interested in?

Mr. GEYELIN. I frankly believe that the possibility exists. But I find the possibility to be quite remote. You see, you have a different problem with raw materials such as natural metals than you do with oil. There are no substitutes in sufficient quantity for oil as yet. Also, it was a major problem to get the OPEC nations together.

How many years did it take even on that one product?

When I think of having to pull together those countries exporting, bauxite and those countries exporting copper—because you have to consider the two together since aluminum can substitute for copper, therefore you have two products that can be balanced off against each other. Also, if you look at the list of the nations who happen to be the prime exporters of these products, it seems pretty inconceivable that they could come to any political agreement of any kind. I think the chances are very remote, although I think it will be tried.

Somebody said the other day, they had a meeting of all the banana exporting nations saying they ought to up the price of bananas. Somebody else pointed out that people are not going to stand in line for hours for a banana.

Senator FANNIN. Thank you, Mr. Best. I am sorry I was not here to hear your full testimony. As you know, we are voting, and they are coming fast and furious this afternoon.

I was very interested in what you have had to say. I have just been glancing at your statement. I understand you represent approximately 200 corporations accounting for some 90 percent of the private U.S. investment in Latin America. You are associated quite

closely with some of the programs, such as the tariff arrangements that we have been talking about this afternoon, 807 and the 806.30 of the tariff schedules.

What is your feeling with regard to those tariff provisions?

Mr. GEYELIN. My exposure to them and the problems involved have been limited to the border industrialization program between Mexico and the United States. Those are the two sections you are referring to?

Senator FANNIN. We do have the same arrangements with other countries.

Mr. GEYELIN. In Taiwan?

Senator FANNIN. Some of the South American countries. You have plants in Brazil, Argentina, I would think would also be involved.

Mr. GEYELIN. I do not think to the extent that the border countries are.

Senator FANNIN. But this is a direct arrangement. But they still would be involved because I do know of some manufacturers that are in Brazil that do supply parts and equipment under this provision.

Mr. GEYELIN. Under the value added provision?

Senator FANNIN. Yes.

Mr. GEYELIN. I do not know what percentage they are. I would like to ask Mr. May if he has some information on that question.

Mr. MAY. No, I do not have.

Senator FANNIN. Are you involved to any extent with Mexico?

Mr. GEYELIN. Yes, indeed. We have a rather strong and active Mexican-United States committee.

Senator FANNIN. When you are speaking of 200 corporations, are any of those in Mexico?

Mr. GEYELIN. Oh, yes. A large number of them are.

Senator FANNIN. That is what I was wondering. Then you would be very much concerned about this section 807?

Mr. GEYELIN. Very much. We feel it has been a very positive development, not only for helping to solve some of the Mexican but also U.S. unemployment problems. Although I have had many arguments about this with the AFL–CIO, I have not yet been able to find any documentation which shows anything other than the fact that this has helped U.S. employment rather than hinder it. There may have been what I will call job displacements as a result, but no loss of jobs. All the figures we have seen would tend to show an increase in U.S. employment as a result of the border industrialization program.

Senator FANNIN. From a standpoint of what has happened along the border of my State of Arizona, I know that is true. How extensive it is, I am not sure of. But we are developing additional information.

I would also be interested in what is happening as far as the other Latin American countries, because I do feel that we do have a great obligation to work with our neighbors in the Americas and I am hopeful that we can better promote our relationship and trade relationship. I am concerned when I read some of your statistics as to what has happened. I am wondering, you have given percentages and have also given some definite amounts.

Latin American exports increased 100 percent between 1958 and 1972. During the period, exports for the rest of the world increased 313 percent. Exports for the industrialized countries only increased 324 percent. Whereas Latin America accounted for 10.4 percent of the world's exports in 1958, it only accounted for 5.3 percent in 1972.

But your exports were increasing, were they not?

Not percentagewise, but in dollar volume?

Mr. GEYELIN. I would like to turn that question over to Mr. May.

Mr. MAY. Latin American exports did increase substantially, yes. They just about doubled in dollar value to the world as a whole. But you realize, of course, that our only point here is they did not increase nearly as much as the exports of the developed countries, which recorded the really big increase in world exports, in both absolute and percentage terms.

Senator FANNIN. I understand that. I do understand that percentagewise it has not been to the extent of the other countries.

Your agricultural exports like soybeans have taken tremendous increase in just the last year.

Do you feel that that will continue?

Mr. MAY. I think so, yes.

Senator FANNIN. I just happen to have read an article about the increase in soybean production and the production for the future. In that article, the author of the article is very optimistic.

Mr. MAY. Brazil is one of those countries that is making a special effort to do so. I think it will.

Senator FANNIN. As far as Argentina is concerned, how about the export of livestock or meats?

How has it been in the last year compared to prior years?

Mr. MAY. I am sorry, Senator, I cannot give you a confident answer on that. I could find out easily for you.

Senator FANNIN. Are you active in Argentina?

Mr. GEYELIN. Yes, very definitely. As a matter of fact, many of the members of the council, I would say probably about 25 percent or more, have operations of some type in Argentina.

I would also add, last year I do not believe that the beef exports from Argentina went up a great deal because they had not redeveloped their livestock and they were having difficulty meeting internal consumption, which is an incredible amount, something like 1¼ pound per person per day.

