AUTHORITY FOR REGULATION OF EXPORTS—1972

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON

BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON

S. 1487

A BILL TO PROVIDE FOR CONTINUATION OF AUTHORITY FOR REGULATION OF EXPORTS

MARCH 13 AND 14, 1972

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AUTHORITY FOR REGULATION OF EXPORTS—1972

MONDAY, MARCH 13, 1972

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
Washington, D.C.

The subcommittee met, at 10 a.m., in room 5302, New Senate Office Building, Senator Walter F. Mondale (chairman), presiding.

Present: Senators Sparkman, Mondale, Packwood, Roth, and Taft.

Senator MONDALE. This morning we begin hearings on the Export Administration Act of 1969. The only legislative proposal before us is the Administration's request in S. 1487, to extend the act until June, 1975.

These hearings at this time are very important. We are on the verge of breaking new ground in the trade area. President Nixon's trip to China, his projected trip this spring to the Soviet Union, the trip last fall to Eastern Europe and the Soviet Union by Secretary of Commerce Stans, the President's state of the world message, all point to a growing recognition that better relations, and particularly better trade relations, with the Communist countries are to everyone's advantage.

I am glad to see the administration moving ahead in this area. I have been pushing for expanded trade with Eastern Europe since the summer of 1967. There were times when I was very discourged. There were times, certainly, when the administration was much less helpful than it is now. I am pleased to see my position gaining so many illustrious converts.

In the specific area of export controls, my impression is that real progress has been made since 1969 also. I know that the Commerce Department has made efforts to relax unnecessary export controls. I applaud these efforts, and I hope they will continue. I hope that the President's Russian trip will spur the Department and other agencies to even greater efforts. These hearings should underline areas where improvements are needed.

There still is much to be done if our exports are to have a fair chance to compete. These hearings during the next two days I hope will focus on the unfinished business of removing unnecessary restrictions to trade with Eastern Europe, the Soviet Union, and China. There has been progress under the Export Administration

Act which we passed with such difficulty in 1969. But the progress has not been even.

In some areas, U.S. unilateral controls are still an important impediment to trade.

U.S. exporters are still prevented from exporting products which are readily available from other sources.

Old bureaucratic rigidities have not disappeared, and time is wasted even when licenses are granted.

The old problem of consultation, which we wanted to deal with in 1969, has not been solved.

Small businesses are still shut out of East-West trade because the expense of working through a bureaucratic labyrinth is too great.

We have not gotten away from the unanimity problem. Specifically, I have the impression that the Defense Department is still taking a cold war line and vetoing export licenses for shaky reasons.

In May 1970, Secretary Laird tried to torpedo a rich truck plant deal with the Soviet Union even though foreign availability clearly exists. This deal has only been partially refloated since.

We cannot afford to continue cold war policies which serve no useful purpose, but which cost our businessmen a fair opportunity to compete in the fastest growing market in the world.

The relaxation in unilateral U.S. controls which has taken place since 1969 has made other problems more apparent.

With the partial dismantling of U.S. unilateral controls, the Cocom list becomes more important. I have the clear impression that it has been the United States which has put many items on the Cocom list, even though our allies have shown little interest in controlling them. Many people say that this means that the Cocom list is largely a U.S. list in disguise.

This subcommittee has never fully focused on the Cocom list—on its content, or the process which develops it.

One important company says the Cocom list in its area probably could be cut in half.

There is no organized consultation procedure which brings business, its technical expertise, and its drive for exports, to bear on the Cocom list problems.

Other countries prepare for Cocom meetings by consulting extensively with industry representatives. This is not the case in the United States yet.

The objective of these hearings is to discuss the progress made and the problems which remain in the Export Administration Act of 1969. Our objective in 1969 and our objective now is to insure that American exporters compete on an equal basis in Eastern Europe and China.

To achieve this objective, we need to consider a number of possibilities during these hearings.

What are the next steps in the dismantling of unilateral controls?

What shall we do to simplify our export control procedures so that they are comparable to those which exporters in other countries face?

What should we do to make sure that the Cocom list is truly an international list rather than a U.S. list?

What sort of consultation procedures are needed to bring business expertise to bear on all these problems?

I hope that our witnesses will deal with these questions in their testimony.

We are pleased to have with us Mr. Harold B. Scott, Assistant Secretary for Domestic and International Affairs, Department of Commerce.

We are glad to have you, sir.

STATEMENT OF HAROLD B. SCOTT, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL AFFAIRS, DEPARTMENT OF COMMERCE; ACCOMPANIED BY RAUER H. MEYER, DIRECTOR, OFFICE OF EXPORT CONTROL; DR. MAURICE J. MOUNTAIN, DIRECTOR, OFFICE OF ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS; AND THEODORE L. THAU, EXECUTIVE SECRETARY, ADVISORY COMMITTEE FOR EXPORT POLICY

Mr. SCOTT. Good morning, Mr. Chairman.

We would like with your permission to submit a rather complete statement for the record, and then with your permission I would like to read a shorter form statement.

Senator MONDALE. All right. I would ask the staff to include the full statement at the conclusion of your testimony. We will also print a copy of the bill and some reports we have received from the Government agencies concerned. (See page 40).

Mr. SCOTT. Mr. Chairman, I welcome this opportunity to appear on behalf of the Department of Commerce in support of S. 1487, a bill to provide for continuation of authority for the regulation of U.S. exports under the Export Administration Act of 1969 for 4 years from June 30, 1971 to June 30, 1975.

I should also like to take this opportunity to express administration support for the important concept of a Council on International Economic Policy embodied in several provisions of S. 2394, introduced by Senators Brock, Schweiker, Humphrey, and Stevens and H.R. 8180, introduced by Congressman Ashley.

I should like first to discuss the need for an extension of the Export Administration Act and the Department's administration

of that act. Later I shall address the urgent need for the legislative establishment of a mechanism to coordinate foreign economic policy.

The Export Administration Act of 1969 gave the Department a new mandate—a change from the control-oriented act of 1949 to one of encouraging peaceful trade with the East while still vigilantly protecting our national security.

In keeping with this forward looking mandate, the Department has undertaken broad positive steps. To ease trade restrictions we have decontrolled more than 1,700 commodities. To expedite shipments from our ports we have made substantial progress in our export clearance procedures.

More is yet to be done so that our exporters will not be needlessly handicapped with respect to their foreign competitors.

Already, however, these positive measures have moved the U.S. commodity export controls closer to the level of controls imposed by other nations without detriment to the national interest.

Continuing statutory authority is needed for several reasons.

First, in the context of the world today, there is still a need to control exports of commodities and technical data in the interest of U.S. and free world security. The Department's decontrol program has already eliminated the need for licensing a wide range of peaceful goods for export to East European destinations. There remains, however, many commodities and advanced technologies, the uncontrolled export of which the United States, and 14 other free world countries constituting Cocom, believe would contribute significantly to the military potential of the Communist countries to the detriment of free world security.

In addition, there are a number of other U.S. commodities and technologies which, for a variety of reasons, require continued control in the interest of national security. And the prospect of increased and liberalized trade with Eastern Europe also calls for continued controls to assure that such trade remains peaceful.

Second, the act makes it possible to carry out trade control programs which are part of U.S. foreign policy toward North Vietnam, North Korea, and Cuba. It also permits the exclusion of military-use items from U.S. exports to the Middle East. In support of the Limited Nuclear Test Ban Treaty and the nuclear nonproliferation policy of the United States, it allows export control of commodities and technologies for use in the development and testing of nuclear weapons.

Third, the act authorized export controls necessary to protect the domestic economy from the excessive drain of scarce commodities and to reduce the serious inflationary impact of abnormal foreign demand. Although this has been used infrequently, there have been occasions when it has been necessary to employ such controls. For example, we have had occasion to control copper and nickel exports under this authority.

In the Department's judgment no revision in the language of the act is needed. In its present form the act provides sufficient discretionary authority to permit the President to respond to favorable

and unfavorable international developments—effectively, flexibly, and in a timely fashion.

Extension of the existing legislation for 4 years is reasonable and appropriate. Because the 4 years will date from last June 30, it will in fact only provide for continuation of authority for a little over 3 years.

I would like to summarize the Department's administration of the act since it went into effect on January 1, 1970.

I believe the Department has pursued policies and goals that reflect the act's instructions that U.S. export controls and licensing should be liberalized—reducing the administrative burden of controls on American businessmen—and that reflect the administration's broad policy objective of an expanded peaceful East-West trade and the fuller participation therein by American businessmen. It is, of course, the responsibility of the President to assure that trade actions are gaged and timed carefully in the light of prevailing international and domestic developments affecting our security and foreign policy.

In general, the Department is confident that there is a growing potential for U.S. trade with the U.S.S.R. and other Eastern European countries. Our commercial relations with these countries are now opening up rapidly and the opportunities for expansion of exports are significant. There are, however, important political as well as strictly economic issues that remain to be resolved before we can take advantage of these opportunities. We have a long way to go in matching the trade levels of East and West Europe with each other.

The U.S. total trade turnover in 1971 with the countries of Eastern Europe amounted to $607 million, as compared to $444.7 million for 1969, the last year of our operations under predecessor legislation. There has been a continual increase in both exports to Eastern Europe and imports from that area, with the increase in exports being the more substantial. Exports rose from $249 million in 1969 to $353 million in 1970, and to $384 million in 1971. Imports rose from $196 million in 1969 to $226 million in 1970, but dropped slightly to $223 million in 1971. Thus, in 1971, the United States trade surplus with Eastern Europe was $161 million.

Notwithstanding this favorable trade balance, our total 1971 trade of $607 million with Eastern Europe represents only about 1 percent of the U.S. global trade. And, of even greater significance, when one compares this $607 million to the total 1970 free world turnover in trade with Eastern Europe of $17.2 billion, it is apparent that the United States share is relatively small. Recent actions, however, in the areas of government-to-government contracts, agricultural sales, export licensing, and financing presage a larger U.S. share of the East European market in future years.

It is well to note, however, that there are and will continue to be impediments to increased trade on both sides that are not easily overcome. Among the obstacles on their side are the limited appeal to the American market of the kinds and qualities of goods they produce, the limited amounts of earned convertible currency they

have for purchases of U.S. goods, their extensive use of bilateral trade agreements, the inconvertibility of their currencies on world money markets, and the extensive controls they impose on their foreign trade.

On our side, the lack of most-favored-nation treatment for Eastern European countries, except Poland, and the nonavailability, except for Romania, of U.S. Government credits and guarantees are major impediments to a broad growth in trade. United States export controls are also a deterrent, but they are, I believe, a declining force.

The Department has placed increased emphasis in the past 2 years on exploring the possibilities of expanding peaceful trade with Eastern Europe. In June 1970, I led a Commerce Department trade study group to Czechoslovakia, Hungary, Poland, Bulgaria, and Romania. Our principal objectives were to identify and analyze both short- and long-term U.S. trade opportunities; and survey their official attitudes toward expanded trade and commercial relations with the United States.

In November 1971, Secretary of Commerce Stans traveled with a small group to the U.S.S.R. and Poland to explore possibilities of increasing trade. A 3-hour discussion with Alexei Kosygin, Chairman of the Soviet Council of Ministers, and extensive follow-on meetings with the Minister of Foreign Trade and other Ministers produced significant understanding on the conditions for normalization of trade and its possible results.

There were follow-on meetings in Washington between a delegation representing the U.S.S.R. Ministry of Foreign Trade and myself and other administration officials in January.

I can summarize the flavor of both missions as constituting frank and forthright exchanges of views on the current deterrents to and prospects of increased trade between our two countries.

Both the U.S. and Soviet delegations reaffirmed their mutual desire for increased trade and industrial relations.

In this connection, special mention should be made of the fact that last year saw sizable breakthroughs in the licensing of U.S. machinery and technology for the automotive industry of the U.S.S.R.

A total of 116 export license applications for approximately $1.5 billion worth of equipment and data have been approved for the Kama River truck project. This plant is now under construction by the Soviets as part of their ninth Five Year Plan (1971–75). It is designed to produce 150,000 heavy diesel trucks a year. The trucks intended to be manufactured are all civilian in character. They fulfill no tactical or combat military role but are particularly suited to their proposed use in agriculture, industry, and construction.

In considering the export license applications for this project the Department consulted extensively with other agencies. Special attention was paid to the significance of these proposed exports for our national security. Additionally, the Department took into account the benefits that would accrue to the U.S. economy.

The Department concluded that approval was in order because basically the same equipment is available to the Soviets from Western Europe and Japan, and there was the prospect of significant orders being received by U.S. companies. If these were realized there would be increased employment and industrial stability without detriment to our national security.

I should note that there is considerable duplication in the licenses we have issued for this project, in that many firms are competing with other U.S. exporters for the same orders. Moreover there is no assurance that orders will be obtained in this magnitude because of extensive competition from other free world manufacturers. In other words, $1.5 billion of licenses have been issued. We should not have too great an expectation that there will be $1.5 billion of orders.

For the area in general, the Department is acting as a communications point between East European trading agencies and American firms. For example, the Department has obtained lists of projects of interest to a number of the East European countries as well as lists of goods and technologies they would like to purchase and has sounded out the American firms selected by the East European countries to determine whether these firms would be interested in being considered for specific proposals. The Department has also analyzed the import potential of more than 100 East European products, and has made other U.S. market data available to East European countries.

In this connection we have sent to Eastern Europe a number of trade missions to explore specific trade opportunities and have participated in a very considerable number of Eastern European trade fairs.

In addition to these presidential decisions and implementing actions to encourage peaceful trade, many specific actions were taken by the Department of Commerce since January 1, 1970, to implement other provisions of the Export Administration Act. Let me identify quickly some of the most significant of these.

The Department has intensified and accelerated its review of commodities for which validated licenses are required for national security reasons, resulting in the decontrol of over 1,700 commodities. Concurrently we have imposed or tightened controls on commodities and technical data that by reason of newly developed or technically advanced features could contribute to the military potential of the Communist countries.

Numerous steps have been, and are being taken, to reduce the cost of reporting, record keeping and export documentation, including the development of a simplified export clearance system that will eliminate customs authentication for all shipments under the Department's jurisdiction.

Quarterly reports are submitted to the President and the Congress indicating the items rejected for export to Eastern Europe, whether they were under Cocom control and whether comparable items were available abroad. Where foreign availability existed ex-

planation is given as to why national security questions overrode foreign availability.

The act called for organizational and procedural changes in the Department for the fullest implementation of the policy of the act. In response to this we have established a facilitation branch to coordinate and accelerate efforts to reduce documentation and paperwork and to simplify the process of clearing export shipments. We have enlarged our Eastern European Division, which has become a focal point for bringing together U.S. exporters and East European buyers, and established a regional export promotion group to concentrate on activities in Eastern Europe and Yugoslavia.

I might mention in this respect that we are planning to establish in Poland a trade, technical and information center which will be a permanent establishment where American businessmen can meet with their Polish counterparts and discuss business and technical proposals.

The Department has utilized a variety of methods to keep American business "fully apprised of changes in export control policy . . ." including regulatory publications, quarterly reports, press releases to call attention to important changes, and feature articles in the Department's biweekly magazine. In addition, Department officials have spoken to numerous gatherings of businessmen, both to explain our policies and urge firms to increase exports; and we have consulted extensively with trade associations and private firms in connection with the commodity control list review.

In seeking to keep each exporter apprised regarding considerations that might cause denial or lengthy examination of his application we have instituted standard forms which our exporter can use to request information on the status of his application.

The continued security and prosperity of the United States are dependent on a coherent, consistent and well-coordinated international economic policy. Just as it is crucial that the Export Administration Act be extended, it is also important that the Federal Government have an appropriate mechanism to coordinate throughout the executive branch our foreign economic policy.

In January of 1971 the President created a Council on International Economic Policy within the Executive Office of the President. The purpose of the Council is to provide a clear, top level focus on international economic issues, to achieve consistency between international and domestic economic policy, and to maintain close coordination of international economic policy with basic foreign policy objectives.

The formulation and administration of foreign economic policy is plainly a complex task. It invariably affects other aspects of our foreign relations. National security is often involved, and domestic economic policy always is. As a consequence, virtually every Government department participates in developing and administering some facet of our foreign economic policy. Indeed more than

60 units and coordinating bodies throughout the executive branch have responsibility for some aspects of foreign economic affairs.

This involvement of so many diverse agencies is unavoidable because of the wide variety of interest involved, the specialized expertise required, and the close link between international and domestic economic policies. But, Mr. Chairman, all of these strands eventually converge at the Executive Office of the President, posing a formidable problem of coordination and leadership. Until the creation of the Council on International Economic Policy there was no mechanism that could assume this vital responsibility.

The importance of the Council is reflected by the fact that legislation is pending in your committee which would give statutory authorization to the Council on International Economic Policy. It further would give this committee and the Congress as a whole a report on this important area of national policy.

We strongly agree with the objective of giving the Council permanent status and sufficient funding through legislative action. While we have reservations about certain specific provisions of the various bills, we strongly support the need for such a Council.

Mr. Chairman, we respectfully urge that the committee give serious consideration to reporting out legislation which would (1) extend the Export Administration Act; and (2) give the Council on International Economic Policy a permanent statutory base.

In conclusion, the Department of Commerce supports S. 1487 which would continue the Export Administration Act of 1969 to June 30, 1975. We believe the act warrants extension because of its positive policy of encouraging peaceful trade while providing necessary authority to control exports to the extent the President determines necessary to achieve national security, foreign policy, and short supply policy objectives.

We in the Department of Commerce see a rising interest among American businessmen in trade with East European countries. On the record of our program in implementing the act to date, we believe that we can be responsive to the legitimate commercial needs of our business community without detriment to our national security and foreign policy objectives.

The prospects for U.S. peaceful trade with Eastern Europe—and even with the People's Republic of China—appear bright. There are, of course, many problems. The ultimate trade potential in the Communist area has to be kept in perspective relative to other world markets. Nevertheless there are challenging opportunities for expanded trade and economic relations with these countries.

Further, the Department would vigorously support the legislative establishment of a Council on International Economic Policy.

The Office of Management and Budget advises us that (1) extension of the Export Administration Act as advocated in this statement and (2) legislative establishment of a Council on International Economic Policy would be in accord with the legislative program of the President.

Mr. Chairman, this concludes my formal statement.

Senator MONDALE. Thank you very much, Mr. Scott. That is a very fine statement. You are our sole witness today, so now we can go into some of your comments and some of the detailed aspects of this program.

I will ask my colleagues to intervene at any time, because that might be the most efficient way to proceed.

What is the estimated gross national product of Eastern Europe, if we define it in the way your office does, which includes the Soviet Union and the countries of Eastern Europe, approximately?

Mr. SCOTT. I would first like to ask my colleagues if they have that specific information, and then I would like to rely on my memory if they don't have it.

My estimate of the Soviet gross national product is in the area of $450 billion. The gross national product of the other East European countries is about $160 billion, or somewhat less than half of that in totality.

Senator MONDALE. What, if you know, is the approximate amount of the trade with non-Communist countries with Eastern European economies?

Mr. SCOTT. That amounts to about $20 billion.

Senator MONDALE. $20 billion. And how much of that is import and how much export?

Mr. SCOTT. It is fairly evenly balanced, about 10 and 10.

Senator MONDALE. 10 and 10.

Of that total trade, from the United States we had exports last year of what?

Mr. SCOTT. I have that figure in my statement, if I could just find it again.

The sum of $353 million and $226 million, which is roughly $600 million.

Senator MONDALE. So exports of $353 million, imports of $226 million. That is in 1971?

Mr. SCOTT. Excuse me, $223 million in 1971.

Senator MONDALE. All right.

How much of that to the Soviet Union? Export and import?

Mr. SCOTT. We have that figure exactly.

We only have, Mr. Chairman, the 1970 figure, which is $119 million.

Senator MONDALE. That is export of $119 million?

Mr. SCOTT. Yes.

Senator MONDALE. What is the import figure?

Mr. SCOTT. $72 million.

Senator MONDALE. It might be helpful if we could have a table for the record setting forth these figures by country, export-import figures, maybe over the last 4 years.

Mr. SCOTT. We would be happy to provide that.

Senator MONDALE. So that we can see the trends here.

(The information requested follows:)

U.S. EXPORTS TO AND IMPORTS FROM EASTERN EUROPE AND COMMUNIST AREAS IN ASIA, 1968-71

[Thousands of dollars]

Country	1968	1969	1970	1971
Exports, Including Reexports [1]				
Total	215,024	249,288	353,645	383,971
East European areas	215,024	249,286	353,644	383,954
Albania	8	18	4	16
Bulgaria	4,036	4,645	15,294	4,363
Czechoslovakia	13,956	14,363	22,512	38,726
German Democratic Republic	29,047	32,373	32,545	25,441
Hungary	11,194	7,252	28,263	27,873
Poland	82,375	52,694	69,915	73,271
Romania	16,680	32,394	66,399	52,532
U.S.S.R.	57,728	105,547	118,712	161,732
General Imports				
Total	200,755	197,819	226,514	228,533
East European areas	198,429	195,457	225,775	223,003
Albania	283	396	151	279
Bulgaria	3,731	1,598	2,431	2,614
Czechoslovakia	23,756	24,063	23,892	23,624
German Democratic Republic	5,934	8,018	9,394	10,136
Hungary	3,848	4,077	6,224	7,751
Poland	96,871	97,835	97,946	107,227
Romania	5,553	7,966	13,425	13,774
U.S.S.R.	58,453	51,504	72,312	57,598

[1] In these tables, the term "reexport" refers to an export from the U.S. of foreign origin goods.