Senator FANNIN. I was just glancing at your statement to see if there were any particular problems that you have that you feel are most important as far as this trade legislation is concerned. I imagine you have covered them with Mr. Best.

Mr. GEYELIN. The only things that I think I mentioned was that part on section 504(c) which had the limitation or the restrictions on the amount to be imported, and then, although I know this was not intentional, I think it could be misconstrued that in section 502, where two or three countries are contributing to an export, where they can get an association of countries for trade purposes designation, that if the limitation is $25 million or 50 percent by all three of those countries, then you are cutting out an awful lot of their

potential exports whereas it should be part of the $25 million of each country adding up to 75 percent.

Senator FANNIN. It was done for a certain purpose.

Mr. GEYELIN. It may not be the intent. I think it could easily be clarified.

Senator FANNIN. Thank you very much, Mr. Geyelin. We certainly appreciate you being here this afternoon. We appreciate your patience, and I hope that the members will—I know a great many of them will read your testimony and will benefit by it.

Mr. GEYELIN. We very much appreciate the opportunity.

[Mr. Geyelin's prepared statement follows:]

STATEMENT BY HENRY R. GEYELIN, EXECUTIVE VICE PRESIDENT, COUNCIL OF THE AMERICAS ON A GENERALIZED SYSTEM OF PREFERENCES OF THE PROPOSED TRADE REFORM ACT OF 1973

Mr .Chairman and members of this distinguished committee, I appreciate this opportunity to appear before this Committee to discuss the proposed Trade Reform Act of 1973.

The structure of the U.S. trade policies, particularly as they pertain to Latin America, is of considerable concern to the Council of the Americas, an association of approximately 200 corporations which account for some 90 per cent of all U.S. private investment in Latin America. We consider it important that the trade between the United States and Latin America be as large as possible. The net direct benefits of such trade are important to both the United States and Latin America. In addition, such trade helps promote sound social, cultural, and political relations, as well as sound economic relations, between the United States and Latin America.

The Council therefore endorses the purposes and, in general, the implemental provisions of the proposed Trade Reform Act. In particular, we encourage the Congress to grant the Adminstration authority to establish the proposed system of generalized trade preferences.

In 1968, the Executive Committee of the Inter-American Council for Commerce and Production (CICYP), the principal business association of the western hemisphere, recommended that the United States and the other industrial countries adopt a system of generalized trade preferences for products of the developing countries, including Latin America. The Council of the Americas, which represents the U.S. private sector in CICYP, joined in the sponsorship and approval of that recommendation, and has reiterated its support of that position on many subsequent occasions.

For the past several years, especially since early in the sixties, the economic policies of Latin America have been giving high priority to the promotion of exports. The governments and the people of that region recognize that their economic progress requires external resources, including external capital, technological, and managerial resources. However, they recognize that their economic progress depends above all on their own efforts, including their ability to obtain the export earnings needed to pay for the large amounts of external resources—the petroleum and other materials, the intermediate products, some of the capital goods, some of the durable and non-durable consumer goods, and certain services—that they need and can not expect to obtain through foreign investment and foreign loans.

Latin American exports have increased. That increase amounts to almost exactly 100 per cent between 1958 and 1972. However, during that same period, exports by the rest of the world increased 313 per cent, while exports by the industrial countries alone increased 324 per cent. So, whereas Latin America had accounted for 10.4 per cent of the world's exports in 1958, it accounted for only 5.3 per cent in 1972. It is manufactured goods that have accounted for most of the expansion of world exports. Most of the developing countries, including those of this Hemisphere, have had great difficulty in breaking into the established markets for manufactured goods. The proposed extension of generalized trade preferences to those countries would give them an opportunity they need to increase their foreign exchange earnings; could stimulate

their industrialization; would encourage diversification of their economies; and could accordingly accelerate their economic development.

The United States has been relying on Latin America to help meet our energy and other import requirements. Moreover, Latin America has been an important export market. In general, our balance of payments position vis-a-vis that region has been an important element of strength in our worldwide position. Some of the important facts in that regard, including certain facts that are not generally known, are summarized below:

(a) The U.S. balance of merchandise trade with Latin America has been improving while it has been deteriorating with regard to the rest of the world. During 1960–1964, the United States had an average annual *deficit* of about $25 million in its merchandise trade with Latin America. During 1970–1972, that had changed to an average annual *surplus* of about $330 million. In 1972, the Latin American countries accounted for 15 per cent of all U.S. exports and 13 per cent of our imports.

(b) Trade with Latin America in manufactured products alone has been overwhelmingly favorable to the United States, and increasingly so. In 1966, the United States had a surplus of more than $2.6 billion in such trade and that surplus increased to more than $3.6 billion in 1971. (These surpluses were offset by deficits of $2.7 billion and $3.3 billion in 1966 and 1971, respectively, through trade in other products, including, for example, coffee and petroleum.) In 1971, the last year for which comprehensive data are available concerning trade in manufactured products alone, Latin America accounted for 16 per cent of our exports of manufactured products, while it accounted for only 6 per cent of our imports of such products.

(c) Between 1958 and 1970, Latin America's total imports from the United States increased by $2,548 million, or 62 per cent, even though its exports to the United States increased between those years by only $1,777 million $27 per cent). In the same period, Latin America's imports from the rest of the world increased by $3,959 million, 57 per cent, even though its exports to the rest of the world had increased by $5,376 million (96 per cent). That is, the percentage increase of Latin America's imports from the United States was actually somewhat larger than the percentage increase of its imports from the rest of the world despite the fact that the increase of its exports to the United States was very much smaller than the increase of its exports to the rest of the world.

(d) During the full 13-year period, 1958–1970, Latin America incurred a total trade deficit of $4,502 million with the rest of the world. In fact, during each year of the eight year period, 1963–1970, Latin America actually obtained a trade *surplus* with the rest of the world while it was almost always incurring a very large trade *deficit* vis-a-vis the United States. The aggregate trade surplus Latin America had with the rest of the world during 1963–1970 amounted to $5,374 million, and provided more than enough foreign exchange earnings to enable Latin America to cover its trade deficit of $3,759 million with the United States during those years.

(e) However, there was a sharp change in the regional distribution of Latin America's trading relationships during 1971 and 1972—a change that corresponded closely to the basic change that took place in the United States' worldwide trading relationships in those years and that was probably influenced by some of the same factors, including particularly the increasingly inappropriate foreign exchange values of the U.S. dollar and the Latin American currencies that were in practice tied to the dollar. For while Latin America incurred a trade deficit aggregating $1,892 million vis-a-vis the United States during 1971 and 1972, it incurred a much larger trade deficit, aggregating $3,696 million vis-a-vis the rest of the world. It will be recalled that in 1970 the U.S. had a small trade surplus ($462 million) with the other developed countries of the world, but that it had then experienced a trade deficit with those countries of $3,611 million in 1971 and $6,517 million in 1972. Latin America's trading position with those same countries deteriorated in much the same way: from a small surplus in 1970 ($32 million) to a deficit of $1,262 million in 1971 and $2,032 million in 1972.

It is accordingly evident that the United States has been very fortunate in its trading relations with Latin America since 1958. However, some concern must be expressed over the deterioration of those relations from the Latin

American point of view. For the percentage of Latin America's total exports that has been purchased in the United States has been steadily declining, having amounted to only 34 per cent during 1969–1972, as compared with 44 per cent in 1958. To be sure, this does not reflect any decline in the dollar value of Latin America's exports to the United States. On the contrary, those exports were 32 per cent higher during 1969–1972 than in 1958. Nevertheless, it is significant that Latin American exports to the rest of the world increased by 99 per cent over that period. Moreover, part of the increased dollar value of the region's exports was offset by the 19 per cent increase of U.S. wholesale prices during those years. In terms of purchasing power, Latin American exports to the United States had increased by 11 per cent while the increase to the rest ofthe world was 67 per cent.[1]

Of course, Latin America's well-being, including its economic development, was promoted by the expansion of its exports to all foreign markets. On the other hand, the fact that the expansion took place predominantly in countries other than the United States may have contributed to the weakening of the economic, psychological, and political relations between that region and the United States. Moreover, that weakening has unquestionably been enhanced by the fact that since mid-1971 the European Economic Community and Japan have been extending import preferences to the manufactured products of the Latin American and other developing countries, while the United States has not done so despite the official endorsement it has given to such measures since 1967. It ishardly surprising that the public and the governments of Latin America have manifested increasing irritation over this evidence that the European community and Japan—countries whose markets for Latin American products have for several years been growing much more rapidly than the U.S. market—are disposed to increase the accessibility of those markets, while the United States has so far shown no such disposition other than through pronouncements of good intent.

The extension of generalized trade preferences to Latin America is not likely to constitute a significant burden to the overall U.S. balance of payments. Three factors should be noted in this respect: *First*, the effectiveness of the tariff preferences will probably derive in large part through strengthening the competitiveness of Latin American products vis-a-vis the comparable products of developed countries; this would constitute a shift in the source, but not the total, of U. S. imports. *Second*, while all countries use part of their dollar export earnings to pay for imports from the United States, the percentage of the total earnings used in this way is much larger in Latin America than in the developed countries; therefore, total U.S. exports will be promoted insofar as Latin America replaces the developed countries as a source of U.S. imports. And, of course, *third*, the proposed legislation would contain necessary safeguards to prevent any excessive increase in the total of U.S. imports that might result from the tariff preferences.

In this connection, it appears that the proposed legislation calls for some safeguards that are unnecessarily restrictive and we request that consideration be given to the following observations:

1. Sec. 504(c) of the proposed Act provides that, unless the President determines the contrary to be in the national interest, he must withdraw the eligibility of any article for duty-free treatment when imports of that article from a developing country in any calendar year have exceeded $25 million or have equalled or exceeded 50 per cent of the total imports of that article into the United States. It seems at least possible that this provision, as presently worded, might very largely vitiate a principal purpose of preferences: to encourage industrial development in the developing countries and improve their access to the markets of developed countries. The national investment necessary for this purpose might be deterred unless the present wording is revised in one or all of four different respects:

a. by authorizing the President to restore the eligibility of an article for duty-free treatment in *subsequent* years if imports of that article fall below competitive need ceilings;

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[1] The major sources for the statistics presented in this statement are: the *Survey of Current Businesses*, the United Nation's *Monthly Bulletin of Statistics*, the International Monetary Fund's annual *Direction of Trade*, and the U.S. Commerce Department's annual reports concerning detailed imports and exports (FT 210 and FT 610).

b. by adding an escalator clause whereby the $25 million ceiling would be increased each year either by a percentage equal to any increase of U.S. price levels or, preferably, by some amount corresponding to that increase of prices plus any increase of U.S. real gross national product;

c. by providing that eligibility would not be withdrawn, even for one year, unless importation of the article in question has exceeded *both* the $25 million limit *and* the 50 per cent limit; and/or

d. by increasing the $25 million limit to a substantially larger figure.