Source: International Trade Analysis Division, Office of International Commercial Relations, U.S. Department o Commerce.

Senator ROTH. Would the Chairman yield?

Senator MONDALE. Certainly.

Senator ROTH. I wonder if the Chairman would agree it would be helpful to have a breakdown of this $20 billion, not only by countries, but also by category. I would be interested in knowing how much is consumer goods, how much is capital goods, how much sales of technology, so that we would have a better understanding of the composition.

Senator MONDALE. Could that be done?

Mr. SCOTT. That is very easily done except in the area of technology, where there are no accurate figures. I might just point out that many of these deals with Western Europe are commodity exchange deals.

One major item, for example, is return of gas and oil for the construction of pipeline facilities within the Soviet Union. So that the imports from the Soviet Union in recent years would not reflect the capital expenditures of West Germany for building the pipeline in prior years.

It is a slightly complex relationship, and the figures don't always represent it precisely, but we could give you those figures.

I am advised that U.S. figures are included in each quarterly report in considerable detail, and we can draw worldwide figures from other sources.

Senator MONDALE. But if we could have that table prepared in that way, perhaps drawing on these reports, it would be invaluable to us.

Mr. SCOTT. Yes, sir.

(The information requested follows:)

EXPORTS (f.o.b.), JANUARY–DECEMBER 1969
Values [1,000 U.S. dollars]

Trade with	Reporting countries												
	O.E.C.D. total	Canada	United States	Japan	O.E.C.D. Europe	E.E.C.	Belgium-Luxembourg	Netherlands	Germany	France	Italy	E.F.T.A.	United Kingdom
0. Food and live animals:													
U.S.S.R.	78,722	2,760	6	545	75,411	20,072	36	7,957	151	3,025	8,903	14,373	2,101
Germany Soviet Zone	73,718	...	22,160	...	51,558	22,083	64	11,109	...	1,055	9,855	17,711	27
Poland	64,302	2,140	19,391	...	42,771	20,767	79	1,751	5,856	4,715	8,366	13,325	182
Czechoslovakia	57,195	7	331	...	56,857	29,449	325	1,629	15,291	4,541	7,663	14,443	684
Hungary	35,174	367	3,582	...	31,225	17,983	773	1,882	6,588	1,662	7,078	7,474	586
Romania	16,496	204	1,131	...	15,161	7,313	516	2,441	197	727	3,432	3,885	2,199
Bulgaria	15,508	1	2,315	...	13,192	3,853	3	363	2,200	846	441	477	13
Albania	4,817	3,375	...	...	1,442	815	...	732	1	24	58	617	20
1. Beverages and tobacco:													
U.S.S.R.	17,552	...	1,199	44	16,309	3,689	2	5	715	2,670	297	484	318
Germany Soviet Zone	11,757	...	1,331	451	9,975	3,987	...	758	...	2,589	640	731	321
Poland	7,902	2	1,671	...	6,229	764	1	106	100	492	65	715	426
Czechoslovakia	12,062	...	215	...	11,847	2,599	...	366	615	805	813	1,874	319
Hungary	7,657	...	...	...	7,657	459	34	76	62	183	104	472	194
Romania	673	...	43	...	630	251	16	12	61	95	67	327	74
Bulgaria	1,474	...	...	79	1,395	467	...	51	375	38	3	755	302
Albania	620	...	...	...	620	26	...	1	24	1	...	594	...
2. Crude materials, inedible, except fuels:													
U.S.S.R.	101,671	3,181	22,053	6,922	69,515	11,996	3,915	927	687	3,497	2,970	43,361	13,568
Germany Soviet Zone	42,416	1,698	5,152	1,769	33,797	11,942	2,841	6,454	...	1,954	693	17,444	943
Poland	82,273	3,637	16,332	4,197	58,107	15,481	3,452	4,998	1,977	2,408	2,646	28,506	6,260
Czechoslovakia	58,488	2,678	5,283	289	50,238	21,052	4,631	5,003	6,080	2,665	2,673	19,234	2,539
Hungary	37,584	2,015	285	794	34,490	14,203	2,632	3,002	2,911	2,950	2,698	10,339	1,715
Romania	43,646	560	4,959	1,444	36,683	11,256	1,165	1,739	1,732	1,510	5,110	16,663	6,449
Bulgaria	19,150	2	34	413	18,731	7,298	292	1,412	1,249	345	4,000	4,510	468
Albania	268	5	...	...	263	237	...	74	6	3	154	8	...
3. Mineral fuels, lubricants, and related materials:													
U.S.S.R.	4,604	...	347	2,936	1,221	443	20	140	92	53	138	773	584
Germany Soviet Zone	1,850	...	1,111	...	739	208	143	58	...	4	3	531	494
Poland	8,676	...	33	...	8,543	4,629	94	1,397	2,625	297	216	4,014	549
Czechoslovakia	3,438	...	540	1	2,897	1,026	33	88	838	45	22	1,871	42
Hungary	1,025	...	6	...	1,019	471	40	183	177	49	22	539	64
Romania	15,241	...	4,089	7	11,145	6,270	18	44	2,074	115	4,019	3,257	144
Bulgaria	1,981	...	9	...	1,972	1,485	16	191	38	622	618	444	213
Albania	745	...	...	...	745	745	...	57	...	...	688	...	...
4. Animal and vegetable oils and fats:													
U.S.S.R.	1,409	...	...	80	1,329	57	...	55	2	...	...	4	3
Germany Soviet Zone	1,623	...	...	...	1,623	120	34	64	...	17	5	1,477	...
Poland	6,667	...	1,424	...	5,203	1,546	39	602	861	...	44	2,688	404
Czechoslovakia	3,406	...	1	...	3,405	1,050	...	192	749	1	108	2,229	130
Hungary	2,095	...	...	...	2,095	774	2	323	399	...	50	1,068	11
Romania	2,943	...	...	...	2,943	2,787	28	1,433	1,033	128	165	111	4
Bulgaria	515	...	...	...	515	270	...	226	41	...	3	39	8
Albania	171	...	...	...	171	171	...	8	159	...	4	...	...

5. Chemicals:													
U.S.S.R.	259,625	172	27,536	36,706	195,211	139,209	11,754	10,140	56,304	30,328	30,683	53,358	22,860
Germany Soviet Zone	30,708	----------	214	1,311	29,183	11,598	952	2,555	----------	2,522	5,569	16,355	2,431
Poland	120,943	5	3,896	1,659	115,383	70,609	3,277	6,008	39,786	12,277	9,261	37,338	17,139
Czechoslovakia	97,328	56	764	896	95,612	61,821	1,837	7,380	36,969	6,733	8,902	31,099	6,261
Hungary	87,260	108	909	1,613	84,630	47,862	2,587	4,091	18,271	10,971	11,942	35,086	6,479
Romania	57,334	----------	1,140	1,301	54,893	36,824	796	3,857	18,660	6,269	7,242	15,996	5,019
Bulgaria	36,372	76	627	1,495	34,174	20,207	624	1,476	9,615	3,315	5,141	11,571	3,035
Albania	2,368	----------	----------	----------	2,368	1,642	----------	34	332	125	1,151	724	19
6. Manufactured goods classified chiefly by material:													
U.S.S.R.	583,867	71	7,726	101,017	475,053	263,396	21,120	13,748	131,586	51,536	45,406	210,713	52,135
Germany Soviet Zone	69,608	----------	332	495	68,781	21,601	6,563	7,687	----------	3,366	3,985	45,811	7,921
Poland	213,145	172	2,745	6,347	203,881	101,708	9,151	4,325	41,449	23,281	23,592	100,591	51,475
Czechoslovakia	114,950	58	1,399	1,519	111,974	77,570	4,771	4,968	51,846	6,064	9,921	32,824	7,917
Hungary	126,610	207	652	1,814	123,937	70,330	4,369	12,008	19,130	8,585	26,238	47,924	7,015
Romania	180,487	22	10,575	10,887	159,003	102,372	6,145	12,886	43,941	16,497	22,903	48,362	14,911
Bulgaria	90,208	----------	51	4,611	85,546	54,523	2,126	2,112	23,162	4,720	22,403	26,123	2,915
Albania	4,409	----------	----------	159	4,250	3,512	8	3	702	695	2,104	738	201
7. Machinery and transport equipment:													
U.S.S.R.	1,030,120	2,663	41,570	69,734	916,153	546,468	10,297	18,162	200,012	143,976	174,021	369,685	112,601
Germany Soviet Zone	100,529	63	1,751	1,528	97,187	31,550	3,887	6,722	----------	13,739	7,202	65,579	15,186
Poland	263,186	159	4,935	118	256,974	143,513	5,258	5,149	54,786	35,423	42,897	112,944	42,257
Czechoslovakia	230,250	722	4,916	9,872	214,740	142,146	4,774	8,248	82,250	21,799	25,075	72,558	20,096
Hungary	105,351	38	1,008	707	103,598	66,346	598	2,517	36,127	14,227	12,877	37,031	11,508
Romania	300,640	307	9,753	7,728	282,852	206,155	14,578	6,229	113,572	43,341	28,435	75,228	37,682
Bulgaria	87,506	16	1,510	4,751	81,229	54,324	873	1,318	22,939	13,893	15,301	25,410	4,317
Albania	5,359	----------	11	----------	5,348	4,946	3	7	540	28	4,368	402	14
8. Miscellaneous manufactured articles:													
U.S.S.R.	189,464	35	4,074	46,606	138,749	76,039	3,491	4,494	14,504	28,934	24,616	60,223	25,222
Germany Soviet Zone	10,599	13	297	245	10,044	3,525	319	1,280	----------	1,528	398	6,254	1,451
Poland	29,005	59	1,294	724	26,928	14,727	637	610	8,223	2,116	3,141	11,664	6,174
Czechoslovakia	41,020	88	782	1,742	38,408	23,777	1,093	1,807	12,030	2,030	6,817	13,357	3,796
Hungary	22,139	45	627	241	21,226	11,827	505	862	5,238	1,501	3,721	7,473	2,549
Romania	20,086	33	585	842	18,626	13,396	225	1,627	4,116	3,546	3,882	4,976	2,016
Bulgaria	9,056	3	85	443	8,525	5,782	178	354	2,463	884	1,903	2,568	483
Albania	794	----------	7	----------	787	694	10	1	87	129	467	93	14
9. Commodities and transactions not classified according to kind:													
U.S.S.R.	8,802	214	254	3,654	4,680	2,198	376	141	1,670	11	----------	2,470	1,958
Germany Soviet Zone	681	----------	8	53	620	333	292	34	----------	7	----------	284	266
Poland	10,070	5	922	20	9,123	3,955	2,042	242	1,513	158	----------	5,166	5,080
Czechoslovakia	5,352	13	43	16	5,280	4,675	601	60	3,991	23	----------	535	462
Hungary	2,637	2	7	----------	2,628	2,143	277	93	1,563	66	144	484	445
Romania	2,374	1	34	----------	2,339	2,139	250	32	1,802	55	----------	200	158
Bulgaria	2,027	----------	5	11	2,011	1,205	346	15	719	9	116	105	82

Source: "Trade by Commodities," Organisation for Economic Cooperation and Development, vol. 1, series C, January–December 1969, pp. 106–128.

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EXPORTS (f.o.b.), JANUARY–DECEMBER 1969

Trade with	Reporting countries												
	Norway	Sweden	Denmark	Finland	Austria	Switzerland	Portugal	Iceland	Ireland	Spain	Greece	Turkey	Yugoslavia
0. Food and live animals:													
U.S.S.R.	576	51	264	10,870	504	7	...	8,337	...	1,837	7,540	23,252	5,014
Germany Soviet Zone	3,149	4,811	8,434	288	250	752	...	86	61	2,067	5,185	4,365	2,795
Poland	6,393	2,631	3,758	...	47	64	250	1,093	...	2,592	3,540	1,454	1,085
Czechoslovakia	4,347	96	4,788	73	2,494	1,698	263	625	...	4,647	4,460	3,233	3,869
Hungary	2,482	1,607	1,557	21	1,172	47	2	3	490	323	1,083	3,069	3,734
Romania	1	52	929	...	682	16	6	...	133	773	1,407	1,650	1,313
Bulgaria	...	...	179	...	153	132	...	...	17	3,362	2,789	2,694	4,445
Albania	...	...	539	...	58	...	...	...	...	...	...	10	552
1. Beverages and tobacco:													
U.S.S.R.	...	...	157	3	6	...	...	...	...	...	10,597	1,539	8,925
Germany Soviet Zone	...	7	115	...	242	41	5	...	2	173	1,311	3,771	3,862
Poland	1	6	220	...	41	21	...	...	...	14	2,619	2,117	2,820
Czechoslovakia	...	1	104	...	265	1,085	100	...	1	104	3,028	4,241	3,899
Hungary	...	...	38	...	63	177	...	...	...	360	2,040	4,326	4,986
Romania	...	...	193	...	13	47	...	...	...	3	5	44	806
Bulgaria	...	...	34	...	56	363	...	...	...	166	7	...	1,393
Albania	...	...	...	...	...	594	...	...	...	...	...	...	...
2. Crude materials, inedible, except fuels:													
U.S.S.R.	1,351	16,790	11	10,544	1,096	1	...	...	...	164	8,881	5,113	6,914
Germany Soviet Zone	732	6,863	3,384	4,319	317	181	705	...	...	1,204	680	2,527	3,981
Poland	1,761	7,401	4,087	7,879	2,863	459	796	493	2,533	158	6,232	4,704	3,031
Czechoslovakia	340	6,805	1,273	5,559	1,178	636	904	...	146	235	3,445	6,126	4,791
Hungary	389	1,001	208	841	4,020	1,653	512	24	...	933	3,579	5,412	3,517
Romania	18	2,964	221	2,222	2,812	3	1,974	...	34	2,082	2,293	4,355	3,730
Bulgaria	...	1,516	16	784	1,284	...	442	...	...	112	4,805	2,006	1,183
Albania	...	8	...	...	...	...	...	...	...	...	...	18	55
3. Mineral fuels, lubricants, and related materials:													
U.S.S.R.	13	10	...	160	...	6	...	...	...	3	2	...	139
Germany Soviet Zone	...	1	...	1	32	3	...	...	...	...	...	...	117
Poland	...	19	6	...	3,433	7	...	...	...	...	...	...	46
Czechoslovakia	...	1	...	...	1,816	12	...	...	...	...	...	...	291
Hungary	...	6	...	...	463	6	...	...	...	8	1	...	4,099
Romania	...	16	...	...	3,058	39	...	...	...	1,618	...	...	4,342
Bulgaria	...	1	...	...	182	48	...	...	...	...	43	...	1,795
Albania	...	...	...	...	...	...	...	...	...	...	...	...	10
4. Animal and vegetable oils and fats:													
U.S.S.R.	...	...	1	...	...	...	...	...	...	657	611	...	...
Germany Soviet Zone	318	1,159	...	...	...	...	...	...	...	...	...	26	...
Poland	1,539	...	630	106	8	1	...	325	...	619	25	...	...
Czechoslovakia	1,374	...	426	99	6	194	...	...	...	126	...	...	...
Hungary	606	318	6	127	...	...	...	84	...	152	...	17	17
Romania	103	...	...	...	...	4	...	...	...	...	45	...	...
Bulgaria	30	...	...	...	1	...	...	...	...	183	...	23	...
Albania	...	...	...	...	...	...	...	...	...	...	...	...	...

5. Chemicals:												
U.S.S.R.	2,855	3,136	1,313	2,997	10,697	9,500		186		69	2,389		29,735
Germany Soviet Zone	353	3,616	2,088	1,116	1,074	5,677				1,029	201		1,890
Poland	903	2,594	1,299	1,033	5,691	2,612	67		6	5,420	1,941	69	4,369
Czechoslovakia	855	890	549	774	13,820	7,927	23			2,236	294	162	2,473
Hungary	102	872	629	183	18,307	8,514				1,465	217		6,913
Romania	38	625	801	136	3,676	5,701				1,517	365	191	1,534
Bulgaria	25	85	635	42	2,311	5,438				1,403	988	5	2,583
Albania			36		112	554	3			2			212
6. Manufactured goods classified chiefly by material:												
U.S.S.R.	8,794	35,731	129	86,538	25,872	1,514		222	477	245			29,936
Germany Soviet Zone	468	15,663	1,921	5,620	10,832	3,425	61		113	1,081	175		14,483
Poland	4,956	10,589	1,417	12,991	16,805	2,193	165		111	1,333	43	95	16,663
Czechoslovakia	188	2,419	1,230	1,554	14,207	4,631	678		56	1,446	78		18,236
Hungary	976	4,358	1,368	3,370	27,538	3,299				4,743	281	659	15,700
Romania	105	5,005	134	1,218	24,590	2,156	243			5,058	947	2,264	10,257
Bulgaria	244	2,849	38	481	15,321	4,275			9	1,444	3,353	94	9,952
Albania		62	1	39	352	83							1,865
7. Machinery and transport equipment:												
U.S.S.R.	542	52,306	15,079	141,158	24,642	23,357							72,567
Germany Soviet Zone	3,789	20,635	5,152	1,743	8,739	10,335				58			13,072
Poland	801	13,865	24,381	9,617	11,899	10,113	11			517			11,790
Czechoslovakia	107	9,626	4,215	2,441	20,968	15,100	5			19	17		18,978
Hungary	175	8,334	1,534	3,289	7,521	4,670			25	194	2		8,368
Romania	77	11,053	3,840	538	7,428	14,610				830	639		2,745
Bulgaria	4,345	6,316	1,301	35	6,132	3,964				450	45		1,259
Albania		173	6		81	128							199
8. Miscellaneous manufactured articles:												
U.S.S.R.	1,176	3,120	537	23,012	5,809	1,347		788	61	1,573		65	53,110
Germany Soviet Zone	113	1,196	615	107	2,049	723				247	3	15	3,815
Poland	132	740	932	302	1,405	1,979			64	367	106		7,059
Czechoslovakia	48	631	362	839	5,471	2,210			112	124	960	78	10,237
Hungary	23	443	836	293	2,362	966	1			1,925	1		2,777
Romania	5	185	159	11	766	1,834				23	231		1,975
Bulgaria	10	134	259	5	1,310	367				21	153	1	439
Albania		3	5		23	48							115
9. Commodities and transactions not classified according to kind:												
U.S.S.R.			431	81				12					68
Germany Soviet Zone			1		1	16		1		2			7
Poland			76			10			2				
Czechoslovakia	1	2	57		4	9		8	2	60			21
Hungary			31		1	7				1			20
Romania			40		1	1							1
Bulgaria			19			3	1			701			23

Senator MONDALE. Now, what percentage of trade with Eastern Europe comes from the United States? I think you used that figure.

Mr. SCOTT. What percent——

Senator MONDALE. In other words, in 1971, of the non-Communist trade with Eastern Europe, how much is derived from the United States?

Mr. SCOTT. We use as a rule of thumb something around 4 percent of the total free world trade as derived from U.S. sources.

Senator MONDALE. That is from the United States or other sources?

Mr. SCOTT. From the United States.

Senator MONDALE. About 4 percent. So our share of the trade with Eastern Europe is about 4 percent of the free world?

Mr. SCOTT. That is right, Mr. Chairman.

Senator MONDALE. Four percent. What is our share of world trade?

Mr. SCOTT. About 16 percent.

Senator MONDALE. So it is about one-fourth—our share of trade in Eastern Europe is about one-fourth of our share of world trade?

Mr. SCOTT. No, it is even worse than that, if I can go through the figures with you.

We have only 1 percent of our foreign trade with Eastern Europe as compared to—I will back off. I think your figures are better than the ones I was going to give you.

Senator MONDALE. If it overstates it, though, if you would like to put some figures in the record, I think we should know that.

Mr. SCOTT. Well, I think you have to relate our exports to Eastern Europe. The figure I earlier gave you relating to the $45 billion of export was in totality. That is the correct ratio.

Senator MONDALE. Say that again?

Mr. SCOTT. Our exports in 1971 to Eastern Europe were $384 million. Our worldwide exports exceeded $45 billion.

Senator MONDALE. Oh, yes. In other words, that would be our ratio——

Mr. SCOTT. Less than 1 percent.

Senator MONDALE. Now, what is happening, if anything, in terms of the percentage of trade which we have with Eastern Europe, over the last 2 or 4 years?

Is our percentage increasing?

Mr. SCOTT. As you will see, when we submit the figures, we are getting fairly nice percentage increases annually in this part of the world, but they begin from such low figures as to be almost meaningless.

Senator MONDALE. Yes. But my point is: 1971 you estimated we had about 4 percent of the non-Communist world trade with Eastern Europe. What was our percentage, say, in 1969?

Mr. SCOTT. Nearly 3 percent.

Senator MONDALE. Now, what has been the trend of this trade? Has it been rising dramatically?

Mr. SCOTT. Substantially, the total Eastern trade with the Western free world has been rising at a substantial rate.

Senator MONDALE. For example, how much trade did the non-Communist world have with Eastern Europe, say, in 1968 or 1969?

You say it was $20 billion in 1971. What was it in, say, the 3 or 4 previous years.

Mr. SCOTT. To give you an example: In 1968, it was $16 billion.

Senator MONDALE. $16 billion. It has gone up 25 percent since 1968? So it is rising very dramatically?

Mr. SCOTT. Yes, substantially.

Senator MONDALE. And do you see this trend continuing?