2. Sec. 502 provides that the President may designate an "association of countries for trade purpose" as a "country" eligible for duty-free treatment under the proposed Act. This could help any country within the trading association by reducing or removing any eligibility impediment that might otherwise confront it because of the 35-50 per cent value-added requirement (Sec. 503). This is a commendable objective. However, the Latin American delegates to the Conference of the Inter-American Economic and Social Council in Quito, Ecuador in March 1974 expressed serious concern over the fact that this objective might be frustrated—that is, that membership in trading associations might actually be discouraged—because the $25 million/50 per cent limit would then become applicable to the members of the trading association *collectively*, under Sec. 504(c). The Latin American concern seems well founded, and it is hoped that the present wording can be modified so as to respond to that concern.

The Council of the Americas recognizes, of course, that the proposed system of generalized trade preferences will be helpful to Latin America only insofar as those countries pursue the policies that will enable them to take advantage of the preferences, including appropriate policies with respect to import substitution, exchange rates and exchange controls, fiscal and monetary measures, foreign investments, etc. . . . However, assuming the appropriate policies, the generalized trade preferences could lead not only to the national economic progress discussed above, but also to a strengthening of economic integration among the Latin American countries. For an increase of industrial production and productivity could enable the various countries to sell to one another at lower prices. An expansion of sales in the U.S. market would increase the readiness of the manufacturing companies now in the area to accept the competition of other manufacturing companies now in the area. In addition, the marketing experience to be gained by participating in the U.S. market could be very helpful in improving present intra-Latin American marketing practices. Finally, the internal measures that would help the Latin American countries take advantage of the U.S. preferences—including, for example, the achievement of greater monetary stability—would also be helpful in providing the general economic framework necessary for development of the Latin American common market.

To summarize: The Council of the Americas believes that enactment of the proposed Trade Reform Act of 1973 which would include a generalized system of preferences, would constitute an important step toward promoting many of the objectives in which, by good fortune, there is a clear convergence of the best interests of both the United States and Latin America.

Senator FANNIN. I understand we have Mr. Bart Fisher.

You are with the International Marine Expositions, Inc.?

STATEMENT OF BART FISHER, COUNSEL, INTERNATIONAL MARINE EXPOSITIONS, INC.

Mr. FISHER. My name is Bart Fisher. I am with the Washington, D.C. law firm of Patton, Boggs & Blow. Mr. Thomas Boggs, who was scheduled to be here with me, had a schedule conflict, and could not attend this hearing, which he regrets.

I am here speaking as counsel for International Marine Expositions, which is a corporation composed of over 600 manufacturers of recreational boats, marine engines, and marine accessories. I am here, in other words, on behalf of the U.S. recreational marine industry. I

appreciate the opportunity to talk with you about the Trade Reform Act of 1973.

Let me say, at the outset, that the pleasure boating industry generally supports the Trade Reform Act of 1973. We believe that it is sound legislation that can lead to a more open world economy. We believe that a good trade bill should do three things for the United States. First, a good trade bill should give to the President the powers needed to negotiate away tariff and non-tariff barriers to trade, so we can have access to foreign markets for the goods that we want to export from the United States.

Secondly, a good trade bill should contain measures to ameliorate sharp dislocations caused by the importation into the United States of foreign products: and thirdly——

Senator FANNIN. I am sorry to interrupt, but Senator Hansen will be here. He agreed to vote and come over immediately, so he will be here very shortly, if you could just await his arrival.

At the time he comes back, you can proceed. I apologize.

[A brief recess was taken.]

Senator HANSEN (presiding). Please proceed, sir.

Mr. FISHER. I just started my statement.

I am speaking to you on behalf of International Marine Exposition, which is representing the pleasure boat industry, and I was just beginning to say that I think that the Trade Reform Act of 1973 should do three things for the United States. First, it should assist the United States in obtaining access to foreign markets. Secondly, it should help to contain the sharp disruptions caused by excessive foreign imports into the United States. Thirdly, a good trade bill should help the United States to obtain access to needed foreign supplies. Our comments will be directed to these three categories.

With respect to access to foreign markets, we support title I of the Trade Reform Act, which would give the President the authority for 5 years, to enter into trade agreements with foreign countries on tariffs and non-tariff barriers to trade. We believe, based on our own experience, that the key problems United States industry will be facing in the years ahead are in the non-tariff area. We have suffered from nontariff trade barriers such as discriminatory taxes, customs entry procedures, and discriminatory standard procedures. These are barriers that are very subtle, but nonetheless terribly important for the U.S. boat industry.