Mr. SCOTT. Speaking personally, my best estimate is that it will increase at a more rapid rate over the next decade, given the Soviet decision to expand dramatically the industrial base for their civilian economy.

Senator MONDALE. So it must be said that the Eastern European market is one of the most dynamic, if not the most dynamic, markets in the world?

Mr. SCOTT. Economically, that is correct.

Senator MONDALE. In terms of trade.

Mr. SCOTT. Yes.

Senator MONDALE. Would you at this point give us for the record the export-import trade growth patterns involving Eastern Europe and the Soviet Union over all of the last, say, 3 or 4 years, so we can trace that?

Mr. SCOTT. I would rather provide it for the record so that it will be accurate.

Senator MONDALE. Yes, for the record.

(The information requested follows:)

FREE WORLD TRADE WITH U.S.S.R. AND EASTERN EUROPE

[Millions of dollars]

Year	Exports to U.S.S.R. and Eastern Europe	Imports from U.S.S.R. and Eastern Europe	Total trade
1967	6,792	7,060	13,852
1968	8,264	7,662	15,926
1969	8,334	8,351	16,685
1970	9,466	8,931	18,397

Source: International Trade Analysis Division, Office of International Commercial Relations, U.S. Department of Commerce.

Senator MONDALE. Now, the figures that you use in terms of trade are figures of U.S. originated business, that is——

Mr. SCOTT. That is correct, export source from the United States.

Senator MONDALE (continuing). If we ship 10 trucks from the United States to, say, Romania, it shows up in our official export figures. But suppose a U.S. owned subsidiary in France produces 10 trucks and it goes to Romania. Is that reflected in our figures at all?

Mr. SCOTT. No. Unfortunately, Senator, you touched on an intriguing statistic there that has also eluded us. We know that a very substantial amount of trade is done with U.S. subsidiaries,

overseas, particularly those of Western Europe, and some with our affiliates in Japan.

But in an effort to make a precise statistic, it eludes us. To give you some guidance, we use as a rule of thumb that for every dollar of export for the United States, there is something between four and five dollars of business done by American subsidiaries or affiliates overseas.

Senator MONDALE. How much?

Mr. SCOTT. Well, this is just our rule of thumb. Four to five dollars. Four to five times as much as is done in the United States.

Senator MONDALE. These are by U.S. subsidiaries——

Mr. SCOTT. Either subsidiaries, or in the case of the Japanese, more probably affiliates.

Senator MONDALE. Upon what do you base that general statement? Have there been surveys?

Mr. SCOTT. Well, no, there have been no surveys as such. I personally met with 25 executives of U.S. companies, subsidiaries of U.S. companies in Europe and Vienna at a conference and we discussed this subject for 2 or 3 years, and this is as close to a consensus figure as we could come.

Senator MONDALE. Now, what has been the trend of that business originating in Western Europe with Eastern Europe in the past years? Has it grown dramatically?

Mr. SCOTT. Yes, this has grown very substantially, principally because U.S. subsidiaries operating overseas can obtain financing from the country in which they operate. I think that is a very important point to make, because most of the Soviet free world trade is done on credit terms. Absent that credit in the United States, there is very frequently the decision that they will source it overseas.

Senator MONDALE. As you know, we amended the Eximbank to make it legally possible to extend credit guarantees into Eastern Europe, and I gather from the testimony that could be a powerful tool if used?

Mr. SCOTT. I would venture the fact that our trade with this part of the world will not increase at any dramatic multiple until comparable credits are available.

Senator MONDALE. Now, what about our U.S. owned subsidiaries in Europe? Do they have to clear their trade through the export control mechanism?

Mr. SCOTT. Only when U.S. components or unpublished U.S. technology is involved. Otherwise, no export licenses are required.

Senator MONDALE. And in that instance, they are governed by the regulations, whatever they might be, of the country in which the operation is located?

Mr. SCOTT. Or the Cocom.

Senator MONDALE. Yes. So that a U.S. firm interested in business in Eastern Europe for reason of credit, for reasons of what they might see to be a less onerous restriction on trade, might decide to locate an enterprise in Western Europe to take advantage of that possibility rather than produce the same items in the United States?

Mr. SCOTT. There is a strange contradiction here.

In all our travels in Eastern Europe, we noted when we talked with officials of every country a very strong preference for American source material. They would prefer to buy American goods because they believe it is of higher quality.

But, in fact, from our side, the motivations you described are powerful.

Senator MONDALE. That is an interesting fact.

When I went over there, I learned that for all of the anti-American propaganda that is pumped out in Eastern Europe, there is a strange fascination and desire for U.S. produced goods.

It has high credibility in Eastern Europe.

Mr. SCOTT. That was our finding.

Senator MONDALE. Much of it is deserved, I am sure, but in terms of good will, our products maintain a very high attractiveness.

Senator Packwood?

Senator PACKWOOD. Mr. Scott, what would happen if we simply abolish the Export Control Act altogether, or at least abolish it except as to its application for Communist countries? It seems to me in terms of security we are reasonably protected through the Mutual Security Act of 1954 and the Atomic Energy Act with their list of commodities that cannot be exported without a license.

I don't see that the Export Control Act really militarily, certainly not economically, benefits the United States. Why not just abolish it?

Mr. SCOTT. I think, Senator, there would be very substantial security risk involved were we to abolish the act below the existing Cocom level. At the Cocom level there is an agreement among 15 nations that these are strategic items, having very important strategic impact.

In addition to the Cocom level, we have unilateral control over a fair amount of technology, which is not available even among our Cocom partners. So I think to answer your question bluntly, abolition of the Export Control would expose us to an extraordinary national security risk.

Senator PACKWOOD. If you abolish it except for the Communist countries, where does the security risk come from?

Mr. SCOTT. Well, of course, we have the controls over North Korea, we have the controls over Cuba, we have the obligations with respect to the Near East, which I agree are in the gray area, but we also have the short supply features of the Export Administration Act which protects our domestic supply of certain commodities in unusual circumstances.

Senator PACKWOOD. But you have nothing on the short supply list now, do you?

Mr. SCOTT. At this point in time, no.

Senator PACKWOOD. Right. And aren't you protected by the Mutual Security Act of 1954 and the Atomic Energy Act controls over the export of military or nuclear items? What do you gain from the Export Control Act that we don't already control through those other methods?

Mr. SCOTT. I would say there that you have a standby Presidential determination, for foreign policy reasons. Given any foreign policy difficulties, the standby authority of the Export Administration Act is important.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator MONDALE. Senator Roth?

Senator ROTH. Yes.

If I correctly understand your testimony, increasing East-West trade really does not depend so much upon changes in this act, but on other measures, and particularly on the availability of credit; is that correct?

Mr. SCOTT. That is our judgment, Senator, and from our conversations with the Soviets, they also reached that conclusion. They express no great restlessness with export controls because in their words: "We, too, have things that we don't want to sell to you."

Senator ROTH. Do you think further legislation is necessary?

Mr. SCOTT. I think the legislation that the Congress has now provided the President is adequate.

Senator ROTH. I wonder about tariff treatment—as I understand it, Romania does not yet receive most-favored-nation treatment as Poland does; is that correct?

Mr. SCOTT. Romania is not the beneficiary of the most-favored-nation tariff provisions.

Senator ROTH. Is Poland?

Mr. SCOTT. And if you would like, you could include Yugoslavia in this area.

Senator ROTH. Do you think it would be desirable to consider extending most-favored-nation treatment to other bloc countries?

Mr. SCOTT. I would say that in our relationships with this part of the world, it is essential that we consider most-favored-nation treatment because these countries consider this an extraordinary discrimination against them, recognizing at the same time that they do not have the products to offer in this country to take immediate advantage of most-favored-nation treatment, but psychologically, this is a very important consideration.

Senator ROTH. Do you have any figures or statistics that would show the value of goods that you have rejected for licensing for export to Eastern Europe? Do you have any studies of that?

Mr. SCOTT. I think we have these figures right here.

Senator ROTH. I wonder if you would enlighten us in that area.

Mr. SCOTT. Just give us a moment. I think we can provide them right now.

The total number of licenses denied in 1971 was 215 applications with a total value of $6.7 million.

Senator ROTH. 6.7?

Mr. SCOTT. Yes.

Senator ROTH. Million dollars. So it is quite small.

Senator MONDALE. Would you yield there?

Senator ROTH. Surely.

Senator MONDALE. Could you submit for the record to the extent

that it is possible the categories involved in these denials? What sort of things were being denied?

Mr. SCOTT. Yes, sir. We would be happy to. I believe that is also included in the quarterly report. We would be glad to summarize them for you.

I would venture that a very high majority of them were Cocom.

(The information requested follows:)

EXPORT LICENSE APPLICATIONS DENIED FOR EASTERN EUROPE, 1971—MAJOR COMMODITY GROUPINGS, CoCOM AND NON-CoCOM CONTROL

I. Regular Exports (Temporary exports excluded)	
CoCom controlled items:	
Numerical control systems	$2,121,000
Semiconductor manufacturing equipment	1,414,288
Parts, accessories, peripherals and equipment for use with electronic computers	792,698
Television and other magnetic instrumentation recording and reproducing equipment	449,033
Automatic avionics testing system	140,000
Oscilloscopes, parts and accesories	119,357
Wire and cable manufacturing equipment	100,475
Electric and electronic measuring and testing instruments	84,865
Underwater detection and location apparatus	77,250
Laser interferometers	48,536
Spectrum analysers and accessories	29,455
Other equipment, nec	44,523
Total	5,421,480
Non-CoCom controlled items:	
Pulse doppler sonar navigation systems	98,398
Photographic equipment: cameras, plates, film, and chemicals	36,268
Semiconductor manufacturing equipment	22,914
Ultrasonic ring welding machinery	19,487
Airborne proton magnetometer	18,220
Deep submersible vessel components	48,135
Digital multimeters with accessories	12,479
Dual level calibrator	1,625
Ionization tube	95
Total	257,621
Total regular exports denied	5,679,101
II. Temporary Exports	
CoCom Controlled Items:	
Semiconductor manufacturing equipment	$166,230
Electric industrial vacuum furnace	600,000
Cryogenic laboratory instruments	38,847
Oscilloscopes and parts	31,150
Gyroscope and accelerometer testing equipment	23,710
Interferometers with accessories	17,700
Parts and accessories for electronic computers	18,550
Electronic measuring and testing instruments	14,250
Transient recorders	5,736
Detector head; indicator unit	4,790
Magnetic recording tape	1,047
Total	922,010
Non-CoCom controlled items: Underwater location and detecting apparatus and parts	70,775
Total	70,775
Total temporary exports denied	992,785
III. Total Denials, Regular Exports and Temporary Exports	
CoCom controlled	$6,343,490
Non-CoCom controlled	328,396
Total	6,671,886

Source: Office of Export Control.

Senator ROTH. I suppose that one reason the figure is so small is that your regulations fairly precisely set out what cannot be exported so that there is no reason to apply in those restricted areas?

Mr. SCOTT. We do a great deal of preliminary counseling, yes.

Senator ROTH. Could you compare the number of items on our U.S. commodity control list with those on the multilateral Cocom list?

Mr. SCOTT. I believe we have the figures, but before we submit them I would caution that they are not terribly reliable because in certain commodity categories, chemicals, for example, we have what might be thousands of individual compounds, but I can give you the commodity categories which would give you some order of magnitude.

There are 489 Cocom items of a total of 962 items controlled to Eastern Europe, so the difference, 473 items, would be those commodities which are unilaterally controlled by the United States.

Senator ROTH. These are actual commodities, not technologies?

Mr. SCOTT. These are commodities.

Senator ROTH. What advantage is there, if the material is available from other sources, in restricting its sale from the United States? What other factors are taken into account in your decisions to permit or not to permit sales of these commodities?

Mr. SCOTT. Generally speaking, and these, of course, are the very difficult cases which cause us to think carefully, but generally speaking we reached the conclusion that the commodity for which there is claimed foreign availability does not have the quality or the efficiency of the U.S. commodity, and that the differential merits denial.

Senator ROTH. So it really comes down to the definition of availability?

Mr. SCOTT. Who has the better mousetrap, and can that degree of superiority have security implications.

Senator ROTH. Is that the principal reason for the difference between the two lists?

Mr. SCOTT. Yes. Of course, the other consideration would be end-use application. It is going into part of the systems where we would prefer not to have our commodity involved.

Senator ROTH. What is the procedure you follow in determining whether one product is superior to another?

Mr. SCOTT. We rely very heavily not only on interagency advice, but we also seek industry advice to a very great degree.

Senator ROTH. Are these open hearings?

Mr. SCOTT. No. Because normally speaking, we are talking about very high technology, and we prefer to talk with individual companies on a confidential basis.

Senator ROTH. That is all the questions I have.

Senator MONDALE. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I am trying to catch up by reading the statement. I will not ask any questions at this time.

Senator MONDALE. Senator Taft?

Senator TAFT. I was trying to catch up, too, Mr. Chairman, and I have not yet, but I will risk it anyway.

Mr. Scott, you mentioned a comparative number of items, 489 for Cocom, I think it was, and 962 total. What about volume? What kind of volume do these reflect?

Mr. SCOTT. Would this be volume of licensed applications that would involve Cocom?

Senator TAFT. I was really thinking in dollar volume.

Mr. SCOTT. Dollar volume of applications issued which are Cocom and unilateral?

Senator TAFT. Yes.

Mr. SCOTT. Let me see if we have that. I am sorry, Senator. We will have to submit that for the record.

(The information requested follows:)

During 1970, we approved applications totalling $269.8 million for exports or reexports to Eastern Europe. Of this total $18.6 million were COCOM commodities. In 1971, our total approvals were $1,356 million, of which $14.3 million were COCOM commodities.

Senator TAFT. Do you see any harm in requiring the President to justify specifically the regulation of any export which is not on the Cocom list?

Mr. SCOTT. Could I ask you to repeat the question once more?

Senator TAFT. Do you see any harm in requiring the President to justify specifically the regulation of any export which is not on the Cocom list?

Mr. SCOTT. I would say in one voice, no, I see no harm, and in the second answer, I would say that his answer almost invariably would be that given the individual transaction, he must retain the discretion to make the national security determination.

Senator TAFT. In your contacts with the Russians in this area, how much do they really want to purchase from us and how many items that we are not selling them do they want? Just give me the general attitude, if you would.

Mr. SCOTT. I think the Soviet attitude in particular, as was enunciated in our trip last November and again when they were here in January, is that above all they seek a normalization of our trade relationship in its totality.

They see that we are the two largest economies in the world, that there are orders of magnitude in our transactions that they can achieve that they can't achieve through their dealings with individual countries of Western Europe or Japan, and that therefore they place a rather high economic value—I can't answer for the political side of the picture—on a vastly expanded trade relationship with us.

Senator TAFT. So that this is really, in your opinion, reasonably an effective tool, or could be a reasonably effective tool?

Mr. SCOTT. Export administration?

Senator TAFT. Yes.

Mr. SCOTT. No. If I could, I would quote Chairman Kosygin, when he said that we understand that you have things that you do not want to sell us, we have things we do not want to sell you, but

we wish you would not embarrass us by making too much publicity about those matters, let's do it quietly.

Senator TAFT. I am thinking rather of the kind of pressure, for instance, to cutoff supply to North Vietnam or something like that. Do you think that pressures of that sort, such as threatening to cut off exports, or restricting them further, would be effective?

Mr. SCOTT. I would say in terms of being able to bring any country to its knees economically by use of the Export Administration Act, that would be a fruitless exercise. As a witness, the Cuban embargo.

Senator TAFT. Do you have any way of estimating the number of items or the dollar volume of items that could be obtained in the world market if we did put on such controls as compared to ones that would not be available?

Mr. SCOTT. Your question, if we expanded our commodity control list beyond that which is now, would it be——

Senator TAFT. What is now, and plus any expansion we wanted to put on it.

Mr. SCOTT. We would reach the judgment that that wouldn't be effective in terms of denying any country access to that commodity.

Senator TAFT. Thank you.

Senator MONDALE. Senator Sparkman?

Senator SPARKMAN. Mr. Chairman, I have not completed the statement. I find it very interesting. Let me ask you. You do want the act extended, is that right?

Mr. SCOTT. Yes, sir.

Senator SPARKMAN. Are you recommending modifications of it in any material respect?

Mr. SCOTT. No, sir.

Senator SPARKMAN. Just a simple extension as provided for in this resolution?

Mr. SCOTT. Precisely.

Senator SPARKMAN. You feel that we do need this kind of legislation on the books, don't you?

Mr. SCOTT. Most emphatically.

Senator SPARKMAN. To use it when it fits?

In other words, it is not a tight glove that fits everybody, everywhere, but it is usable to meet different situations, is that right?

Mr. SCOTT. That is correct.

Senator SPARKMAN. Do you feel encouraged over the development in trade with Eastern Europe? I know you point out the increases that we have had over the last 2 or 3 years, but you still say that it is a very small amount. I believe you said it was about 1 percent of our total export, is that right?

Mr. SCOTT. That is correct.

Senator SPARKMAN. Do you think real progress is being made in that area?

Mr. SCOTT. I would have to repeat an earlier statement, which didn't come exactly to your point. That to achieve a really quantum increase in trade in this area, we would have to take a systems ap-

proach, which would, more importantly than reducing our export control, involve the availability of credit, the availability of reciprocal, most favored nation treatment, the availability of access to their market, because it has to be remembered that they view our measures as being unfriendly and that we are in most instances a source of last resort as far as they are concerned.

We are not, for example, included in their 5-year plan. So if we are to achieve this major breakthrough, it would have to be a totally different approach, probably by a trade agreement route.

Senator SPARKMAN. Well, the only one of those nations to whom we extend the most favored nation policy at the present time is Poland, isn't it?

Mr. SCOTT. Yes.

Senator SPARKMAN. Is it likely that we sometime in the near future will extend that to Romania?

Mr. SCOTT. This would depend upon the legislation that the Congress gives us.

Senator MONDALE. As I understand it, the administration now supports that.

Senator SPARKMAN. I was just going to say that it is my understanding that President Nixon has looked upon it with favor. In fact, when the President visited there a couple of years ago, and then when the President of Romania came here, my understanding was that they reached a very good understanding with reference to trade relations. I know that Romania would like to have it.

I had the pleasure of visiting Romania and having a long interview with the President, as well as other officials there. That was the No. 1 thing that they wanted.

Mr. SCOTT. We share that view, Mr. Chairman.

Senator SPARKMAN. By the way, do we extend that policy to Yugoslavia?

Mr. SCOTT. Yes.

Senator SPARKMAN. I mentioned awhile ago that Poland was the only country.

Mr. SCOTT. I have moved Yugoslavia over to the free world category.

Senator SPARKMAN. I realize that because actually it trades with the Western powers.

I mean, it has more dealings with the Western powers than it does with the Warsaw Bloc, doesn't it?

Mr. SCOTT. Yes, sir.

Senator SPARKMAN. And does Romania have many products that we would be a suitable market for?

Mr. SCOTT. The Romanians have been working very diligently in this area to develop products with potential for the U.S. market in anticipation, or shall we say, in the hope, that one day most favored nation treatment would be available to them, and I have talked at great length with them on this subject. They believe that their potential in this market is several multiples of the present level.

Senator SPARKMAN. I haven't gotten to the point in your statement, if it is in there, where you say anything about the Common Market.

Do you deal with the Common Market in your statement?

Mr. SCOTT. No, sir, we do not deal with the Common Market.

Senator SPARKMAN. There is really no problem with reference to this kind of legislation with the Common Market, is there?

Mr. SCOTT. No, although the Common Market also comprises the heart of the so-called Cocom countries. We are in constant discussion with them as to the level of the Cocom list which is under constant review and under present review with an idea to diminishing that list.

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

Senator MONDALE. Thank you, Mr. Chairman.

I think Senator Taft asked what was the volume of prohibited trade with Eastern Europe in the category of items controlled by us but not controlled by Cocom.

How great is that?

Mr. SCOTT. I have here, Senator, the list for 1970 and 1971 of export licenses denied for commodities available abroad, and I see that there were only nine applications denied.

Senator MONDALE. The thrust of our 1969 act was to be found essentially in this area, as you know, the idea being this: If items which the United States produced are not controlled by Cocom, and are otherwise available from other countries, what is the point of our Nation unilaterally preventing such trade when in theory, at least, the trade simply goes somewhere else—West Germany, Japan, England, Italy, whatever. Do we really in effect deny the Communists anything? Are we not in effect just shifting commerce and jobs to another country?

In trying to get to that point, we asked that the export administration office advise us in each occasion when you restricted the sale of such an item when it was otherwise available so that we could take a look on an example-by-example basis of the administration act in that one instance.

Now, I think you have given some reports to us on that specifically; is that correct?

Mr. SCOTT. In each quarterly report.

Senator MONDALE. You have given us some examples. Now, would you dwell on the legitimacy of that position?

Mr. SCOTT. Yes; I would like, if I could, to use a most recent case example, because I think this gives you the best flavor.

Here was a proposal to sell a deep submersible vessel, a research submarine, to Eastern Europe, with a considerable amount of advanced technology thereon.

The point was made that both the fuel and the equipment were available from European sources, but as you develop a detailed study of that project it is readily and quickly apparent that the really high technology in deep submersible research is in the United States, and that the case of foreign availability of the systems as a whole would allow this vessel to do only a fraction of its potential, if it were constructed and equipped in Western Europe, and it was this differential that led us to a denial.

Senator MONDALE. Couldn't you say in that example, the essential item then was not otherwise available, because what they wanted

was available only in the United States? Don't you have closer cases where we have denied the trade?

Mr. SCOTT. Yes. I am looking at another one. I am not sure exactly what the commodity is, but it is simply called vacuum pumps with accessories, which has a value of only $2,800, and our denial there was based upon the fact that we had information that led us to believe that it would have a direct military application, so we denied it.

Excuse me. A direct military usage.

Senator MONDALE. Now, as I understand it, you are in the process of trying to reconcile our control list with the Cocom list, trying to, to the extent possible, eliminate licensing requirements when these items are clearly otherwise available. Am I correct in that?

Mr. SCOTT. That is correct.

Senator MONDALE. How far along are you in that effort?

Mr. SCOTT. It is a hard question to answer, because the easy items, the 1,700 that I alluded to in my testimony, have been quite quickly swept aside, and what remains are these very high technology items that require a really careful examination as to whether there is true foreign availability.

Therefore, while in terms of numbers we might be 75 percent down the road, in terms of getting right to Cocom availability, the tough ones are left, and probably the ones that are of the most interest on their side.

Senator MONDALE. When do you think you will have that job completed?

Mr. SCOTT. Well, we are taking a little different approach to it now, where we are going at it from the other end. We are trying to look at what do we need beyond Cocom and why.

I would say that this would require a determination at the highest level.

Senator MONDALE. Let me be sure I understand that.

What do we need beyond Cocom?

Mr. SCOTT. Instead of starting at our control list and working down the Cocom, we are now taking a look at the Cocom level and we are saying what should we have on our list that is not on Cocom. Working from Cocom up.

Senator MONDALE. Is that going to result in more control or less control?

Mr. SCOTT. That will result in less control and a less detailed analysis.

Senator MONDALE. When will that building up process be determined?

Mr. SCOTT. That will require a determination by the President.

Senator MONADLE. What about the Cocom list itself? How realistic is that list in your opinion?

Mr. SCOTT. Oh, I think that as with all technology involving controls, technology is moving very rapidly, and that Cocom, therefore, should be, and is, under continuing review, where you have in the area of electronic computers the rapid introduction of third-, fourth-, fifth-generation computers.

It is hard to justify the conclusion on a Cocom list of a third-generation computer which was at the top of their technology 5 years ago and has now been replaced by two or more generations, so there should be a constant peeling off there.

I think this process goes on fairly well, as well as any international agreement can go on. There are various pressures from various countries who are seeking technological advantages in certain areas, but the answer to your question is that the Cocom list is under continuing review, and the process, generally speaking, is satisfactory from our viewpoint.

Senator MONDALE. We hear two complaints about that, at least two.

One is that the Cocom list itself is often the result of pressures from other countries to keep certain things listed because it serves a competitive advantage to them against us.

In other words, in the name of fighting communism, they keep the U.S.-produced goods out of the market in which they are already engaged.

The top French Government official once said that he hoped we would keep a tough export control list for at least 10 more years, until they have occupied the market completely, and then they would be willing to drop the fight against communism.

The second thing is: We hear complaints that even with respect to the Cocom list, that other countries' businesses frequently skirt around that list when they have got a good bargain, and that we live up to it in the spirit of the Cocom list, but many of our allies do not. So that both with respect to the list and how it works to adversely affect this country's business, and in terms of the degree to which they live up to the list, it works as a burden against U.S.-produced, nonstrategic goods.

Would you respond to that?

Mr. SCOTT. I can respond, I think, quite succinctly to the statement, that you, Senator, are well informed and your conclusions are valid.

Senator ROTH. Would the Chairman yield at that point?

Is there any process through which we can protest?

Mr. SCOTT. Oh, yes.

We, of course, are constantly running down complaints which we generally get from industry that their overseas competitors have had favored treatment, and this generally ends up in a shadow area, because you never get the full details of the transaction. But in the very least, we are constantly expressing an awareness of the Cocom group that we are watching what they are doing, and that we are aware of the points that the Senator made.

Senator ROTH. But as a practical matter, are you saying not much can be done?

Mr. SCOTT. Oh, no. I think in many ways we must maintain a fairly strong vigilance of Cocom, because in this high-technology area, the United States has an obvious advantage, and there are, therefore, these motivations that we referred to, and we must be vigilant.

The exceptions are few, and they are generally grouped in certain countries, and in certain types of technology. I think our efforts, while not specifically and generally after the fact, at least keep a discipline in Cocom that would not otherwise be there.

Senator ROTH. I wonder, going back to the prospects of expanding our trade with these countries—to what extent do our business people have difficulties because of differences in the way of doing business?

What are we trying to do to meet that problem, particularly with respect to small business?

The larger organizations, of course, often have offices over there, and are able to take care of the situation.

Do you, or anyone else in the Government, give help to small business?

Mr. SCOTT. Yes; I think this is one of the areas in which we have been most active and we would think most successful.

First, regrettably, to your statement that most of the large companies have offices over there—only two American companies have offices in Moscow.

Senator ROTH. Let me correct myself. I meant in Western Europe.

Mr. SCOTT. Quite right. But still, absent is what we call the business infrastructure. They don't have the banking connections to go to, to find out who would be their customers; they don't have the market research available to find out what the market for their product is.

To this end, I believe we have made significant progress. In the first place we have established a connection in every country with their local chamber of commerce, which is, of course, a State-operated entity, and we have made personal contacts and we have made arrangements for them to assist American business people coming into their country.

Second, in Vienna, we have established a special East-West trade point. A businessman can stop, and in advance we can give him all the market data we have; through our embassy in the country where he is going, we can make arrangements for his appointments, so that he does not sit around in hotel rooms for hours. On his return, we can debrief him, find out what his continuing problems are, and advise our embassy so that they can take care of his interests.

And I alluded to the fact that we are opening a special office in Poland, which within that country will do this and perform the same function.

And finally, I mentioned the fact that we are participating in trade fairs which are very big and important in that part of the world, and we are sending an increasing number of trade missions to specific areas.

I have the figures here, in 1970, we sent four trade missions to Eastern Europe, and in 1971, we will send seven.

In 1970, we participated in six trade fairs, and in 1971 that number would go down to three. I suspect that is because of lack of interest on the part of U.S. businessmen, because they go there to

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sell a great deal, and the process takes a long time. We have had to educate our businessmen to that fact.

Senator ROTH. In each of these countries, is it possible for a small businessman to go over there and actually deal, or does he have to be part of a larger package?

Mr. SCOTT. No. In the first place, there is an increasing number of private companies who will represent him very effectively in this part of the world. In the second place, if he is willing to spend the time, he can do business there.

He has to have the patience to stay there. It is not expensive. It does not require a great deal of market development. So the answer is, if he has the product, he has the opportunity .

Senator ROTH. I notice in your prepared statement you anticipated a much larger market for agricultural products. I wonder if you could be a little more precise as to what you foresee as the potential in this area?

Mr. SCOTT. Well, as you know, Senator, we did conclude a fairly sizable transaction some months ago. There is an interest on both sides in continuing these types of transactions, and I would only add that this is, as you might appreciate, a very delicate area at the moment.

Senator ROTH. Thank you, Mr. Chairman.

Senator MONDALE. Keep selling that grain.

Senator ROTH. That is all I have.

Senator MONDALE. Senator Taft?

Senator TAFT. I wonder, for my purposes, if you could just give us a brief summary of how the Cocom list came into being, and just exactly what it is.

Mr. SCOTT. If you don't mind, I would like to turn that question over to Mr. Meyer, and perhaps Dr. Mountain of the Defense Department, who has lived with Cocom since inception.

Mr. MEYER. The Cocom organization developed as a result of international deliberations. Cocom itself consists of 15 countries; the NATO countries, minus Iceland, plus Japan. The agreement has no formal treaty status.

Senator TAFT. What does it stand for?

Mr. MEYER. Cocom itself stands for Coordinating Committee, and there is in Paris, a Cocom group which meets regularly to consider specific transactions for which various countries seek an exception from the general embargo rule. Periodically, the same countries also meet to review the Cocom list.

The general agreement is that once a list of control commodities has been developed, each participating country is obligated to control those items. Each country may, however, go beyond this list.

Senator MONDALE. Would you yield there? Do you know of any other country that goes beyond the Cocom list?

Mr. MEYER. No, sir, I do not. There may be minor commodity exceptions, but we are most prominent in that regard. Of course, in some areas of advanced technology, we are the only source of supply.

Senator MONDALE. Are there any high-technology countries who

do not participate in Cocom? I had Sweden in mind. There may be some others.

Mr. MEYER. Sweden and Switzerland I would characterize as the two foremost.

Senator TAFT. Thank you very much.

Mr. Scott, is there any formal mechanism or procedure by which the Commerce Department consults with businessmen with regard to administration of export control?

Mr. SCOTT. Yes, Senator Taft. There are both formal and informal procedures. When we go through the decontrol exercise in every commodity area, we seek the advice of not only individual companies, but of the trade associations representing that company, so because there is a degree of competitive advantage here, a fellow would like his product decontrolled, but he would rather keep his competitors controlled. So, it is a delicate exercise.

Also, of course, when a man has a product involved, or a company, they seek us out for advice as to whether it is licensable, what steps he will have to take in order to make it licensable, if there are difficulties, and once the license application is filed, then by law we are in constant contact with the applicant to advise him of the progress of his application.

Senator TAFT. What about other Government departments?

Mr. SCOTT. It is customary on major projects when other agencies have a strong interest we, of course, consult with them. There is an interagency structure as such where these are formally discussed and analyzed, and it is also customary for the companies concerned, knowing that there is interagency interest, to call on other agencies and seek their advice and opinions.

Senator TAFT. You mentioned trade fairs. Do you have any established procedure as to consultation with other Government departments relating to trade fairs?

Mr. SCOTT. Oh, yes. Much of our financing of Eastern European trade fairs comes from USIA, who is moving away from what they call image fairs to what we call hard commercial fairs. So that we seek their advice as to the type of technology the country is interested in, and then, of course, no product is ever displayed in a trade fair unless there has been a prior determination that it can be sold under the Export Administration Act.

So we would not put a company in a position of displaying its product and then denying it a license.

Senator TAFT. How much consultation is there with the embassies involved?

Mr. SCOTT. A great deal, because the embassies play a major role in helping us mount these fairs. They lend us people and they do the advance work in informing the country concerned that we will be there and what types of products we will be displaying so that they can advise their enterprise managers to come and have a look at us.

Senator TAFT. I went to Russia in 1967 and there was a trade fair at that time in which we were participating. I came back and wrote a very critical report of the U.S. participation in it.

One of the things that was startling at that time was that apparently the embassy was advised really only at the last minute of the probable U.S. participation, and I hope that the situation has been corrected. I take it it has.

Mr. SCOTT. I would hope so. I think now that we have more experience in Eastern Europe we do an acceptable job. I know of no circumstances in our current program where the embassy is not heavily involved from the planning stage right through to the fair proper.

Senator TAFT. Thank you very much. Thank you.

Senator MONDALE. We hear criticism from the business community, and I assume we will get some of it tomorrow when we hear from the business associations, that the businesses most deeply involved in trade in Eastern Europe are not adequately consulted in the development of the Cocom list.

We have heard some say that when the Cocom list is negotiated that it is very common to see the top businessmen say, or whoever the commercial interest is, they are right in there working with their governments to try to get the list responsive to their needs, but when it comes to the United States we do not have that kind of close working relationship with our businessmen, and instead you usually see the Defense Department and the others who are probably the most cautious people here pushing a more conservative point of view. And they say that in the same way when export control items are for it that the businessmen are not adequately advised, that they often do not know what agency is saying no, they do not know why they are saying no, they are not really permitted to go to the point of the persons who are either delaying or denying it, and then in a sense, while there are some formalistic kinds of business involvement, that by and large the tough questions are in-house, and they feel, or some of them feel, that they are not adequately involved, to the detriment of U.S. exports.

Would you respond to that?

Mr. SCOTT. It is a big and complex subject, but I would say in general there is some validity to those statements.

We try very hard to consult with the business community. There again, if you consult with the association, the chances are that given the great number of companies in that association, their communications do not get down to every company. We try to consult with the leading companies, having the greatest involvement, and there again, if any one company is less than totally satisfied I think it would tend to put forth your viewpoint.

With respect to Cocom, I think it perhaps has even more validity. I think we can do a better job in formulating our Cocom position before we enter into these reviews.

In summary, we have done a lot since you enacted the new act, and I think we have a great deal more that we can and should be doing.

Senator MONDALE. Suppose an American businessman applies to the Export Administration Office for a license to sell what he believes to be a peaceful truck. What happens once you get that

license? You have an interdepartmental board, an operating committee or something, do you not?

Mr. SCOTT. Yes.

Senator MONDALE. Is that the same for every license? Or do you impanel a different group depending upon the nature of the item?

Mr. SCOTT. First, there are certain key points where we look at the application and determine that it just does not come within the operating committee purview. There is a presumption for approval because they handled cases like this before and therefore there is no need to take it to the operating committee; or on the other hand it is so clearly military that there is a presumption for denial.

When we do take it to the operating committee, when we feel there is doubt, the construction of the operating committee would vary. Normally there is always a representative of the State Department and the Department of Defense, but it might be in certain instances the Interior Department, if there are raw materials involved, or it might be the Atomic Energy Commission, if there are nuclear matters involved. But each agency is given an opportunity to participate if it so desires.

Senator MONDALE. But normally the committee would include, in acting on this, the Defense Department, State Department, and Commerce Department, of course, would be represented.

Mr. SCOTT. I would say invariably that those three are involved.

Senator MONDALE. And if it has nuclear dimensions, the Atomic Energy Commission, and it could include any of them, I suppose, Interior, Agriculture?

Mr. SCOTT. Yes. Of course, we have heavy reliance on our intelligence resources also.

Senator MONDALE. CIA might also be involved?

Mr. SCOTT. Almost invariably.

Senator MONDALE. Are there any other organizations that tend to be routinely involved?

Mr. SCOTT. NASA gets involved from time to time.

Senator MONDALE. All right.

So what happens, he applies—say he is competing with a truck company in England, a truck company in West Germany. He not only wants a license, he wants to get it fast, otherwise somebody else gets the business.

How do you accelerate it? You call a committee right away? Or does this get on paper and circulate? How does it work?

Mr. SCOTT. Perhaps, with your permission, I would call on Mr. Thau who is here, who is the chairman of the operating committee, who can describe that procedure.

Senator MONDALE. All right.

Mr. THAU. In the first place, I think you should have in mind that of the total number of cases that come to the Commerce Department each year, the total number of license applications for Eastern Europe, only about 5 to 7 percent per year are the gray area cases and they are the ones that come to the interagency operating committee.

Senator MONDALE. What in terms of dollar volume? That is, the terms of application. What about percentage in terms of money?

Mr. THAU. In terms of money it would not be apt to be the largest dollar volume because those are not apt to be items on which there is repeating business, on which the operating committee, having long ago passed upon the policy problems and the technical problems involved, would have recommended that a delegation be given to the administrative people, the licensing people, thereafter to handle future cases of that repeating type without having to come to the committee.

The committee therefore would not be apt to have, for example, a truck case.

Senator MONDALE. What would be a typical case that would come before you?

Mr. THAU. A typical case would be a case for an advanced computer.

Senator MONDALE. What are some other kinds of cases that are technical?

Mr. THAU. Most of the cases that come, sir, involve the Cocom items. Very few are non-Cocom items. Now, in the Cocom field we have such things as advanced computers, other advanced electronic devices that have potential military uses. We have a certain number of very highly advanced machine tools of a numerically controlled type and other advanced features.

We have a few extremely exotic metals, a few chemicals, and then, apart from that, you would have items having a nuclear interest or related closely to items that would be in the State Department munitions control area, borderline items. But that would make up the bulk of the Cocom control, and that would make up also the bulk of what comes to the operating committee.

But bear in mind, sir, that when I refer to this 7 percent, that does not refer to all the Cocom cases; the bulk of all of the 100 percent that the Commerce Department gets these days in the Cocom field, and we only get 6 to 7 percent of that.

Senator MONDALE. You get the tough ones.

Mr. THAU. The very tough ones. Now, what do we mean by something that is very tough?

Take an advanced computer. It is going to an East European country where we know that they have considerable need for advanced computers for strategic work as well as perhaps for civilian work. So one of the biggest problems we have to deal with is where is this going, what is it going to be used for and what are the risks in the particular transaction that the computer will not be used in a peaceful use.

Senator MONDALE. You also consider whether it is otherwise available?

Mr. THAU. Oh, yes. But bear in mind, sir, that when we are talking about anything in the Cocom field we are talking about items which by hypothesis, by the understanding of the Cocom agreement, are no more available from the other countries that have computer manufacturing capability than they are from the United States.

Senator MONDALE. I was going to ask you, do you think that would be a fair procedure?

Go ahead. Proceed.

Mr. THAU. I am sorry. You were going to ask me a question.

Senator MONDALE. I decided not to ask it. Go ahead.

So then how long does it take, or how do you proceed? Do you get the committee there in person, or do you send papers around? What happens?

Mr. THAU. In a case of that kind, we would normally disseminate the—the Commerce Department would normally disseminate to all of the interested other departments and agencies, a paper, a memorandum, which would summarize all that the Commerce Department has been able to find out regarding this type of computer, regarding the possible uses, our previous licensing records with regard to other computers of a similar nature, and of other free world countries in the Cocom, their handling of computers of a similar nature, also with the status of that particular computer in terms of the Cocom. This document then would be examined by technicians and policy people in these other departments and agencies.

Then, within about a week or less of the dissemination of that document, it would be brought up at the operating committee for intensive discussion.

What is very likely to happen is that it will turn out that other departments and agencies have additional information to provide over and above that which the Commerce Department was able to amass, and that information, for example, from the CIA, may throw a different light on the situation than the Commerce Department had known about.

The Defense Department may have some new information of a technical or intelligence nature. The State Department may have some information of a policy nature bearing on the case.

All of this information is reviewed by the committee. The committee may find in the particular case that it doesn't have even now all of the key information that it should have to make a sound recommendation to the Department of Commerce.

Remember, the committee doesn't decide anything. The committee only advises and informs. The final decision is always with the Commerce Department. This is in accordance with section 7 of the act.

What may be needed is more information from the foreign country. The exporter may be asked to go back to the foreign country and get additional information and get assurances from that country as to what it is going to do with the computer and what safeguards can be established to help to make sure that it will not be diverted to strategic uses.

I might point out that we are not the only country that follows precautionary procedures of this sort with respect to these highly advanced and high technology items.

I know of other Cocom member countries that tell me that they follow similar confidential classified internal interagency procedures in order that they, when they present their cases to Cocom, can give

to the Cocom body the assurance that they have carefully gone into this case, and are satisfied that strategic harm to the free world interests will not result from approval.

Senator MONDALE. All right. So now you have got the dissemination process and the reaction process.

Suppose you have got five agencies involved, four of the departments think there is no serious objection, and one says they see an objection.

Who wins?

Mr. SCOTT. Could I take that back?

Senator MONDALE. Sure.

Mr. SCOTT. The operating committee then reports to us its findings that there is a disagreement, and the Secretary of Commerce has two choices: He can convene a meeting of cabinet officers in the hope of reconciling the issue, or generally speaking, if that hasn't proved productive, he will refer it to the President for a decision.

Senator MONDALE. In other words, if it is, say, 4 to 1, four favorable and one negative, the first step would be to try to have the cabinet departments involved through the Secretaries, and failing that, it has to be a decision of the White House.

Mr. SCOTT. That is correct.

Senator MONDALE. Now, suppose that the businessman—suppose the committee is, in fact, wrong.

Now, we know they never are, but suppose they are, and the businessman feels very strongly that they are wrong, and that may be either because he knows these machines are freely available from other countries, the same machine, or that he knows that, say, the representative of the Defense Department doesn't understand it, doesn't have the right machine, got the wrong machine in mind, or something like that, and he comes to the Commerce Department and says, "Look, it has been 5 weeks now, we haven't heard a thing, my competition is about to clinch the deal, if someone would let me go to the person who is hanging this up, I think I can persuade him that he is wrong."

Now, does that happen?

Mr. SCOTT. Senator, we give him warnings as the operating committee deliberations go along that there are going to be problems.

Senator MONDALE. Do you tell him where it was?

Mr. SCOTT. Well, he doesn't have to be told. He is generally very well informed, but he has full liberty to call around and present his case at each agency where there are differences, and he also, of course, has access to the White House to present his case, and we actually convene meetings on his behalf so that he can listen to the total case.

Senator MONDALE. Now, we wondered whether the businessman was encouraged and permitted to go with his case to the agency which seemed to be saying no, or delaying it, so that he could get a fair hearing with the department official?

Mr. SCOTT. I would like to ask Dr. Mountain if he would concur?

Senator MONDALE. Proceed.

Dr. MOUNTAIN. Mr. Chairman, we have often had businessmen come into the Department of Defense and ask about their cases when they had reason to believe that there were problems within the Department of Defense.

We have always given them every hearing and every opportunity to present additional information, and we have had, in my experience, candid exchanges with them. They have always been open exchanges on both sides, within limits, to tell them what the nature of our difficulties have been. The one thing that we have tried not to do, however, is to tell them what the Department's judgment is in a given case because we are in the role of recommending positions to the Department of Commerce, and we don't want to foreclose their judgments.

Senator MONDALE. I think it is probably true that the larger old line businesses in town here probably get wise as to where their problem is, and they know where to go, and so on, and they may even know the people involved. But what about the moderate sized businessman who doesn't have a large office? Has he got an easy way of coming to you to be told what to do, so that it is not sort of a mysterious operation?