We have had substantial difficulties in the area of nontariff trade barriers with Japan in particular. The main problem is with the concept of national treatment. In the United States we give effective national treatment. That is to say, we treat foreigners selling into the United States the same way as we treat U.S. citizens, for purposes of applying the boat safety standards, for example. This is not the case in Japan. In Japan, we have found a myriad of obstacles that effectively blunt national treatment. We have found, for example, that U.S. manufacturers must turn over their plans and specifications for boat engines, which is really proprietary information, in order to get the product into Japan. This is a problem. We also have found that boat engines have to be uncrated at the port of entry, and tested before they can enter into Japan. This adds $50 to the cost of

each engine. In Japan, if they do this off the assembly line, they do not pay that sum; there is not, then, effective national treatment in Japan. As a result of this kind of harassment of U.S. exporters trying to sell boats to Japan, we have only exported, in the year 1971, 558 units of pleasure craft to Japan, which is valued at $800,000. This is obviously a miniscule sum, and not nearly commensurate to what we ought to be moving into the market in Japan.

So, we think that what trade negotiations should do is negotiate access to foreign markets by moving on this problem of safety standards, as an example; and that we should, in this round of trade talks, negotiate a code on safety standards. It would be based on the principles of national treatment, harmonization of standards, recognition of foreign tests, and a sophisticated system of liability management that would insure that you could sue one or more of the people making defective products moving into your country. And we think that separate negotiations should take place for each product; therefore, for boats, for example, you would have one annex to a general code on standards; for pharmaceuticals another.

Needless to say, this is a very complicated arrangement. I am going into it in some detail in order to relate it to the trade bill, because this is what you are going to have to deal with. The trade bill, as it is written, grants nontariff trade barrier negotiating authority in the familiar vernacular of multilateral negotiations, based on the most-favored-nation principle. Under the most-favored-nation principle, if you give a tariff cut to country A, all other countries obtain the benefit of this reduction. We believe this is highly inappropriate for some nontariff trade barrier agreements. It just does not work in areas such as safety standards and government procurement, and should not apply. The benefits of these agreements should not apply to those countries that do not accept the obligations of that arrangement; and, the way the trade bill is presently written, you do not have the nontariff trade barrier negotiating authority not to make the benefits available to everybody.

Now, the House Ways and Means Committee report makes it clear that only the most-favored-nation kind of application is meant by the bill. This is a fundamental mistake, and Professor Gardner alluded to it this morning. He was not sure of the bill's draft. I have gone through it carefully with the STR's office, and they agree that this is a problem. So, I think that this should be remedied when you draft the bill.

Having said that we want this kind of non-MFN negotiating power with respect to nontariff trale barriers, let me reiterate our support for the sector principle of trade negotiations. We believe that substantial progress can be made within the sector approach.

Our second major concern is with the excessive importation of foreign products into the United States, or the safeguard system in title II of the trade bill. We believe that there should be a viable safeguard system designed to move against excessive foreign imports. We have had a serious problem with respect to excessive imports in the boat industry. Japan in 1968 had 7 percent of the U.S. boat market. Now it has 19 percent of the market. So we have experienced this problem. We have experienced difficulty in trying to get relief

with the escape clause, which requires a link to prior tariff concessions as the reason for increased imports into the United States. This is an impossible condition to prove. You cannot prove that the increased imports are due in major part to tariff concessions. And you certainly cannot prove that the harm involved is related to the most recent set of tariff concessions, as opposed to the aggregation of all prior tariff concessions. It has been nearly impossible to establish this link to prior tariff concessions, which has resulted in negative determinations of 18 out of 25 escape clause cases. This link to prior trade concessions should be eliminated from the trade bill.

Finally, we believe that a trade bill should address the problem of access to foreign supplies. Now, the boating industry, which manufactures boats of fiberglass-reinforced plastic, or FRP, which is composed primarily of polyester resins, is in deep trouble because of the critical shortage of petrochemical feedstocks and finished chemicals required for the fabrication of the resins. In short, we cannot get the petrochemicals that we need to make our fiberglass boats.

Our parent trade associations, the Boating Industries Association, and the National Association of Engine and Boat Manufacturers, have informed us that over 40 percent of their members have had trouble getting resins. They cannot get adequate supplies. Forty percent of those answering their surveys have had layoffs or shutdowns as the result of raw material shortages. Domestically, we feel that a new set of policies should be pursued, such as allocation of end uses of available petroleum and petrochemicals. On the export side, the trade bill should look to this problem of access to foreign supplies as well.

In summary, we hope that the trade bill will assist in obtaining access to foreign markets, containing excessive imports of foreign products into the United States, and insuring access to needed supplies for the United States. If it does these things, it will be a good bill and will serve the national interests of the United States. Thank you very much.

Senator HANSEN. Mr. Fisher, thank you very much for your testimony. As I am certain you already have been advised, your entire statement will be printed in the record.

[The prepared statement of Thomas H. Boggs and Bart S. Fisher follows:]

SUMMARY OF TESTIMONY OF INTERNATIONAL MARINE EXPOSITIONS, INC.

1. International Marine Expositions, Inc., generally supports the Trade Reform Act of 1973 as drafted by the House Ways and Means Committee.

2. Title I of the Trade Reform Act of 1973 should be amended to clarify the negotiating powers of the President with respect to nontariff barriers to trade. Specifically, the President should be empowered to negotiate agreements on nontariff barriers to trade on a nonmultilateral basis that do not apply to the products of all foreign countries. The Trade Reform Act of 1973 should recognize that the Most-Favored-Nation principle, while useful in the area of tariff negotiating authority, may not be useful in negotiating on nontariff trade barriers. Many nontariff trade barrier agreements, including those on safety standards, should not confer benefits on countries who do not undertake the obligations of the agreement.