Mr. SCOTT. I think you fingered in the last hearing what the difficulty is here. We invite these people to meetings so that they can present their case to the members of other agencies.

Senator MONDALE. They are permitted to make their case to the operating committee?

Mr. SCOTT. No, not to the operating committee meetings as such, but to representatives of other interested agencies at informal meetings that are arranged.

Senator MONDALE. How often does the operating committee meet?

Mr. THAU. Every week.

Senator MONDALE. One other point I would like to make, and that is the question of delays. I think we will hear some of this tomorrow.

It is not just a question of what is decontrolled. It is a question of the time involved, between the time of application and the time of the decision, that many times they feel they lose business, not necessarily from denial, but by the time they get an answer, it is 6, 7, 8 weeks, maybe longer, and somebody else has got the business from another country.

Would you respond to that?

Mr. SCOTT. Yes, sir. I do agree that there are those few cases where delays go on for even longer periods than you have described, and you will find that invariably in those cases the decisions have been made at the technical level, the recommendation is at a point where there must be a blending of the political and the economic, and that is where, I would say, virtually all of the really long-term delays result. What is the political relationship with the country at this particular time, what is the political implication of this decision.

Senator MONDALE. It is my feeling that the export control apparatus will almost always take the conservative position, because that is the safe thing to do. I will be the devil's advocate for a minute.

If it is a tight case, it is easier to say no, it is easier for the Department to reject it than to say yes, because to say yes exposes you to criticism, like the old loyalty days, where in the name of courage, while these loyalty officials just turn everybody down, and that if it is a tough case, just delay may avoid the necessity of having to make the decision. If you are brought out long enough, you don't have to say no or yes, you are just quite sure that by dragging along, somebody else will get the business to go ahead, the businessman will tire, get the signal, and quit.

Now, if I were an official from the Defense Department and were interested in the fear for my career, isn't that the safe thing to do over there? Do you want to go up to Secretary Laird and say that the trucks that he said would go to North Vietnam are now all right? How would you want to do that?

Mr. SCOTT. I wouldn't want to answer for the internal decision-making process for the Defense Department, but I would say in my experience, in seeing these cases coming out of the operating committee, the exact opposite is true.

Senator MONDALE. Now, why would that be?

Mr. SCOTT. Well, because there are two controlling features. One, the division of technology around the world is much more even than it was, and there is clear recognition that a denial on our part would not be effective. As you pointed out earlier the equipment would be bought elsewhere.

Secondly, there is a constant awareness that this is a growing market with great potential, and that if we are not in there with our systems and equipment in the growing stage, the chances are that we will not get in there at all, and we are just that trade conscious, that we would like very hard to see a positive decision.

So I would say that all the motivations today are trying very hard to come down on the side of approval, and that is where, as I say, 90 percent of our recommendations end up; 98 percent. I am corrected.

Senator MONDALE. Ninety-eight percent.

What about the degree to which your office has the staff, the technical skills, the consultants and the rest, to permit you to move effectively and quickly into some of these highly advanced issues, for example, the advanced computer? Do you have computer experts? Do you have the kinds of skill and sometimes esoteric advisers who can help you expedite and handle these matters responsibly?

Mr. SCOTT. I would say, Mr. Chairman, that in-house we have considerable technical competence in some areas. Where we do not, we have the liaison capacity, we know where to go to get it. Be it defense, be it intelligence community, the business community, or the academic community, we have developed the network to reach out and get this information. I would be deluding you if I said we had an adequate degree of technology skills in-house.

Senator MONDALE. But you are able to do it?

Mr. SCOTT. We are able, and I think we do it quite properly.

Senator MONDALE. Senator Taft?

Senator TAFT. No questions.

Senator MONDALE. All right.

Thank you very much. Tomorrow we will have witnesses from the business community. I assume you may wish to respond perhaps by letter to some of the statements made from them.

I haven't talked to the committee, but I would be inclined to grant, say, a 3-month extension just right away to give us a little time to review the record and to develop such legislative changes, if any, that we think might be required, and also to consult with the House Committee, which I assume will be holding hearings, if they are not already, in the development of a universal position.

Thank you very much. We stand in recess.

Mr. SCOTT. Thank you, sir.

(Whereupon, at 11:50 a.m., the hearing was adjourned, to reconvene at 10 a.m., Tuesday, March 14, 1972.)

(The full prepared statement of Mr. Scott, an additional paper on legal enforcement activities, the bill, S. 1487, and agency reports are reprinted as follows:)

STATEMENT OF HAROLD B. SCOTT, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE OF THE U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, ON MARCH 13, 1972.

INTRODUCTION

I welcome this opportunity to appear, on behalf of the Department of Commerce, in support of S-1487, a bill to provide for continuation of authority for the regulation of U.S. exports under the Export Administration Act of 1969 for four years from June 30, 1971 to June 30, 1975. I should also like to take this opportunity to express Administration support for the important concept of a Council on International Economic Policy embodied in several provisions of S-2394 introduced by Senators Brock, Schweiker, Humphrey and Stevens and H.R. 8180 introduced by Congressman Ashley. I should like first to discuss the need for an extension of the Export Administration Act and the Department's administration of that act. Later I shall address the urgent need for the legislative establishment of a mechanism to coordinate foreign economic policy.

NEED TO EXTEND THE ACT

Continuing statutory authority is needed for several reasons:

First, in the context of the world today, there is still a need to control exports of commodities and technical data in the interest of U.S. and Free World security. The Department's decontrol program has already eliminated the need for licensing a wide range of peaceful goods for export to East European destinations.

There remains, however, many commodities and advanced technologies, the uncontrolled export of which the United States and 14 other Free World countries constituting COCOM believe would contribute significantly to the military potential of the Communist countries to the detriment of Free World security. In addition, there are a number of other U.S. commodities and technologies which, for a variety of reasons, require continued control in the interest of national security. And the prospect of increased and liberalized trade with Eastern Europe also calls for continued controls to assure that such trade remains peaceful.

Second, the Act makes it possible to carry out trade control programs which are part of U.S. foreign policy towards North Vietnam, North Korea, and Cuba. It also permits the exclusion of military-use items from U.S. exports to the Middle East. In support of the Limited Nuclear Test Ban Treaty and the nuclear non-proliferation policy of the United States, it allows export control of commodities and technologies for use in the development and testing of nuclear weapons.

Third, the Act authorized export controls necessary to protect the domestic economy from the excessive drain of scarce commodities and to reduce the serious inflationary impact of abnormal foreign demand. Although this has been used infrequently, there have been occasions when it has been necessary to employ such controls. For

example, we have had occasion to control copper and nickel exports under this authority.

In the Department's judgment, no revision in the language of the Act is needed. In its present form, the Act provides sufficient discretionary authority to permit the President to respond to favorable and unfavorable international developments -- effectively, flexibly, and in a timely fashion.

Extension of the existing legislation for four years is reasonable and appropriate. Because the four years will date from last June 30, it will, in fact, only provide for continuation of authority for a little over three years.

A POSITIVE POLICY APPROACH

I would like now to report on the Department's administration of the Act since it went into effect on January 1, 1970.

The Export Administration Act of 1969 established a positive policy approach of encouraging trade, while authorizing its restriction only to the extent necessary for national security, foreign policy, and short supply reasons. It expressed a clear sense of the Congress that U.S. export controls and licensing should be liberalized, and that the administrative burden of the controls on American businessmen should be

reduced.

The Secretary of Commerce, to whom the President delegated the authority to administer the Act, has pursued policies and goals that conform, I believe, to those enunciated by the Congress in the Act. In so doing, the Department reflects the Administration's broad policy objective of an expanded peaceful East-West trade and the fuller participation therein by American businessmen. It is, of course, the responsibility of the President to assure that trade actions are gauged and timed carefully in the light of prevailing international and domestic developments affecting our security and foreign policy.

U.S. TRADE WITH EASTERN EUROPE

In general, the Department is confident that there is a growing potential for U.S. trade with the USSR and other Eastern European countries. Our commercial relations with these countries are now opening up rapidly, and the opportunities for expansion of exports are significant. There are however, important political, as well as strictly economic, issues that remain to be resolved before we can take advantage of these opportunities. We have a long way to go in matching the trade levels of East and West Europe with each other.

Since much of European trade with the USSR and the other Eastern European countries is on the basis of bilateral agreements, a major effort on our part may be needed to see how we can fit into this pattern--or conversely, to see how to fit the bilaterally-oriented Communist countries into the multilateral framework of economic exchange among Western economies.

These, however, are long term goals. For the present, we intend to continue to increase our support for U.S. businessmen and firms desiring to do business with Eastern Europe in the context of today's economics.

The U.S. total trade turnover in 1971 with the countries of Eastern Europe amounted to $607 million, as compared to $444.7 million for 1969, the last year of our operations under predecessor legislation. There has been a continual increase in both exports to Eastern Europe and imports from that area, with the increase in exports being the more substantial. Exports rose from $249 million in 1969 to $353 million in 1970, and to $384 million in 1971. Imports rose from $196 million in 1969 to $226 million in 1970, but dropped slightly to $223 million in 1971. Thus, in 1971, the United States trade surplus with Eastern Europe was $161 million.

Notwithstanding this favorable trade balance, our total

1971 trade of $607 million with Eastern Europe represents only about one percent of the U.S. global trade. And, of even greater significance, when one compares this $607 million to the total 1970 Free World turnover in trade with Eastern Europe of $17.2 billion, it is apparent that the United States' share is relatively small. Recent actions, however, in the areas of government-to-government contacts, agricultural sales, export licensing, and financing, presage a larger U.S. share of the East European market in future years.

I will discuss these favorable developments more explicity later in this presentation, but it is well to note now that there are, and will continue to be, impediments to increased trade on both sides that are not easily overcome. Among the obstacles on their side are the limited appeal to the American market of the kinds and qualities of goods they produce, the limited amounts of earned convertible currency they have for purchases of U.S. goods, their extensive use of bilateral trade agreements, the inconvertibility of their currencies on world money markets, and the extensive controls they impose on their foreign trade. On our side, the lack of Most Favored Nation (MFN) treatment for Eastern European countries (except Poland), and the nonavailability (except

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for Romania) of U.S. Government credits and guarantees, are major impediments to a broad growth in trade. United States export controls, while having less adverse effect on the level of total trade with Eastern Europe, are nonetheless a deterrent, but they are, I believe, a declining force. Lastly, there is the general indifference or antagonism toward East-West trade on the part of some business firms and some segments of the public. The declaration of policy by the Congress in the Export Administration Act to encourage trade has, however, had a salutary effect in regard to the attitude of business toward engaging in East-West trade.

ENCOURAGING PEACEFUL EAST-WEST TRADE

Consistent with this statutory declaration of policy, the Department has placed increased emphasis on exploring the possibilities of expanding peaceful trade with Eastern Europe. In June 1970, I led a Commerce Department trade study group to Czechoslovakia, Hungary, Poland, Bulgaria, and Romania. Our objectives were to (1) analyze U.S. trade opportunities; (2) assess the potential for long-term collaboration in joint ventures, participation licensing, or other forms; (3) identify specific U.S. export opportunities in these Eastern European countries; (4) survey their official attitudes toward expanded trade and commercial relations with the United

States; (5) become familiar with their procurement procedures; and (6) identify the deterrents to trade expansion. I am confident that our trip was beneficial and that our follow-up projects have been a positive influence for improved and expanded trade relations.

Soviet Union

In November 1971, Secretary of Commerce Stans travelled with a small group to the USSR and Poland to explore possibilities of increasing trade. A three-hour discussion with Alexei Kosygin, Chairman of the Soviet Council of Ministers, and extensive follow-on meetings with the Minister of Foreign Trade and other Ministers produced significant understanding on the conditions for normalization of trade and its possible results. These can be summarized as follows:

- The Soviets view an improvement in U.S. tariff terms, greater availability of commercial credit, and reduction of export controls as the keys to trade expansion. They would like to see such changes embodied in a formal trade agreement, and indicate a willingness to make reciprocal concessions.
- The U.S. believes that improvement in the climate of trade with the USSR should parallel an improved climate of political relations.

- Both sides need to learn how to do business with each other. U.S. firms need practical experience in dealing with Soviet agencies and they also need greater freedom to operate, travel and communicate within the USSR. Soviet enterprises need to do extensive research on the U.S. market if they expect to sell here.
- The Soviet Union's interest in increasing its commercial ties with the United States extends to a very substantial dollar volume--certainly many times the present amount of trade. Major deals are in the offing if arrangements can be made to trade U.S. products and technology for Soviet raw materials.

These and other facets of expanded U.S.-USSR trade were explored in more depth during the follow-on meetings in Washington between a delegation representing the USSR Ministry of Foreign Trade and myself and other Administration officials. Our talks dealt principally with:

- Identification of Soviet commodities saleable in the United States; and U.S. products which could be sold in the Soviet Union;
- Procedures for market research and marketing in both countries;

- Methods for facilitating the commercial transfer of technology between the two countries;
- The need for increased commercial representation in each direction; and
- The opportunities for participation by U.S. firms in major development projects in the USSR.

Both the U.S. and Soviet delegations reaffirmed their mutual desire for increased trade and industrial relations. In view of the substantial impediments to the near-term achievement of the full potential for U.S.-USSR commercial relationships, these talks emphasized long-term trade possibilities which would contribute significantly to the domestic economy of each country. Both sides agreed that progress toward mutual objectives could be assisted by broadening normal commercial contacts between Soviet industrial and trading entities and U.S. companies.

Last year saw sizeable breakthroughs in the licensing of U.S. machinery and technology for the automotive industry of the USSR, a development deserving special mention.

In June 1971, applications valued at $88.8 million were approved covering machinery used in producing components for trucks, buses, delivery vans, passenger cars, and other civilian-use vehicles. Included were gearmaking machines,

transfer lines, furnaces and other equipment for the Likhachev (ZIL), Gor'kiy (GAZ), and Ul'yanovsk (UAZ) factories. Later last year, equipment and technical data for foundry equipment, totalling $72.5 million, and handling equipment, $52 million, were approved for the ZIL plant.

More noteworthy was the approval last November of 65 export license applications for approximately $1.1 billion worth of equipment and data for the Kama River Truck project. This plant is now under construction by the Soviets as part of their 9th Five Year Plan (1971-1975). It is designed to produce 150,000 heavy diesel trucks a year. The trucks intended to be manufactured are all civilian in character: a 20-ton semi-trailer combination, a 16-ton stake body truck and trailer combination, and a 7-ton capacity dump truck. They fulfill no tactical or combat military role, but are particularly suited to their proposed use in agriculture, industry, and construction. Although these trucks could be employed for intercity freight and other logistical support of the military, their contribution to the Soviet military potential would be limited. Purchases from the West for technology and equipment may run as high as one billion dollars.

In February 1972, an additional 51 export license applications were approved for the Kama River Truck project. These licenses,

which totalled $367 million, brought total approvals for this project to almost $1.5 billion. There is, however, considerable duplication, in that many firms are competing with other U.S. exporters for the same orders. Moreover, there is no assurance that orders will be obtained in this magnitude, because of extensive competition from other Free World manufacturers.

In considering the export license applications for this project, the Department consulted extensively with other agencies. Special attention was paid to the significance of these proposed exports for our national security. Additionally, the Department took into account the benefits that would accrue to the U.S. economy. The Department concluded that approval was in order because basically the same equipment is available to the Soviets from Western Europe and Japan, and there was the prospect of significant orders being received by U.S. companies. If these were realized, there would be increased employment and industrial stability without detriment to our national security.

Other East European Countries

For the area in general, the Department is acting as a communications point between East European trading agencies and American firms. For example, the Department has obtained lists of projects of interest to a number of the East European countries,

as well as lists of goods and technologies they would like to purchase, and has sounded out the American firms selected by the East European countries to determine whether these firms would be interested in being considered for specific proposals. The Department has also analyzed the import potential of more than 100 East European products, and has made other U.S. market data available to East European countries. Additional activities have involved the Department's participation in, and support of, various trade fairs in East European countries and a number of U.S. trade missions to this area. These activities are beginning to bear fruit. Already, U.S. firms have concluded several major commercial deals with East European countries. A number of cooperative joint ventures are in various stages of negotiation in the petroleum, chemical, and automotive fields.

Poland offers significant possibilities for the further development of economic and commercial relations. In the course of several years, the two-way trade volume could very substantially increase. Of particular interest is the Polish agreement in principle, reached during Secretary Stans' trip, for the opening in Warsaw of an American technical and trade center that will provide the Poles with increased access to information on U.S. products and technology. The center would also give visiting U.S. businessmen a marketing base in Poland.

Romania affords especially favorable opportunities and prospects for expanded U.S. trade and investments by American firms in Romanian business enterprises. In March 1971, the Romanian Government enacted new foreign trade legislation which, among other things, permits foreign partners in joint ventures to have an equity of 49%, and guarantees them the right of repatriation of capital and profits. At this time, there are a number of U.S. firms negotiating specific projects with considerable likelihood of success. Improved U.S. relations with Romania have made it possible for the United States to accord it more favorable export control treatment than any other East European Country. When about 100 additional entries on the Commodity Control List were decontrolled to that country on May 1, 1971, the lists of commodities requiring no validated licenses for export to Romania and Yugoslavia became very similar. (For export control purposes, Yugoslavia is treated as a West European country.) Thus, a wide range of commodities not under international COCOM control may be shipped under general license to Romania. The President has stated that "the successful cultivation of more extensive business relations with Romania will be an important stepping stone to progress in our relations with the whole of Eastern Europe - which is of such significance to our country." Secretary Stans visited Bucharest in April 1971, and continued the dialogue between top U.S. and Romanian government officials designed to develop further the economic relations between

our countries. On November 30, 1971, the President declared it to be in the national interest that U. S. exports to Romania be eligible for Export-Import Bank financing and guarantees.

The People's Republic of China

A summary of major efforts to increase peaceful trade and economic relations with the Communist countries would not be complete without mention of the President's historic actions toward the People's Republic of China (PRC). In April 1971, he announced his decision to expedite visas for visitors from the PRC to the U.S., to relax currency controls to allow use of dollars by the PRC, to end restrictions on U.S. oil companies fueling ships or aircraft going to or from the PRC (except for certain ones involved in trade with North Korea, North Vietnam, or Cuba), and to permit U.S. carriers to transport Chinese cargoes between non-Chinese ports and U.S.-owned foreign flag carriers to visit Chinese ports. In June 1971, he announced a list of commodities which could be freely exported to the PRC without advance Commerce permission, declared that items not included in this general license list would be considered for specific licenses, and announced that all imports from the PRC could enter the U.S. on the same basis as goods from other Communist countries. Last month, as you recall, the President announced his decision to extend to the PRC the general licenses

and other export control regulations applicable to the USSR and other East European countries (except Poland and Romania for which trade controls are less restrictive).

No surge of direct trade between the U.S. and the PRC has occurred since these announcements. The PRC has continued its general policy of not dealing directly with U.S. firms pending a resolution satisfactory to them of other international problems. There have been, however, some export transactions involving U.S. firms through third countries.

50-50 Shipping Restriction

During the 1969 Hearings, your Committee strongly recommended the termination of the requirement that at least 50 percent of all wheat and feed grains sold to the Soviet Union and most other East European countries be carried in U.S. vessels. This was done in June 1971. A few months later the USSR placed orders for approximately $125 million with two U.S. firms for corn, barley, and oats. Payment will be in U.S. dollars. Long range sales prospects are excellent, since U.S. agricultural products are now more competitive.

FOREIGN POLICY CONTROLS

One of the policy statements in the Export Administration Act is to use export controls "to the extent necessary to further significantly the foreign policy of the United States and to fulfill

its international responsibilities." The Department of Commerce, of course, looks to the State Department for guidance in carrying out this aspect of the Act.

While the virtual embargo on trade with Cuba, North Vietnam and North Korea is a result of both national security and foreign policy considerations, there are other special country controls based solely on foreign policy. These include:

Southern Rhodesia

In conformity with the United Nations Security Council Resolutions of 1965, 1966, and 1968, there is a general embargo on all shipments to Southern Rhodesia except for certain published media and commodities for humanitarian, educational, charitable, or medical uses.

Republic of South Africa

In conformity with the United Nations Security Council Resolution of 1963, the United States has imposed an embargo on shipments to the Republic of South Africa of arms, munitions, military equipment, and materials for their manufacture and maintenance. While the major brunt of this embargo policy is borne by the Department of State's Office of Munitions Control, the Commerce Department requires prior approval for the shipment to this destination of commodities under its jurisdiction that fall in these commodity areas, even though some items may be exported to other Free World destinations under general

license. The general policy is to deny applications for such commodities when there is a likelihood of military end-use.

The Middle East

Since 1968, the Department has maintained control over exports to this area that are likely to be used for military purposes.

Portuguese African territories

As in the case of the Middle East, the Department maintains surveillance over exports that are likely to be used for military purposes.

Nuclear-related Commodities

In support of the "Limited Nuclear Test Ban Treaty" and the U.S. nuclear nonproliferation policy, the Department has, since 1965, exercised export controls to all destinations over commodities and technical data used in the development or testing of nuclear weapons. These controls also extend to equipment and technology relating to maritime nuclear propulsion projects.

SHORT SUPPLY CONTROLS

As required by the Export Administration Act, the Department of Commerce maintains surveillance of the domestic supply-demand situation of potentially troublesome commodities. This is to determine whether controls on their exports are necessary "to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand." For example, in November 1970, in order to monitor exports of ferrous scrap and coal and coke, the Department instituted

a special reporting requirement for exports of these commodities. In January 1972, subsequent to an analysis of market conditions, this report was eliminated for ferrous scrap.

On the basis of its evaluation of the black walnut supply situation following public hearings in October 1970, the Department decided that the imposition of quota restrictions on exports of walnut logs, lumber, and veneer was not justified at that time. Nevertheless, the Department concluded that the domestic consumption of hardwood timber should be carefully watched, and that the validated export license requirement should be continued so that export trends can be monitored in accordance with the Department's responsibility under the Act. Following a survey of domestic consumption and production of walnut made throughout the industry in the latter part of June 1971, the Department discontinued the validated license requirement.

Copper and nickel were the only commodities determined to require export quota or other restrictive limitations under the short supply provision of the Act during the period after January 1, 1970. In the Fall of 1970, however, the export quotas and restrictive limitations were removed from these commodities. This was made possible by their improved foreign and domestic supply situations. They were kept under validated license control, however, so that the quantities being exported were

constantly monitored. The supply situation for nickel continued to the point where, by September 1971, these commodities were under validated license control only to Southern Rhodesia, Cuba, and the Communist Asian areas. In April 1971, certain copper fabricated products also were decontrolled to all destinations, except Southern Rhodesia, Cuba, and the Communist Asian areas, and in January 1972, the remaining copper commodities, including scrap, were decontrolled to the same level.

In late 1971, Argentina curtailed its cattlehide exports. As a result, a number of hide importers abroad turned to the United States as a source of hides. At the same time the domestic price began to increase. The Department has kept a close watch on the supply-demand situation within the United States to determine whether the short supply provisions of the Act should be invoked.

ANTIBOYCOTT PROVISIONS

The Department continues to administer the antiboycott provisions of the Act which were carried over from the previous legislation. A review of the information being submitted on

multiple transactions concerning boycotts, however, indicated that much of the detailed information was not necessary for the purposes for which the report is required. Accordingly, a simplified reporting procedure was devised that would not only reduce the time required by exporters to compile the report, but also provide the Department with more accessible and meaningful data.

COMMERCE ADMINISTRATION OF THE ACT

In addition to these Presidential decisions and implementing actions to encourage peaceful trade, many specific actions were taken by the Department of Commerce since January 1, 1970, to implement other provisions of the Export Administration Act. Let me relate some of these now.

Commodity Control List Review

An essential action in encouraging trade as the Congress desired has been the review and pruning of the list of controlled commodities pursuant to Section 4(a)(1) of the Act. Early in 1970, the Department intensified and accelerated its review of commodities for which validated licenses have been required for national security reasons before they may be exported. As a result, during 1970 and 1971, over 1,700 commodities were decontrolled from validated to general license for export to various destinations, including the USSR, other Eastern European countries and the PRC. The decontrolled commodities include many types of chemicals, semi-fabricated and

finished metal products, electronic instruments, electrical and non-electrical machinery, and agricultural and transportation equipment. The review is continuing.

Our intent in the list review has been to remove from validated export license control all commodities whose control is not necessary to achieve the policy objectives of the Act. The review has been conducted by the Department of Commerce, with information and advice from other U.S. Government departments and agencies. Even though a substantial percentage of the entries on the Commodity Control List has now been reviewed, it should be pointed out that the list is dynamic, and will continue to change after the initial review has been completed. It is difficult to estimate the completion date of the review, because the remaining commodities are generally more complex and present special problems.

Congress recognized, quite appropriately, during the debates which preceded the enactment of the Export Administration Act, that it was not feasible to expect a review of such magnitude to be finished within a short period of time. It was understood that the review was to be undertaken as expeditiously as possible, and that priority should be given to the daily processing of export license applications. As then contemplated, priority has been given by the Department to the review of specific non-COCOM commodities on the control list which are, prima facie, of little or no strategic

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use, or are of potential importance in East-West trade as evidenced by export license applications and advice from export firms. The receipt of license applications is used on a selective basis to trigger a review of controls over particular commodities.

Concurrent with these decontrol activities, the Department has had occasion to impose or tighten controls over a limited number of other commodities and technical data that, by reason of newly-developed or technically advanced features, could contribute significantly to the military potential of the Communist countries to the detriment of our national security.

Reduction of Reporting, Recordkeeping, and Documentation Costs

As called for by Section 7(d) of the Act, numerous steps have been taken to reduce the cost of reporting, recordkeeping, and export documentation. To reduce the documentation burden, exporters with a high volume of shipments have been permitted to use monthly summaries, instead of individual Shippers' Export Declarations, to record their exports. The number of export shipments made under the new procedure is approximately 18,000 per month. Additionally, the exemption from filing Shippers' Export Declarations covering general license shipments to the free world has been increased from $100 to $250.

To facilitate paperwork, exporters or their agents have been

authorized to submit Shipper's Export Declarations covering general license exports to the free world directly to carriers without prior Customs authentication, and a far-ranging simplified export clearance system is now being developed in Commerce that will eliminate Customs authentication for all shipments under the Department's jurisdiction to all destinations.

Other significant documentation or record-keeping changes that have been made include the following:

- Essential records must be kept for only two years instead of three.
- Validity periods for most forms of export licenses and supporting documents were doubled.
- Exporters may certify to a Customs Office that the license is on file at another port, eliminating the need for a release from one Customs Office to the other.
- The exemption for submission of a supporting document from the prospective consignee was raised from $500 to $1000.
- A standard form was introduced to simplify submission and processing of reexport requests.
- A broad new general license was established to facilitate a variety of temporary exports.
- The format of the Commodity Control List was revised and condensed to simplify identification of commodities and

preparation of license applications, and to aid exporters in automation of order processing.

- Declarations are no longer required for foreign-origin shipments moving intransit through the United States.
- Cargo may now be loaded on the exporting carrier prior to filing of the export declaration, provided the declaration is filed before departure.
- Supporting documentation for license applications is no longer required for most commodities that will be delivered directly to institutions of higher learning in free world countries.
- The scope of a broad gauge Distribution License was enlarged to cover exports and reexports to most free world countries, and firms which had obtained more than 100 licenses in 1970 were encouraged, by letter, to consider applying for this license.

Principally as a result of the commodity decontrol program and the introduction and subsequent expansion of the distribution license, the export trade now files far fewer individual export license applications than previously. In 1969, for example, the Department received an average of about 580 applications per day. We now receive approximately 325 per day, but the Department's workload has not been reduced in like proportion. Whereas there has been a 44 percent drop in total intake, East European applications,

which are becoming more difficult and time-consuming to process, have been cut only about 20 percent.

Coupled with the reduced volume of applications have been some procedural changes in the internal processing and review of applications designed to speed up the licensing actions and thus reduce the exporter's risk of losing foreign orders. A survey made in late 1971 indicated that 51% of all export license applications, amendments, and reexport requests were processed within two working days; 90% within 5 working days, and 97% within 15 working days.

Export license applications for Eastern Europe often pose technical or policy problems which require additional time to process. The same survey showed that 10% of such applications were acted upon within two working days, 36% within five working days, and 74% within 15 working days.

Thus, a little more than one-fourth of the license applications for Eastern Europe were still under consideration three weeks after receipt in the Department. Most of these either were lacking in technical information when received, covered highly strategic commodities, or raised policy issues. Heretofore, a license application to export many of these would have been summarily denied. This fact needs to be borne in mind in evaluating the

delays involved in processing such applications. These delays are really occasioned by our seeking, often in consultation with other U.S. government agencies and, when appropriate, with applicant firms, to bring together all information bearing on each such particular transaction, to examine carefully the commodity to be exported, and to determine whether the application merits favorable action, rather than peremptory denial.

Reporting the Reasons for Denials of Export Applications

In conformity with the Act, license applications are generally approved for Eastern Europe when we find that, even though the items to be exported have potential strategic as well as civilian uses, comparable items are readily available from other Free World sources and the proposed exports are for peaceful purposes. Section 4(b) of the Act authorizes denial of applications for exports which the President determines would be detrimental to national security, regardless of foreign availability; but it requires that the reasons for such denials shall be reported to the Congress in the quarterly report following the decision.

Since the Act went into effect, the Department has given increased emphasis and consideration to foreign availability to deciding whether, from the security viewpoint, proposed exports of commodities and technical data should be licensed. The Department

prepares quarterly reports to the President and the Congress indicating the items which have been rejected for export to Eastern Europe and whether they were under COCOM control. If not controlled by COCOM, we have identified the items for which comparable items were, or were not, available abroad. When foreign availability existed, an explanation has been added as to why the national security considerations overrode the foreign availability, thereby justifying the denial actions and the retention of control over the affected items.

During 1971, license applications for the export to Eastern Europe of commodities valued at $6.6 million were denied for national security reasons. All but $328 thousand worth of these, or 95%, were under international COCOM control. Of the non-COCOM-controlled commodities, $240 thousand worth were not available from foreign sources. This left $88 thousand worth of commodities which were rejected for security reasons, notwithstanding their foreign availability. These have been identified, and the reasons for their denial and retention under control have been explained in the quarterly reports of the Department pursuant to the Act.

Organizational and Procedural Changes

Section 4(a)(1) of the Act calls for such organizational and procedural changes in the Department as the Secretary of Commerce

determines are necessary for the fullest implementation of the policy of the Act and with a view to promoting trade with all nations with which the United States is engaged in trade. Pursuant to this, a new Facilitation Branch has been established in the Compliance Division of the Office of Export Control. Its primary functions are to coordinate and accelerate efforts to reduce documentation and paperwork, and to simplify further the process of clearing export shipments.

Additionally, to provide assistance to exporters interested in selling to Eastern Europe, the Eastern Europe Division in the Office of International Commercial Relations has been enlarged, with desk officers specializing in each of the major countries. The Division has been made a focal point for bringing together U.S. exporters and East European buyers.

To promote sales of U.S. goods in Eastern Europe, the Office of International Trade Promotion has established a Regional Promotion Group to concentrate on activities in Eastern Europe and Yugoslavia. Through an increased coordinated program of exhibitions, seminars, catalog shows, trade missions, exchange of commercial and product information, and combinations of these techniques, the Group is increasing the U.S. exporters' awareness of opportunities in Eastern Europe and providing means of bringing

U.S. products to the attention of East European buyers.

When the new simplified export clearance system becomes effective, Customs, as noted before, will no longer review and authenticate Shippers' Export Declarations. It is anticipated, therefore, that the Office of Export Control will need to assume compliance work formerly performed for us by that agency. In this connection, attention is also being given to the expansion of preventive enforcement. This would include additional efforts in making exporters and their foreign affiliates aware of the essential features of our regulations, and alerting them in advance regarding probable illegal transactions. A separate report on enforcement actions will be provided to the Committee.

Apprising Business of Policy and Procedural Changes

As called for by Section 4(a)(2) of the Act, the Department has utilized a variety of methods to keep American business "fully apprised of changes in export control policy and procedures instituted in conformity with the Act with a view to encouraging the widest possible trade." The Department has an extensive publicity program through which the business community is kept informed. Policy and procedural changes in export regulations are published in the Federal Register, and in Export Control Bulletins sent to exporters on a subscription basis, and made available to them at the Department's Field Offices.

In addition to the reports on export control that are submitted to Congress every three months by the Secretary, press releases are issued whenever necessary to call attention to important measures. Feature articles are printed in the Department's biweekly magazine, Commerce Today, and the trade opportunities section in that magazine has been expanded to give better coverage of Eastern Europe. In addition, the Department publishes Overseas Business Reports on trade of the United States with Eastern Europe on an annual basis. Other Department officials and I have spoken to numerous gatherings of businessmen and exporters throughout the country. Information regarding important export control policy and procedural changes is available overseas to American business through the U.S. Foreign Service posts.

Consulting with Government Agencies and Private Industry

In carrying out Section 5(a) of the Act, the Department seeks information and advice from other U.S. Government departments and agencies with regard to what should be controlled under the Act and the extent to which exports should be limited. The Department's interdepartmental Advisory Committee on Export Policy structure is the established channel for formal consultation on policy and major export transactions. The Export Administration Review Board, established by Presidential Executive Order and comprising the

Secretaries of Commerce (Chairman), State, and Defense, considers major policy problems. On licensing and technical matters, Commerce personnel regularly consult with appropriate personnel in other agencies.

The Export Administration Act added a provision that "the President shall from time to time seek information and advice from various segments of private industry in connection with the making of these determinations". As part of its standard operating procedures, the Department consults extensively with the trade in a generally informal and flexible fashion. For example, in connection with the Commodity Control List review, trade associations and private firms, particularly in the aerospace, industrial machinery, electronics, and chemical industries, have been invited to submit their recommendations and to participate in the fact-finding process. Exporters have been invited to give us their suggestions for improving our policies and procedures under the Act and to supply technical advice and information essential to our control judgments. Many helpful suggestions have been received. We are endeavoring to follow them to the extent feasible and consistent with statutory requirements.

Keeping Exporters Informed

To implement Section 9 of the Act, dealing with information

to exporters, the Department initially sought informally to keep each exporter apprised regarding (1) considerations that might cause denial or lengthy examination of his application; (2) in event of undue delay, the circumstances arising during our consideration of his application which are cause for denial or further examination; and (3) in event of denial, the reasons therefor. In addition, we have tried to give each exporter full opportunity to present evidence and information he believes will help to resolve problems or questions which are, or may be, connected with his license application. Our objective here is to keep open the channels of communication with the exporting community. In June 1970, as part of this effort, the Department's Office of Export Control instituted a new, formal procedure to facilitate inquiries from exporters. This procedure hinges on a standard form which an exporter can use to request information on the status of his application. In conjunction with this, a regulation was issued explaining the use of the form and the principal considerations that may occasion lengthy examination or rejection of an application. The form is frequently supplemented with additional details when required and when feasible.

LEGISLATIVE ESTABLISHMENT OF A COUNCIL ON INTERNATIONAL ECONOMIC POLICY

The continued security and prosperity of the U.S. are dependent on a coherent, consistent and well-coordinated international economic policy. Just as it is crucial that the Export Administration Act be extended, it is also important that the Federal Government have an appropriate mechanism to coordinate throughout the executive branch our foreign economic policy. In January of 1971 the President created a Council on International Economic Policy within the Executive Office of the President. The purpose of the Council is to provide a clear, top-level focus on international economic issues, to achieve consistency between international and domestic economic policy, and to maintain close coordination of international economic policy with basic foreign policy objectives.

The formulation and administration of foreign economic policy is plainly a complex task. It invariably affects other aspects of our foreign relations. National security is often involved, and domestic economic policy always is. As a consequence virtually every government department participates in developing and administering some facet of our foreign economic policy. Indeed more than 60 units and coordinating bodies throughout the Executive

Branch have responsibility for some aspects of foreign economic affairs. This involvement of so many diverse agencies is unavoidable because of the wide variety of interests involved, the specialized expertise required, and the close link between international and domestic economic policies. But, Mr. Chairman, all of these strands eventually converge at the Executive Office of the President, posing a formidable problem of coordination and leadership. Until the creation of the Council on International Economic Policy, there was no mechanism that could assume this vital responsibility.

The importance of the Council is reflected by the fact that legislation is pending in your Committee which would give statutory authorization to the Council on International Economic Policy. It further would give this Committee and the Congress as a whole a report on this important area of national policy. We strongly agree with the objective of giving the Council permanent status and sufficient funding through legislative action. While we have reservations about certain specific provisions of the various bills, we strongly support the need for such a Council.

Mr. Chairman, we respectfully urge that the Committee give serious consideration to reporting out legislation which would: (1) extend the Export Administration Act and (2) give the Council on International Economic Policy a permanent statutory base.

CONCLUSION

In conclusion, the Department of Commerce supports S-1487 which would continue the Export Administration Act of 1969 to June 30, 1975. We believe the Act warrants extension because of its positive policy of encouraging peaceful trade, while providing necessary authority to control exports to the extend the President determines necessary to achieve national security, foreign policy, and short supply policy objectives.

We in the Department of Commerce see a rising interest among American businessmen in trade with East European countries. On the record of our program in implementing the Act to date, we believe that we can be responsive to the legitimate commerical needs of our business community without detriment to our national security and foreign policy objectives. The prospects for U.S. peaceful trade with Eastern Europe -- and even with the People's Republic of China -- appear bright. There are, of course, many problems. The ultimate trade potential in the communist area has to be kept in perspective relative to other world markets. Nevertheless, there are challenging opportunities for expanded trade and economic relations with these countries.

Further, the Department would vigorously support the legislative establishment of a Council on International Economic Policy.

The Office of Management and Budget advises us that:

1. Extension of the Export Administration Act as advocated in this statement and

2. Legislative establishment of a Council on International Economic Policy would be in accord with the legislative program of the President.

085/08

U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C.

LEGAL ENFORCEMENT ACTIVITIES

Both criminal and civil penalties as well as administrative remedial sanctions may be invoked against violators of the export control regulations. Under the Export Administration Act, violators are punishable by either fine or imprisonment, or both. By regulation, provision has been made for the denial of U.S. export privileges to American and foreign companies and individuals pursuant to administrative compliance proceedings instituted in connection with violations of the export regulations. In addition, U.S. District Directors of Customs have authority to seize merchandise whenever an attempt is made to export or ship from or take out of the United States such merchandise in violation of law. In such instances, the merchandise may either be forfeited to the Government or returned to the owner after payment of a penalty and the seizure costs.

This report is concerned with export control enforcement cases handled between January 1, 1969, and December 30, 1971. Earlier cases were reported to this committee at the 1969 hearings on the prior extension and amendment of the Act.

During this three-year period, 49 temporary, indefinite, and final export denial orders were issued against 119 American and foreign individuals and companies for various kinds of violations of the export control regulations, including actual or attempted transshipments to the Communist countries and areas in Eastern Europe and the Far East as well as Cuba. Other orders involved such violations as misuse of export licenses, falsification of Shipper's Export Declarations and other export control documents, violations of outstanding denial orders, smuggling of goods from the United States, and other culpably negligent or willful offenses not necessarily affecting the national security interests of the United States. In addition, there were 6 orders extending existing temporary orders. The civil penalty authority provided for in the 1965 extension of the Act has been invoked 14 times during these three years.

The orders which deny export privileges describe the nature of the case, and also provide for the denial to the respondent of the "privileges of participating, directly or indirectly, in any manner or capacity, in any transaction involving commodities or technical data in whole or in part exported or to be exported from the United States to any foreign destination, including Canada" for a determined period of time (with or without probationary terms) ranging up to the entire duration of U.S. export controls.

All denial orders are made applicable not only to the respondents but also, to prevent evasion thereof, to any other individual or firm with which he

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is or may become "related by affiliation, ownership, control, position of responsibility, or other connection in the conduct of trade or services connected therewith." Each denial order also contains a notice that no third person may perform any acts with or for the benefit of the denied party which he is prohibited from doing by the order. During 1969-1971, "related party" orders were issued involving 38 foreign firms and individuals. There were also 8 shipments valued at $285,858 recalled to the United States prior to delivery abroad, or ordered to be unladen from the carrier prior to exportation, pursuant to the authority of the Department to take such action where reasonable grounds exist for belief that the merchandise was ultimately to be delivered to a proscribed destination.

Final orders are issued following a detailed notice of charges to the respondent, a hearing based thereon, and findings that violations have occurred. Temporary orders are issued, when necessary, without notice, to protect the public interest pending the continuation or conclusion of an investigative or administrative or judicial proceeding. Indefinite orders are issued when companies or individuals fail or refuse to answer written interrogatories of the Department regarding their participation in suspected transshipments or other unauthorized transactions and remain in effect until the party answers or gives a satisfactory reason for not doing so. Orders imposing civil penalties are also issued after a detailed notice of the violations committed has been furnished the respondent and he has been afforded the opportunity for a hearing, not only in order to present any explanation in mitigation but also to discuss the violations.

The full text of each denial order is published in the Federal Register, and the Department issues a press release at the time the denial order is issued. Additionally, a summary of each denial case is contained in the Quarterly Reports submitted by the Department to the Congress in accordance with Section 10 of the Export Administration Act. The Quarterly Reports also contain a statement of the actions taken in criminal cases involving export control violations. The lists of firms and individuals in the United States and abroad currently under export denial orders, the respective Federal Register citations, and the export privileges denied (and probation periods) are regularly published in the Export Control Regulations issued by the Bureau of International Commerce. These lists are separately reprinted and receive wide dissemination here and abroad. Orders imposing a civil penalty are not published in the Federal Register. However, a press release is issued in each case and the order is reported in the Quarterly Reports to Congress.

On December 31, 1971, the Compliance Division of the Office of Export Control had 183 active investigations in process. Of these, 20 involved alleged or known cases of diversion to a proscribed destination, while the remaining 163 involved misrepresentation, alteration of documents, smuggling, violation of denial orders, and similar offenses including possible civil penalty sanctions.

As of December 31, 1971, 12 cases were with the Office of the General Counsel of the Department being reviewed for administrative compliance proceedings and/or criminal or other disposition, or were pending in the Office of the Compliance Commissioner awaiting the final outcome of administrative proceedings.