3. International Marine Expositions, Inc. supports the negotiation within the General Agreement on Tariffs and Trade (GATT) of an agreement on safety

standards. An agreement based on the general principles of national treatment, harmonization of safety standards, recognition of the tests of other countries, and liability management should be negotiated. Agreements on specific products should be added to the general agreement as annexes.

4. International Marine Expositions, Inc. supports Title II, which deals with fairly-priced foreign imports. A viable "safeguard" system, based on the causation and injury criteria drafted by the House Ways and Means Committee, should be adopted.

5. There should be equality of tariff treatment for boat imports in the United States and Canada, as opposed to the burdensome tariffs presently levied on pleasure boats by the Canadian government. There is equality of tariff treatment for automobiles and snowmobiles under the United States-Canadian Automotive Products Agreement of 1965. We feel that there is no rational basis on which to make a distinction between boats which are not covered and other transportation equipment which is covered by the accord.

TESTIMONY OF INTERNATIONAL MARINE EXPOSITIONS, INC.

Mr. Chairman; my name is Thomas H. Boggs, and I am appearing today as Counsel for International Marine Expositions, Inc., a corporation composed of over 600 manufacturers of recreational boats, marine engines and marine accessories. I am accompanied by Bart S. Fisher, an associate in my law firm in Washington, D.C. We appreciate the opportunity to testify on behalf of the recreational marine industry in favor of the general provisions and objectives of the Trade Reform Act of 1973 (TRA). Our industry has a major stake in the world economy. In 1971, $3.6 billion was spent by Americans for marine equipment and services; 9 million recreational boats were in use of American waters; and 45 million Americans went boating. In 1971, 495,000 outboard motors were sold in the United States, with a retail value of $362.3 million, and 278,000 outboard boats were sold, representing retail dollar sales of $189 million. The exports of pleasure boats in 1970 were almost $28 million, and imports of pleasure boats into the United States were over $35 million.

International Marine Expositions, Inc., supports the Trade Reform Act of 1973. It comes before this Committee as part of an industry that has been hampered by the presence of tariff and nontariff barriers abroad. While we appreciate the recent concern of the Committee with the problem of access to scarce supplies for the United States, we view the TRA as a vehicle that may assist in obtaining greater access to foreign markets for the products that we would like to export. We wish to make it clear that we believe the marine industry would benefit from a more open and equitable world trading economy. On the other hand, we believe that a strong "safeguard" system should accompany further liberalization of imports for the United States. Thus, we will direct our comments on the TRA to Title I, which deals with authority for new trade negotiations, and Title II, which deals with relief from disruption caused by fairly priced foreign imports (the "safeguard" system). Secondly, we believe that there should be equality of tariff treatment for boat imports in the United States and Canada, as opposed to the burdensome tariffs presently levied on pleasure boats by the Canadian government. There is equality of tariff treatment for automobiles and snowmobiles under the United States-Canadian Automotive Products Agreement of 1965. We feel that there is no rational basis on which to make a distinction between boats which are not covered and other transportation equipment which is covered by the accord.

AUTHORITY FOR NEW TRADE NEGOTIATIONS: TITLE I OF THE TRADE REFORM ACT

International Marine Expositions, Inc. believes that the negotiating authority for a new round of trade talks within the General Agreement on Tariffs and Trade (GATT) is the most important part of the trade bill for the Administration. We recognize that the tariff-cutting authority of the President expired on June 30, 1967, and that no meaningful round of trade talks can be carried on by the United States without a new delegation of negotiatinga uthority by the Congress. Accordingly, we support the concept of a five-year delegation of authority from the Congress to the President to enter into trade agreements

with foreign countries. We believe that the Executive should have the authority to modify tariffs downward as he determines to be necessary, and upward to levels not above 50 percent of tariff levels presently prevailing. Most importantly, the delegation of negotiating authority in Title I should cover nontari ffbarriers to trade (NTB's). Our industry, like many others, has discovered that the key barriers to trade now that tariffs have been reduced in many markets are NTB's such as discriminatory taxes, customs entry procedures, and discriminatory standards procedures.

Let us give you an example of the type of NTB that has limited our ability to sell in foreign markets, the problem of standards for safety for pleasure craft. In the United States, the burdens that apply for boat safety are no different for a domestic or a foreign manfuacture of pleasure craft, either in design or in the implementation of our laws. In other words, under the terminology of the GATT, the United States provides effective "national" treatment by treating foreigners selling into our market in the same manner as U.S. citizens selling into the domestic market. In Japan, where our industry has had a difficult time gaining entry to the local market, a far different situation exists. In order to import boat hulls or engines into Japan, a preliminary inspection system is applied, which entails the inspection of a prototype of the engine desired to be imported into the country. In practice, the Japanese Government requires the submission of plans and specifications of the boat equipment imported into Japan. The inspection of the prototype and blueprints of equipment involves turning over to the Japanese Government proprietary trade secrets which, understandly, many U.S. manufacturers are reluctant to do. As a result, several U.S. boat manufacturers have decided to not export to Japan rather than divulge such information. Japanese boat manufacturers must also submit prototypes for model approval by the Government, but, in view of the extremely close relationship that exists between Japanese business and the Japanese Government, it is not unreasonable to assume that domestic proprietary information is treated more carefully than such information from U.S. exporters. A second part of the preliminary inspection system in Japan is the uncrating of U.S. engines and application of tank tests before such engines may be placed in the flow of Japanese commerce. Several U.S. manufacturers have complained about the delays that are frequently encountered in obtaining inspectors to perform such tests expeditiously in Japan, and the extra cost (about $50 per unit) of such tests.

Partially as a result of the discriminatory design and application of Japanese boat safety standards, and partially as a result of the 7.5 percent tariff coupled with a 40 percent commodity tax on pleasure boats over 20 feet in length, U.S. sales of pleasure boats into Japan's market have been miniscule. In 1971, the United States exported only 558 units of pleasure craft to Japan, valued at $808,407. This is a particularly small sum in view of the fact that Japanese dealers freely state that American motor-boats have the best sales potential in Japan. Despite somewhat higher prices, American boats appeal to Japanese consumers because of their appearance and performance, and are small enough to transport overland and to house in their multistoried facilities at local marinas.

What can be done about standards in the forthcoming round of trade negotiations under the TRA? Quite a lot, we believe. We recommend a four-point GATT code on safety standards to complement the current treaty framework of the organization.

1. *National Treatment*

Present Article -X of the GATT provides only that safety standards may not be applied in a manner that would be arbitrary or unjustifiable in terms of discriminating against imported products, or a disguised restriction on international trade. In other words, safety standards affecting foreigners are permissible where the restrictions do not hurt trade more than is necessary to achieve the desired domestic goal. A tighter definition of national treatment is needed in the new GATT standards code. It must be made clear that imported goods are to be treated in the same manner as domestic goods. The new GATT code should provide that, after a transition period, no nation shall directly or indirectly impose health, safety, or standardization requirements on imported goods that are more severe than those imposed on domestically-produced goods.

2. *Harmonization of Standards*

A new international organization should be established to negotiate product and process standard harmonization, by unanimity or by qualified majority. The institution should also be empowered to establish minimum standards for environmental and safety protection during the manufacturing process and permit the application of specified trade adjustments to compensate for manufactures that fail to meet such minimum standards. The approach of withdrawal of trade concessions suggested by the Administration with respect to the denial of scarce foreign supplies should also be considered in the safety standards area, which, in the long run, may be as great a deterrent to free trade as self-denying restraints on trade.

Harmonization of standards is important for two reasons. First, it would tend to eliminate the multiplicity of standards that plagues the international trading system. Volkswagen, for example, must manufacture ten different models to satisfy national safety requirements. Secondly, harmonization of standards would tend to eliminate the problem of domestic in-process testing. For example, all compressed gas cylinders transported in the United States must be testing during the course of manufacture in the United States, a requirement that is obviously impossible for foreigners to comply with. France has a similar in-process testing requirement for pharmaceutical products. To the degree that harmonization of standards is present, it can be seen that the problem of domestic in-process testing becomes more of a non-issue. If all countries have the same standards for testing, there is less justification in demanding that such in-process testing take place domestically. It should be possible to use expert panels, or members of the code organization to formulate desirable testing standards.

While an indentity of national safety standards will probably be impossible in some areas, a waiver system accepting "comparability" of standards could be established. The code should provide that national standards in the safety field should be promulgated with adequate publicity, that public consultation procedures be available, and that a reasonable delay period be allowed to permit citizen input.

3. Recognition of National Testing

The code should provide for recognition of in-process tests and chemical analyses performed in all countries. The code should make it clear that products tested and approved during the course of manufacture in one country should be accepted without further testing by another country. Certificates granted for the successful completion of tests and chemical analyses would be accepted without reservation by the importing country.

Compliance with in-process testing standards should be monitored by international inspectors supplied by the GATT or a "neutral" international organization; the monitoring organization could check compliance by testing samples provided by the manufacturer, or inspecting the manufacturer's operations during the course of manufacture. It would not seem prudent to leave the task of monitoring to national authorities, who might have a vested interest in encouraging the exportation of their nation's products to improve the balance of payments or for other reasons.

4. Liability Management

A sophisticated system of liability management should be provided in the code to insure that all citizen losses resulting from defective foreign products are compensated as rapidly as losses from domestic product defects.

5. The GATT Standards Code and the Trade Reform Act of 1973

We have gone into some detail on our view of the desirable shape of a GATT code on standards in order to suggest some refinements in the Trade Reform Act of 1973. Our view is that any GATT standards code would have two parts. The first part would be general provisions containing the principles described above of national treatment, harmonization of standards, recognition of national testing, and liability management. The second part would be annexes for each product covered under the pact. Boat safety provisions would, then, be an annex to the more general pact, as would, e.g., pharmaceuticals.

When each annex is negotiated, it would seem that the more nations that are involved, the more successful such a pact would be. Nevertheless, even a two-

member pact could be successful, and the TRA should be altered to take account of that possibility. The nontariff barrier negotiating authority granted in section 102 of the TRA is written in the traditional terminology of multilateral trade negotiations, and the Ways and Means Committee report explicitly states that: "The authority granted in section 102 is not intended to be an additional grant of authority for the President to extend the benefits of trade agreements on less than a nondiscriminatory basis." We believe that the TRA should be "opened up" to provide for a cross-network of bilateral standards negotiations, in addition to the overall negotiation on the general principles themselves.