By a separate Federal Law, the Bureau of Customs is authorized to seize, and have forfeited to the United States, commodities attempted to be exported in violation of export controls. In lieu of forfeiture, the Bureau of Customs also has authority, after seizure has been made, to compromise the seizure action and release the merchandise to the owner on payment of a monetary penalty. This seizure sanction has continued to be applied in appropriate cases and during the past three years, 479 seizures were made involving U.S. goods valued at more than $1,341,412. In the great majority of cases, the seizure action is compromised by a penalty imposition. Criminal prosecutions, administrative export denial proceedings, and civil penalties are contemplated by the Export Administration Act and the regulations issued thereunder. Criminal prosecutions are traditionally for punitive and deterrent purposes. Administrative proceedings and civil penalties are, however, primarily remedial and deterrent in nature, and are designed to protect the integrity of export controls against abuse through monetary fines or by denying export privileges to those who, through willful or careless misconduct, have demonstrated their unreliability as shippers, handlers, or recipients of U.S.-origin commodities and technical data. The decision as to what type of proceedings should be instituted against alleged violators depends, among other things, on the nature and gravity of the offense, the intent, past record, and reputation of the offender, and, what is especially significant in this field of international offenses, the availability of the kind and quantity of evidence that is required by Federal Courts in criminal cases.

In considering the utility of the criminal sanction as a means of enforcing the Export Administration Act, it should be borne in mind that such cases cannot feasibly be brought against foreign persons not subject to U.S. jurisdiction for prosecution, and that the success of such prosecutions against American parties is substantially limited by the difficulty of producing for appearance and use in our courts the necessary witnesses and documentary evidence as required by our Constitution and laws in criminal cases. Witnesses and documents located in foreign countries are often the only sources of evidence to establish that U.S.-origin goods were transshipped, diverted, or reexported to the Communist countries and areas in Eastern Europe and the Far East or Cuba, and the identity of the persons responsible therefor. Inability to compel attendance in our courts of such foreign witnesses and the production here of such foreign documentary evidence, by subpoena or otherwise, may make it impossible for the Government to prove a criminal case since hearsay evidence is inadmissible, depositions are confined to very narrow limits, and in some cases only evidence classified for security and foreign policy reasons may be available which could not be used without breach of classification.

The national security and foreign policy objectives of the Act would be frustrated if known transshippers and other violators could not be prevented from continuing to export, handle, receive, and reexport U.S.-origin commodities and technical data. Where criminal prosecution would not be appropriate or would not be successful for the above reasons, administrative proceedings to deny export privileges are instituted. The initiation and conduct of such hearings are governed by regulations promulgated under the Export Administration Act. These provide for adequate notice of the charges and opportunity for hearing. The hearings are conducted by an impartial examiner in accordance with general principles of administrative law. Probative hearsay evidence is accepted in such cases.

In some cases essential elements of the offense or necessary links in the chain of guilt are classified information reported by U.S. intelligence and investigative agencies operating here and abroad. Often such information comes through foreign governments. It is required by law and Executive Order and for national security and foreign policy reasons to protect the source of this information. In such instances, pursuant to regulation, the Department offers in evidence as part of the Government's case an unclassified summary of the classified information. The hearing officer compares the summary with the original classified report, and if he is satisfied that the summary is fair and accurate and omits only what is required to be kept confidential, the summary is received into evidence. This is available to the respondent for use in presenting his defense of the charges.

This procedure is considered to provide a fair and practicable means to use classified information of this type when its use is necessary to accomplish the national security and foreign policy objectives of the Act. The use of such information in this way is deemed to be authorized by the provisions of the Export Administration Act, construed in the light of its legislative history, as well as by general principles of administrative law regarding the use of classified information in cases involving national security and foreign policy.

The Department has found that both civil penalties and administrative export denial proceedings are an effective means of enforcing the Export Administration Act, not only because of the substantial economic impact of denial orders on the American and foreign firms directly affected, but also through the deterrent impact of publicity.

Summaries of the administrative export denial orders issued during 1969-1971, the criminal cases disposed of during 1969-1971 or pending as of December 31, 1971, and civil penalties imposed during 1969-1971 are contained in the attached lists.

ADMINISTRATIVE EXPORT DENIAL ORDERS ISSUED DURING 1969, 1970 and 1971

Produits Chimiques Industriels et Agricoles S.A. (PROCIDA)
Puteaux, France

On June 25, 1969, this firm, a manufacturer of agricultural chemicals with offices in Puteaux and factories in Marseilles and Beaucaire, was denied all U.S. export privileges for three years, with conditional restoration after five months. Investigation by the Department disclosed that in 1967 PROCIDA obtained 190 tons of chlordane from a U.S. supplier. The invoices for the material bore notices that distribution to certain destinations, including Cuba, was prohibited. Further, a responsible employee of PROCIDA knowingly misinformed the U.S. supplier that the ultimate destination of the product to be formulated from the chlordane was France and West Africa while knowing that the finished product was intended to be exported to Cuba, which was done. The chlordane was used to formulate an insecticide of which it was the only active ingredient and represented 93 percent of the final value. Because of the quantity, importance, and relative value of the chlordane in the finished product, it was held that the prohibition against reexportation applied to the finished product as well as to the chlordane itself.

Roland Werkstaetten GmbH, Bremen, Federal Republic of Germany
Herbert Greve, Hamburg, Federal Republic of Germany

As of July 28, 1969, this firm and its operator were denied all U.S. export privileges for a period of seven years, with the provision that they could apply for restoration of privileges after four years while remaining on probation for the balance of the seven-year period. The Department's investigation showed that Greve, acting for the firm, unlawfully disposed of certain U.S.-origin precision grinding machines. The machines in question were exported to Greve in Bremen, covered by validated export licenses issued on the basis of certifications by Greve that the machines would be used in production facilities in the Federal Republic of Germany. Greve, however, sold the machines to a Swiss firm without prior notification to, or authorization from, the Department as required by the Export Control Regulations. Subsequently, the machines were diverted to a Communist country, a destination for which the Department would not have granted reexport approval.

Johnston (formerly known as Johnston Testers)
Houston, Texas

On January 22, 1970, this firm, a U.S. distributor of oil well drilling and gas field equipment, was fined $8,000 and was also denied all U.S.

export privileges for a period of four months and placed on probation until February 1, 1973. The sanction was based on charges by the Department that the firm made unauthorized exportations of such equipment, valued at $66,000, for the benefit of a West German firm that had been prohibited from dealing in U.S.-origin goods by a previous denial order. The West German firm, Petroservice International GmbH (PSI) of Wiesbaden, had been negotiating with Johnston for the purchase of the equipment prior to July 1967, when it was placed under denial. After the denial order was imposed, however, PSI obtained the services of an unwitting intermediary in England in order to consummate the transaction. Investigation by the Department established that Johnston was aware that PSI had remained as the true party in interest, but completed the negotiations through the English firm and made four exportations at various times in 1967 and 1968. Johnston did not contest the charges and consented to the issuance of the order.

Snam Progetti S.p.A
Milan, Italy

A consent order, resulting from charges by the Department of violations of U.S. export control technical data regulations, was entered against this firm on January 28, 1970. The order did not prohibit exports from the U.S. to the firm, a large Italian engineering company, but provided that such sanctions might be imposed summarily without notice in the event of future violations by the respondent or by any companies which it controls. The firm was charged with having used, without the required prior approval of the Department, certain U.S.-origin technology for the design and construction of an ethylene oxide and glycols plant in Czechoslovakia. The technology had been obtained previously by Snam from a New York firm to construct a similar plant in Gela, Sicily. Snam, a member of the ENI group of integrated companies controlled by the Italian Government, develops, prepares, and sells petrochemical plant technology throughout the world. Under the terms of the order, Snam agreed that it would not sell, deliver, or release any U.S.-origin technical data without the necessary permission, when required, by U.S. Export Control Regulations.

Masaaki Ono, Tokyo, Japan
Kazuo Iida, Tokyo, Japan
Masaji Nagasaka, Tokyo, Japan
Takeo Kawasaki, Tokyo, Japan
Isao Kanno, Tokyo, Japan
Nihon Tokushu Denki K.K., Tokyo, Japan
Shinwa Tsusho (Yungen Kaisha), Tokyo, Japan
Japan Holst K.K., Tokyo Japan
Meikon Shokai K.K., Tokyo, Japan

These five individuals and four firms were denied all U.S. export privileges by an order entered on February 24, 1970, for violations of the ex-

port control regulations. The denial action was taken as a result of the illegal participation by the respondents in transactions involving the handling and disposition of U.S.-origin strategically-rated electronic equipment and the making of false statements in the course of the investigation conducted by the Department into these transactions. Respondent Iida had been denied all U.S. export privileges for an indefinite period in 1965 because of his failure to account for the disposition of strategically-rated U.S.-origin goods believed to have been reexported from Japan to the People's Republic of China. The denial restrictions against Iida had then been made applicable to Nagasaka because of his close business association with the latter. Thereafter, in 1965-66, Nagasaka, for the purpose of evading the restrictions against him, engaged Ono and his firm, Nihon Tokushu Denki K.K., to obtain certain strategically-rated electronic equipment from the U.S. Purchase orders for such equipment, valued at over $200,000, were placed by Ono with various U.S. suppliers. Equipment valued at about $80,000 had already been exported from the U.S. when Nagasaka's participation was discovered by the Department. The proposed export of the remainder of the equipment was prevented by the Department. The Department's investigation disclosed that Iida had received some of the equipment and had participated in financing the purchase of other equipment. The intended and ultimate disposition of the equipment could not be established, however, as the parties either refused to cooperate or made false statements. The order provided that Nagasaka and Iida be prohibited from participating in transactions involving U.S.-origin commodities and technical data for the duration of export controls. Similar restrictions were applied for a period of five years to Ono, Nihon Tokushu Denki K.K., and Kawasaki, and to Kanno for a period of six months. In order to prevent evasion of the restrictions, the order was made applicable to the other above-named parties, with which one of the principals is connected.

Sercel S.A. (Societe D'Etudes Recherches et Constructions Electroniques), Montrouge and Carquefou, France
Robert Paule, Courbevoie, France

In two separate but related orders issued on February 25, 1970, this firm and individual were restricted from participating in U.S. export transactions for one year and placed on probation for two years thereafter. During 1965-67, Sercel, a large French manufacturer of scientific equipment, obtained U.S.-origin strategically-rated electronic equipment that it used in the production of seismic exploration apparatus it exported to the People's Republic of China in contravention of applicable U.S. Export Control Regulations. In the course of the related investigations conducted by the Department, both Sercel and Robert Paule, its former sales manager, gave false information in reply to formal interrogatories concerning the ultimate disposition of the U.S.-origin equipment. The violations were admitted by both parties.

Jouko Satukangas; Me-Ra-Oy Muntajatehdas, Helsinki, Finland

On May 1, 1970, Jouko Satukangas, owner and managing director, and the firm Me-Ra-Oy of Helsinki, a manufacturer of transformers and a fabricator of metals, were denied all U.S. export privileges in connection with the unauthorized disposition of U.S.-origin strategically-rated generators. Satukangas ordered the generators from a U.S. supplier, furnishing an end-use statement representing that the generators would be used by Me-Ra-Oy in its factory and gave assurances that if there was any change of plans for use the U.S. supplier would be so notified. Upon arrival of the generators in Helsinki, they were turned over by Satukangas to a denied party in Helsinki who had been subject to an order denying participation in U.S. export transactions since 1965. The Department held that Satukangas' failure to notify either the U.S. supplier or the Department of the change in intended end-use involving a denied party constituted an unauthorized disposition of the generators. The denial period was for three years with the proviso that after one year the parties could apply for conditional restoration of privileges. Shortly after the order was issued, the parties submitted evidence which mitigated their culpability and on August 27, 1970, effective denial was terminated and they were placed on probation until May 8, 1973.

Manfred Hardt and Werner Hardt, Wiesbaden, Federal Republic of Germany
Caramant Gesellschaft fur Technik und Industrie GmbH & Co., KG, Wiesbaden, Federal Republic of Germany
Michael Schmidt-Sandler and Joseph S. Versch, Garmisch-Partenkirchen, FRG
Petroservice International GmbH, Wiesbaden, Federal Republic of Germany

In two separate but related orders issued on May 22, 1970, the named two firms and four individuals, then or formerly connected with the firms, were denied all U.S. export privileges for the duration of U.S. export controls. These orders continued the restrictions of outstanding denial orders against all of the parties. In some instances, the earlier orders were for proven violations and in others the orders were temporary for suspected violations. The parties were charged by the Department with numerous violations of the regulations as well as the previous denial orders. Manfred Hardt and Joseph Versch, both acting for Petroservice International, participated in the unauthorized reexportation from the Federal Republic of Germany to East Germany of U.S.-origin strategically-rated seismographic equipment after having ordered and caused the export of the equipment, valued at $75,000, from the U.S. After the equipment was delivered to East Germany, Manfred and Werner Hardt, Versch and Schmidt-Sandler sought to obtain servicing and parts in further violation of U.S. law. In another transaction involving exportation from the U.S. of strategically-rated oil and gas field equipment valued at $69,000, these individuals, acting for Petroservice International, evaded restrictions of denial orders by covering their participation in the transaction by dealing with the U.S. supplier through an intermediary company in England. The Caramant firm violated the restrictions against it on several

occasions by ordering and receiving commodities from the U.S. The Department established that Versch, Schmidt-Sandler, and Manfred Hardt made false and misleading statements in connection with the investigation of certain of these transactions. To prevent evasion of the denial order against Petroservice International, the prohibitions of the order were made applicable to the firm Interlingnum Etablissement of Vaduz, Liechtenstein, which had a 98 percent ownership interest in Petroservice International.

Hans Borkmann
Hamburg, Federal Republic of Germany

By the terms of an order effective July 16, 1970, this individual, a West German trader, was denied all U.S. export privileges for five years with the provision that after one year he may apply for conditional restoration of privileges while he remains on probation. The present order continued the restrictions of earlier temporary and indefinite orders issued against him in the course of proceedings in which he was charged with violations of export control regulations. Borkmann was charged by the Department with attempting to obtain U.S.-origin electronic communications equipment in violation of an indefinite denial order outstanding against him at the time. He sought to evade the restrictions against him by using an intermediary to negotiate orders with two U.S. suppliers.

Pierre M. Stevens
New York, New York

On August 27, 1970, the above-named individual, a Belgian national who had resided in the U.S. for several years, was denied all U.S. export privileges for the duration of export controls. The denial order resulted from findings by the Department that, in March 1968, Stevens attempted to export strategically-rated electronic equipment from the U.S. by means of falsified shipping documents and without obtaining the required validated export license from the Department. The equipment, valued at $13,000, was ordered from two U.S. suppliers along with a number of other strategically-rated items having a collective total value of $62,000. Stevens took possession of the initial partial shipment, valued at $13,000, in New York, and had it delivered to a Manhattan pier for exportation to Antwerp. The proposed exportation was declared on the accompanying shipper's export declaration as personal effects and household goods valued at $750. The Department learned of Stevens' intentions and prevented the illegal exportation. The equipment was seized and Stevens was arrested in March 1968. In criminal proceedings, Stevens was indicted and released on bond. In March 1970, he pleaded guilty to the charges and was fined $3,000, was given a suspended jail sentence of one year, and was placed on probation for three years. This denial order continued the restrictions of a 1968 temporary denial order issued as a precautionary measure following his arrest and provided that Stevens may apply after five years to have his export privileges restored.

Geo Space France S.A., Paris, France
Yves Manuel, Paris, France

An order effective August 14, 1970, denied the above-named firm all U.S. export privileges for three months and placed it on probation for an additional nine months. Yves Manuel, the firm's general manager, was placed on probation for nine months. This action was taken by the Department as a result of the firm's participation in the sale and delivery of a U.S.-origin oscillograph camera to another French firm, despite knowledge that the camera would be reexported from France to the People's Republic of China. Manuel, individually and on behalf of the firm, had three antedated letters prepared indicating that certain other U.S.-origin commodities, also sold by Geo Space France S.A. to the other French firm, were destined for Gabon, Africa. Investigation by the Department disclosed that the letters were misleading and the commodities actually were incorporated into equipment that the other firm delivered to the People's Republic of China.

Comp-Data GmbH, Vienna, Austria
Johann Nitschinger, Vienna, Austria

On October 13, 1970, Comp-Data GmbH and Johann Nitschinger, its principal official, were denied all U.S. export privileges for a period of five years, continuing in effect the restrictions of a temporary denial order imposed against the respondents on April 10, 1970. The Department found that Nitschinger and his firm illegally participated in a transaction involving the exportation from the U.S. of magnetic video tapes valued at $52,000 to a firm in Austria with knowledge that the latter firm, Austis Warenhandelsgesellschaft, and its owner, Otto Goldeband, were subject to an order denying them U.S. export privileges. The tapes were subsequently reexported to an unauthorized destination. After April 10, 1973, the respondents may apply to have the effective denial of their export privileges held in abeyance while they remain on probation for the remaining two years.

Gerald M. Hammerson, London, England
Woodham Trading Ltd., London, England
William R. Rombold, London, England
Commodity Export Ltd., London, England
Politprude Ltd., London, England
Glovet Traders Ltd., London, England
J.P.M. Spares Co. Ltd., London, England
G.M.T. Friction Materials Ltd., London, England
Associated Electronics Buying Services Ltd., London, England
Jack Meerloo, London, England
Frank C. Beven, London, England

An order was issued on March 2, 1971, against Woodham Trading Ltd., Commodity Export Ltd., Politprude Ltd. and the individuals who control the

firms, namely, Gerald M. Hammerson and William R. Rumbold, their agents, employees, and representatives. Under the terms of the order these parties are prohibited from participating in any transactions involving commodities or technical data exported from the United States for the duration of export controls. To prevent evasion of the order, its restrictions are made applicable to four other firms controlled by either Hammerson or Rumbold, or both. These firms are Glovet Traders Ltd., J.P.M. Spares Co. Ltd., G.M.T. Friction Materials Ltd., and Associated Electronics Buying Services Ltd. Also subject to the order are Jack Meerloo and Frank C. Beven, who are described as agents for one or more of the firms. Since 1966 Woodham, Glovet, and Commodity Export have been subject to temporary restrictions in U.S. export dealings because of suspected shipments of substantial quantities of U.S.-origin automotive and machine parts to Cuba. Hammerson and Rumbold, acting through their companies, in 1967 ordered $120,000 worth of truck parts from a Canadian supplier, knowing the parts were of U.S. origin. Over $75,000 worth of the parts were shipped from New York to Rotterdam and, on instructions from Hammerson and Rumbold, were reexported to Cuba in violation of the U.S. Export Control Regulations. The Department prevented shipment of the remainder of the parts. After 5 years, the respondents may apply to have the effective denial of their export privileges held in abeyance while they remain on probation.

Karl Dania, Vienna, Austria
Express Internationale Spedition GmbH, Vienna Austria

In two separate but related orders issued on April 20, 1971, the above parties were denied U.S. export privileges for a period of 5 years because of their participation in the reexport of strategic electronic equipment, valued at $5,300, to a proscribed destination. During 1966, Dania, who is engaged in the import-export business, obtained the equipment from a U.S. supplier on the representation that it was destined for Lebanon. Dania did not reexport the equipment to his alleged customer in Lebanon, but instead turned it over to Express, a freight forwarding firm, with instructions to forward it to an East European country that was an unauthorized destination. The Express firm had been subject to an order restricting it from handling U.S.-origin goods since March 1959 because it failed, at that time, to give information concerning its participation in a transaction involving the illegal transshipment of strategic goods that had been exported from the United States. Since Express Knew that the equipment it was handling for Dania was of U.S. origin, its participation in the transaction was in violation of the 1959 denial order. Concurrent with the imposition of the 5-year denial order against Express, the indefinite denial order against the firm was terminated.

Marcus Dannoff d/b/a
Scanmec International Manufacturing Sales Organization, Solna C, Sweden

By the terms of an order dated June 28, 1971, the above individual was denied all U.S. export privileges for a period of 5 years. In March 1966, Dannoff signed a certification on behalf of his firm Scanmec that certain U.S.-origin strategic electronic equipment, for which U.S. reexport authorization was sought, would not be sold for use outside Sweden. The Department subsequently developed information that the equipment was sold in a country other than Sweden and that Dannoff was aware of the intended disposition of the merchandise at the time he signed the certification. One year after the effective date of the order, the respondent may apply to have the effective denial of his export privileges held in abeyance while he remains on probation for the balance of the denial period.

Cacermet S.A., Puteaux and LaFerte Bernard, France
Andre Letiers, Puteaux and Mareil-Marly, France

By the terms of an order effective July 13, 1971, the above firm and individual were denied all U.S. export privileges for a period of five years. Cacermet and Letiers participated in a transaction involving strategic U.S.-origin equipment with Yvon LeCoq, a party who had been denied U.S. export privileges, with knowledge of LeCoq's denied status. Also, Cacermet and Letiers, without authorization, reexported the equipment from France to the U.S.S.R. Further, Letiers made false statements in denying any business dealings with LeCoq when in fact he had sold LeCoq one-third of his stock holdings in Cacermet S.A. In January 1971, Cacermet went into receivership and was taken over in March 1971 by a successor firm, Societe d'Exploitation des Etablissements Cacermet S.A., also known as SEECA. The restrictions of the order against Cacermet and Letiers were made applicable to the new firm. Two years after the effective date of the order, the parties concerned may apply to have the effective denial of their export privileges held in abeyance while they remained on probation. SEECA applied for relief from the order so that it might continue in business and provide funds to the receiver of Cacermet S.A. for use in paying creditors of said firm. On September 22, 1971, an order was issued restoring the export privileges of SEECA conditionally and it was placed on probation as long as the denial order is effective against Cacermet S.A. and Letiers, or either of them.