Upon reflection, it can be seen that the additional bilateral authority suggested would expand the possibilities for meaningful negotiations on standards. A series of discussions, each dealing with one annex to the pact, could simultaneously be conducted in order to obtain the maximum mileage in terms of trade-offs. The United States, for example, could agree to give up its requirements on in-process testing for compressed gas cylinders in return for concessions by Japan on boat safety.

In addition to specific bilateral authorities, it may be useful for the Committee to provide guidance for our trade negotiators in a Committee Report on which NTB's should be given priority in negotiations, and what procedures such NTB agreements should establish.

We recognize that working out a formula for Congressional oversight in the area of negotiation on non-tariff barrier accords is both essential and inordinately difficult. The President must have a mandate to negotiate, and the Congress must have an opportunity to check on the results of its delegation. We believe that the TRA has an adequate oversight process in Title I. The need for an accommodation on Congressional oversight is imperative, due to the fact that the number of NTB's is so vast that it would probably be impossible to frame a delegation with adequate standards in advance.

THE SAFEGUARD SYSTEM: TITLE II OF THE TRADE REFORM ACT

International Marine Expositions, Inc. also supports Title II of the TRA, which deals with relief caused by disruption from sudden surges in foreign imports. We believe that the other side of the coin from liberalization of world trade barriers is the ability to moderate difficult adjustment to foreign imports through a viable "safeguard" system. The pleasure boat industry itself has experienced difficulty in containing the growth in foreign boat imports into the U.S. market. The ratio of foreign imports to apparent consumption in the pleasure boat market in the United States has risen from seven percent in 1968 to nineteen percent in 1972 (based on value). Accordingly, we support a permanent delegation of authority to the President to protect U.S. industries from foreign imports that are a "substantial" cause of "serious" injury or threat thereof. We support the major changes which have been effected in the criteria for import relief in the safeguard system, especially the elimination of the link to prior tariff concessions as the required cause for the increased foreign imports. This change is justified because it is difficult to separate out the reason for an increase in foreign imports. Also, it was never clear whether it was equitable to accumulate very old tariff concessions, or, merely to look at the most recent set of tariff concessions. At present escape clause relief is practically non-existent, largely because of the difficult causation criteria—changes to "open up" the import relief mechanism for U.S. producers should be enacted to ease the adjustment difficulties of import-impacted industries.

Economic Factors in the United States-Canadian Boat Market

We recognize that the focus of these hearings is the Trade Reform Act of 1973 and other bills relating thereto. We believe that this may, however, be an appropriate forum to express our views on certain economic factors in the United States-Canadian boat market. Our basic view is that pleasure boats should be granted more favorable treatment by Canada. There are three reasons for our position. First, it is conceptually impossible to distinguish between on-the-road transportation vehicles which have tariff equality under the United States-Canadian Automotive Agreement and off-the-road transportation such as boats. All transportation vehicles should be treated in the same manner. Secondly, equality of tariff treatments by Canada would substantially

improve the U.S. trade balance. Our trade balance with Canada has deteriorated since 1965, due in large part to the United States-Canadian Automotive Products Agreement of 1965. During the period 1954 through 1964, prior to the Agreement, the United States' favorable automotive trade balance with Canada averaged slightly over $400 million per year. Depending on how the trade balance is measured, it would seem that U.S. exports are now approximately in equilibrium with U.S. imports under the accord. Our overall balance of trade deficit with Canada last year was $2.5 billion. We believe that our trade posture with Canada could be improved by equality of tariff treatment in the area of boats. Presently, there is a large deficit in the balance of trade in pleasure boats between the United States and Canada. In 1970, 14 percent of overall U.S. pleasure boat exports went to Canada. In the same year, however, the United States imported 26 percent of its overall boat imports from Canada. In dollar terms the deficit in the balance of trade in pleasure boats with Canada was $5.5 million. The reason for this trade imbalance can be traced largely to the differing tariff structures of the two countries. Our tariff on pleasure boats is only 4 percent *ad valorem* on boats not over $15,000, and 10 percent *ad valorem* on boats over $15,000. The Canadian tariff on pleasure boats, regardless of price, is 17.5 percent. By providing equality of tariff treatment between the United States and Canada we would be greatly expanding export opportunities into Canada by U.S. boat manufacturers.

SUMMARY

In summary, International Marine Expositions, Inc. supports the Trade Reform Act of 1973. We believe that Title I can be improved by the addition of bilateral NTB authorities, and hope that the "safeguard" system of Title II for U.S. businesses and workers is adopted in its present form. Moreover, we propose that equality of treatment be sought in the United States-Canadian boat market by adjusting the United States and the Canadian tariffs on pleasure boats to the same levels. We can see no reason to distinguish between pleasure boats and other transportation equipment granted equality of treatment by the United States-Canadian Automotive Products Agreement of 1965.

Senator HANSEN. We appreciate your presence here today, and we thank you for the contribution that you have made.

Mr. FISHER. Thank you very much.

Senator HANSEN. The subcommittee will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 3:50 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, April 4, 1974.]

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