D.K. Chan (also known as Damon K. Chan), Hong Kong, B.C.C.
Hertz Research Laboratory, Hong Kong, B.C.C.
Eckila S. Chan, Hong Kong, B.C.C.

By an order dated July 27, 1971, D.K. Chan and Hertz Research Laboratory were denied all U.S. export privileges for a period of five years because Chan, acting in the name of the firm, participated in the reexportation

of U.S.-origin strategic electronic equipment to unauthorized destinations. On February 19, 1971, an order denying export privileges for an indefinite period was issued against these parties for failing to account for their dealings in transactions involving $45,000 worth of U.S. merchandise. Said order was superseded by an order issued on May 4, 1971, temporarily denying them export privileges until the completion of administrative compliance proceedings. The terms of latest order, as were the terms of the previous orders, are also applicable to Mrs. Eckila S. Chan, wife of D.K. Chan, inasmuch as she is the registered owner of the Hertz firm. Three years after the effective date of the order, the respondents may apply to have the effective denial of their export privileges held in abeyance while they remain on probation.

J.A. Goldschmidt S.A., Paris, France
Les Etablissements Gardinier, Nevilly-sur-Seine, France

In two separate but related orders issued on July 28, 1971, the above parties were restricted from participating in U.S. export transactions for three years as a result of their participation in the illegal reexportation of U.S.-origin chemical fertilizer from France to Cuba in 1968. According to the terms of the orders, Goldschmidt and Gardinier, after 9 and 6 months, respectively, would have their export privileges restored conditionally and thereafter be on probation for the remainder of the denial period. Goldschmidt applied for a temporary stay of effectiveness of the order and the same was granted by an order dated August 18, 1971. On the basis of evidence submitted by Goldschmidt, it was found that the individual employed by the firm at the time of the violation in 1968, who was the principal participant on behalf of said firm in the transaction, is no longer connected with the firm or its affiliates. Further, it was determined that the impact of the original denial order against the firm was much more severe than had been contemplated. The firm's export privileges were restored conditionally by an order issued September 27, 1971, and it was placed on probation until August 5, 1974, the expiration date of the original order.

Rene Treyvaud, Lausanne, Switzerland
Geoconsult, Lausanne, Switzerland

In an order issued December 21, 1971, the above individual and firm were denied all U.S. export privileges for a period of two years because Treyvaud, acting on behalf of the firm, in 1968 and 1970, participated in two separate exportations of seismographic equipment from the United States to Switzerland without applying for or obtaining the requisite validated export license. In each instance Treyvaud had been placed on notice that such a license was required. In addition, he caused the equipment to be incorrectly described in export documents and made misrepresentations to the effect that the merchandise was not under validated license control to

Switzerland. Four months after the effective date of the order, the respondents will have their export privileges restored conditionally and thereafter, for the remainder of the denial period, will be on probation.

Thomas H. Gifft, Anaheim, California
T.H. Gifft Company, Anaheim, California

By an order dated December 21, 1971, the above individual and his firm were denied all U.S. export privileges for a period of one month from January 10, 1972. It was found that they participated in an unauthorized exportation in 1968. Gifft knew or had reason to know that a validated export license was required and had not been obtained. Gifft prepared and signed the pertinent Shipper's Export Declaration showing his firm as the exporter. Therein, he misdescribed the merchandise and made representations that the commodities were not under validated license control to Switzerland.

INDEFINITE DENIAL ORDERS ISSUED DURING 1969, 1970 and 1971

	Names and Nationalities	Commodity	Date of Order
1.	OLAVI LAURI SUNDSTROM et al (One Finnish individual and one firm)	Electronic Equipment	April 4, 1969
2.	INTERAGRA S.A. (One French firm)	Agricultural Chemicals	May 14, 1969
3.	STEINEMANN BEADON LTD. et al (One English firm and one individual)	Electronic Equipment	July 21, 1969
4.	HANS BORKMANN (One West German individual)	Electronic Tubes	Oct. 21, 1969
5.	MOCAMBIQUE INDUSTRIAL S.A.R.L. (One Mozambican firm)	Agricultural Machinery	Nov. 17, 1969
6.	ARTHUR E. KERBEY et al (One English individual and one firm)	Electronic Equipment	Nov. 18, 1969
7.	GERT HYLEN et al (One Swedish individual and one firm)	Automotive Parts	Jan. 29, 1970
8.	ERWIN BRANDENSTEIN et al (Two West German individuals and three firms)	Electronic Equipment	Feb. 3, 1970
9.	MIDDLE EAST MEDIA et al (One Lebanese firm and one individual)	Electronic Equipment	June 30, 1970
10.	ARMAZENS DE PRODUCTOR QUIMICOS DE MOCAMBIQUE, LIMITADA (One Mozambican firm)	Agricultural Chemicals	Sept. 11, 1970
11.	HILMAR KRISTENSEN et al (One Danish individual and one firm)	Gear Producing Machines	Nov. 6, 1970

	Names and Nationalities	Commodity	Date of Order
12.	THE HERTZ RESEARCH LABORATORY et al (One Hong Kong firm and two individuals)	Electronic Equipment	Feb. 19, 1971
13.	HORST JONAS et al (Two West German individuals)	Electronic Equipment	March 17, 1971
14.	HOLLAND GE VE CORPORATION (One Dutch firm and one individual)	Recording Equipment	July 20, 1971
15.	NORMAN WEDGE LTD. et al (One English firm and two individuals)	Automotive Parts	Nov. 16, 1971

TEMPORARY DENIAL ORDERS ISSUED DURING 1969, 1970 and 1971

	Name and Nationality	Commodity	Effective Date of Order	Period of Temporary Denial
1.	PETROSERVICE INTERNATIONAL GmbH et al (One West German firm and one individual)	Oil Field Equipment	Jan. 10, 1969	60 days
2.	Same	Same	March 10, 1969	Until completion of compliance proceedings (extension)
3.	INTERAGRA S.A. (One French firm)	Fertilizer	Feb. 14, 1969	60 days
4.	Same	Same	April 15, 1969	30 days (extension)
5.	GERT HYLEN et al (Four Swedish firms and one individual)	Automotive Parts	Oct. 27, 1969	60 days
6.	Same	Same	Dec. 23, 1969	30 days (extension)
7.	HANS BORKMANN (One West German individual)	Electronic Tubes	March 24, 1970	45 days
8.	Same	Same	May 5, 1970	Until completion of compliance proceedings (extension)
9.	JOHANN NITSCHINGER et al (Two Austrian individuals and firms)	Video Tape	April 10, 1970	Until completion of compliance proceedings
10.	LOGATRONIK GmbH (One Austrian firm)	Electronic Equipment	Dec. 14, 1970	60 days
11.	THE HERTZ RESEARCH LABORATORY et al (One Hong Kong firm and two individuals)	Electronic Equipment	May 4, 1971	Until completion of compliance proceedings

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	Name and Nationality	Commodity	Effective Date of Order	Period of Temporary Denial
12.	BERNARD CHOLLET (One French individual)	Electronic Equipment	May 26, 1971	60 days
13.	Same	Same	July 22, 1971	Until completion of compliance proceedings
14.	SEUROLEC S.A. (One French firm and one individual)	Electronic Equipment	August 19, 1971	90 days
15.	Same	Same	Nov. 10, 1971	Until completion of compliance proceedings
16.	LINCALOY INC. et al (Four U.S. firms and one individual; four Puerto Rican firms; one British West Indies firm)	Electronic Equipment	Dec. 23, 1971	90 days

CRIMINAL CASES (CONVICTED OR AWAITING TRIAL)

January 1, 1969 - December 31, 1971

Sela Electronics Co., et al

One firm and one individual. On March 16, 1964, the sole proprietor of this firm was indicted for the illegal exportation of strategically-rated electronic equipment, valued at $6,710, without the requisite validated export licenses or other authorization required by law. On January 13, 1969, he was sentenced in a U.S. District Court to four months imprisonment and fined $2,500. He had entered a plea of guilty to one count of the eight-count indictment against him on November 8, 1968.

James Arthur Edmiston

One individual. Edmiston was arrested on June 15, 1967, at Abilene, Texas, while attempting to export approximately 456 pounds of mercury, valued at $2,400, without the required export license. Investigation disclosed that the mercury had been stolen from U.S. oilfields and that there was an intention to reimport the mercury with forged documents reflecting Mexican origin in order to facilitate resale in the U.S. Edmiston was tried in a U.S. District Court during the January 1969 term of the court, at which time he was found guilty. On February 25, 1969, he was sentenced to 12 months imprisonment.

Telexport Co., Inc., et al

One firm and one individual. A 61-count indictment was handed down by a Grand Jury in the Southern District of New York on February 17, 1967, for conspriacy, false official statements, and failure to file and have authenticated Shipper's Export Declarations. The charges were made in connection with illegal exportations of cigarettes, valued at $86,642, to the Philippines. The firm entered a plea of guilty to one count of the indictment on June 10, 1969. The other counts were dismissed. On July 29, 1969, the corporation was sentenced to pay a fine of $100. The U.S. Attorney filed for a nolle prosequi of the indictment against the individual involved.

Pierre M. Stevens

One foreign individual. On March 13, 1968, this subject was arrested in New York while attempting to export strategically-rated electronic equipment, valued at $13,100, from the U.S. which he had declared as personal

effects and household goods. He was indicted on March 25, 1968, and on March 16, 1970, was sentenced to 12 months imprisonment and fined $3,000. With payment of the fine, the term of imprisonment was suspended.

Don Oken, et al

Three individuals. On July 31, 1970, the Department referred to the Department of Justice for consideration of criminal prosecution a case involving the illegal exportation of strategically-rated electronic equipment, valued at approximately $500,000, from the U.S. during the period March 1966 through March 1968. A fifty-seven count indictment was handed down in the U.S. District Court in September against two of the individuals (the third party is no longer within U.S. jurisdiction). One individual pleaded guilty to seven counts of the indictment and was placed on probation for a period of one year. Prosecution of the other individual has not been completed.

Diethard Prosdorf, et al

Two foreign individuals and one U.S. individual. On September 13, 1967, two foreign nationals, one resident in the U.S., were arrested for attempting to export strategically-rated electronic equipment from the U.S. without the requisite validated export license. On October 24, 1967, they were indicted together with the U.S. national. On July 17, 1970, Prosdorf was sentenced in U.S. District Court to 12 months imprisonment and a fine of $1,000 on each of the three counts of the indictment. The sentence to confinement was suspended and Prosdorf was placed on probation for two years. On October 27, 1970, the other foreign national pleaded guilty to one count of the three-count indictment. Two counts were dismissed. No date has been set for sentencing. On the same date the U.S. national pleaded nolo contendere to one count of the indictment. Two counts were dismissed. He was placed on probation for a period of one year and fined $1,000.

Pierre Contresty, et al

One U.S. firm and three individuals; three foreign individuals. All were indicted on charges of conspiracy, unlawful exportation, and attempted exportation of locomotive parts and diesel engine parts to Cuba. One foreign individual pleaded guilty on June 8, 1965, and was sentenced to one year in jail on each of two counts to run concurrently. He was subsequently deported after eight months in jail. The U.S. firm and two individuals pleaded guilty on June 29, 1965. The firm was fined $10,000; one individual was fined $1,500 and placed on probation for five years; the other individual was fined $5,000 and sentenced to six months in jail. Two individuals, one a U.S. national and one a foreign national, have en-

tered pleas of innocent. The U.S. Attorney determined that it was not in the interest of the Government to prosecute these cases in the absence of Pierre Contresty, the prime mover. Contresty has recently died.

Luis A. Marti

One U.S. individual. On April 30, 1968, subject was indicted for violations of U.S. Export Control Regulations in connection with the attempted exportation of non-strategic merchandise valued at $74,508 from the U.S. Trial originally set for October 20, 1970, in U.S. District Court was not held due to illness of the trial judge.

Sidney G. Simms, et al

Three individuals. On August 29 and September 2, 1969, subject and two others were arrested by U.S. Customs Agents at Houston, Texas, for conspiring to violate export control regulations by illegally exporting eight reciprocating aircraft engines to El Salvador during August 1969. On July 28, 1970, the two accomplices pleaded guilty to a criminal information filed by the Government. Each was convicted and sentenced to imprisonment for 90 days and fined $100. Execution of the latter confinement sentences was suspended and each of the two defendants placed on probation for two years. Criminal proceedings have been completed with the sentencing of Sidney G. Simms on February 12, 1971, in United States District Court for the Southern District of Texas. On that date Simms was sentenced to imprisonment for one year and fined $5,000. Execution of the sentence of confinement was suspended and Simms placed on probation for a period of 5 years.

IMPOSITION OF CIVIL PENALTIES

January 1, 1969 - December 31, 1971

Trans World Airlines, Inc.
New York, N.Y.

Pursuant to a consent order issued on January 21, 1969, TWA paid civil penalties totaling $1,350. TWA was charged with five different types of violations of the Export Control Regulations. These included allowing cargo to be loaded and exported without presentation of requisite export control documents; failure to include proper destination control statements on air waybills and commercial invoices; and shipping commodities under incorrect export license designations. TWA admitted that the violations had occurred, but claimed that the violations were of a technical nature and were due to clerical errors of its employees. The firm submitted evidence as to steps it had taken to prevent recurrence of similar violations. There was no evidence indicating that the violations compromised national security, and the consent proposal imposing the civil penalties was accepted.

Schenkers International Forwarders, Inc.
New York, N.Y.

On April 1, 1969, civil penalties totaling $500 were assessed against this freight forwarding firm. The charges against Schenkers included several types of violations including the use of general license authority in the exportation of merchandise that required specific validated licenses; failure to include appropriate destination control statements on commercial invoices; failure to have all export documents in conformity; and making exports prior to approval of export documents by Customs. The firm did not contest the charges and consented to the fine. There was no evidence indicating the violations compromised national security, and the firm attributed the violations to clerical errors of its employees not willfully committed.

Clifford J. Schafer
Waldwick, N.J.

Civil penalties totaling $1,200 were assessed against this individual on April 1, 1969, for violations of the Export Control Regulations. The violations were committed between 1965 and 1967 while Schafer was in charge of export operations for two New York firms. While employed by one firm, Schafer exported certain electronic items to a consignee in India without obtaining the necessary export license and later denied making the expor-

tation. Violations by Schafer, while employed by the second firm, included signing export documents without proper authorization; failing to declare certain commodities that were exported; improperly representing that certain items offered for export did not require validated export licenses; and effecting exports before the necessary licenses were issued. At a hearing on the charges, Schafer admitted the violations, but contended that they resulted from carelessness induced by the pressure he was under from his employers to expedite the exports. There was no compromise of national security in any of the violations.

Panalpina Airfreight, Inc.
Jamaica, N.Y.

On December 30, 1969, civil penalties totaling $1,000 were assessed against this freight forwarding firm for 10 different types of violations of the Export Control Regulations in connection with exportations accomplished by the firm during 1967 and 1968. Panalpina was charged with acting as forwarding agent for exporters without duly authorized powers of attorney; presenting Shipper's Export Declarations with improper destination control statements; failing to follow required procedures to have appropriate destination control statements on all copies of commercial invoices and air waybills; failing to keep records of all export transactions; making false and misleading statements on export documents; exporting under general license authority commodities requiring a validated license; and exporting under an expired license and misrepresenting the date of expiration. The firm admitted the charges, stating that the violations resulted from clerical errors and were not willful acts of responsible officials. There was no evidence of compromise of national security in any of the violations.

Air Express International Corp.
Wings & Wheels Express
Jamaica, N.Y.

On December 30, 1969, civil penalties of $1,800 were imposed on Air Express International Corporation (which had recently merged with Wings and Wheels Express), an international air freight forwarder at J.F. Kennedy International Airport, Jamaica, N.Y. The firm was charged with nine different categories of violations of the Export Control Regulations. It was charged that in numerous instances the firm failed to insure that appropriate destination control statements were included in export documents; failed to keep complete records of all export transactions; and acted as a forwarding agent for various exporters without duly authorized powers of attorney. The firm admitted the charges and consented to the imposition of the fine. There was no evidence of compromise of national security in any of the violations. Half the penalty was paid and the balance was held in abeyance pending the results of an examination within six months of the operations and procedures of the company to determine whether the firm was in substan-

tial compliance with the Export Control Regulations. This latter check having been favorable, the balance of the penalty was suspended.

Johnston (formerly known as Johnston Testers)
Houston, Texas

On January 22, 1970, Johnston, a U.S. distributor of oil well drilling and gas field equipment, was fined $8,000, in addition to being denied export privileges for a period of four months, as reported in the section treating with administrative export denial orders. The fine of $8,000 was the maximum that could be imposed for the eight violations Johnston was charged with having committed.

Transistor AG
Zurich, Switzerland

On June 22, 1970, civil penalties totaling $10,000 were imposed on the above-named Swiss distributor of U.S. electronic components for numerous violations of the Export Control Regulations. In accordance with the terms of a foreign-based warehouse procedure as set forth in the Export Control Regulations, Transistor AG operates with permission to make sales of U.S. products to previously approved foreign customers without having to obtain authorization for each sale. A periodic inspection of its records disclosed it had made numerous sales in 1968 to customers who had not been approved. These customers were located primarily in Switzerland and the Federal Republic of Germany. There was no evidence that any of the transactions had adversely affected the national security. The firm did not contest the charges and consented to the imposition of the fine. Half of the penalty was paid and the balance temporarily suspended pending the results of an examination, within six months, of the firm's operations and procedures to determine its compliance with the Export Control Regulations. The latter examination disclosed that the firm had not operated in substantial compliance with the regulations between July 1 and September 21, 1970. An order was issued on December 23, 1970, requiring payment of the $5,000 suspended fine. The payment was made on January 4, 1971.

Hugo Neu-Proler Co., Los Angeles, California
Calbag Metals Co., Portland, Oregon
A. Tenebaum Co., Little Rock, Arkansas

On August 20, 1970, civil penalties totaling nearly $24,000 were imposed on the above-named firms for misuse of validated export licenses issued under the short supply provisions of the Export Control Regulations. The three companies operated independently and the cases are not related but the violations were committed in a similar manner. Under the provisions of short supply controls, in effect since 1965, the Department limited the

amount of copper that might be exported. Through arrangements with numerous other firms, the three respondents obtained licenses to which they were not entitled under the short supply quota system of licensing. Contrary to the regulations, the three companies exported more than 300 tons of copper in the form of scrap by using licenses that had been issued to other parties. The amounts of the fines, based on the amount of copper exported illegally by each of the firms, were as follows: Hugo Neu-Proler Co., $12,288; Calbag Metals Co., $9,051; A. Tenebaum Co., $2,502.

Calcomp N.V.
Amsterdam, The Netherlands

By order dated January 15, 1971, civil penalties totaling $10,000 were imposed on Calcomp, a Dutch distributor of U.S. computer parts. The procedure under which Calcomp operates permits it to make sales of U.S. products to foreign customers previously approved by the Office of Export Control, without obtaining special authorization in each instance. In 1969 and 1970 the company made numerous sales to customers who had not been so approved. None of the sales were to parties who had been prohibited from dealing in U.S. goods and there was nothing to indicate that any of the transactions adversely affected U.S. national security interests. The company did not contest the charges and it consented to the imposition of the fine. In accordance with the terms of the order, half the penalty was paid and the balance temporarily suspended. Within 6 months, the operations and procedures of the company were examined and found satisfactory. Payment of the balance was waived.

Munzig International, Inc.
Arthur L. Munzig, Jr.
660 South Western Avenue
Los Angeles, California

By order dated May 7, 1971, civil penalties totaling $400 were imposed on Munzig International and Arthur L. Munzig, Jr., its president, for minor violations of the Export Control Regulations. The firm had exported $1,400 worth of computer equipment to the Federal Republic of Germany prior to obtaining the necessary validated export license. The value of the equipment had been underdeclared, indicating eligibility for export under a general license. The firm had applied for a validated export license which, in due course, was issued. However, in order to meet its customer's urgent needs, the firm made the export without the license. There was no compromise of national security involved.

Miles Metal Corporation
1 Chase Manhattan Plaza
New York, N.Y.

An order entered on June 2, 1971, imposed civil penalties totaling $37,000 on the above firm for exports of copper during 1969 and 1970 in violation of copper short supply regulations then in effect. The fine of $1,000 on each of 37 violations was the maximum that could be imposed. This is the largest fine imposed since 1965 when civil penalties under the export control laws were authorized. From November 1965 until September 1970, the Department, under the short supply provisions of the Export Control Regulations, limited the amount of copper in any form that could be exported. The limitations were imposed so that sufficient supplies would be available for national defense and civilian needs. While the restrictions were in effect, Miles Metal, one of the leading primary and scrap metal dealers in the country engaged in both domestic and export trade, was authorized to export limited amounts of copper. In the period from January 1969 through August 1970, under 37 export licenses, the firm exported more than double the amount of copper authorized. The copper was exported as a constituent of metal scrap, principally used automobile radiators. In making the exports, the firm falsely underdeclared the copper content of the material. The firm admitted the violations and consented to the imposition of the fine, which it paid. In addition to the fine, the firm was placed on probation for 3 months. During this period its export privileges were not curtailed, but such privileges could have been revoked if further violations were disclosed.

E G & G International (Geodyne Division)
Waltham, Massachusetts

By an order dated December 21, 1971, a civil penalty of $500 was imposed on the above firm for minor violations of the export control regulations. The firm had exported or caused to be exported certain commodities of its own manufacture from the United States to France in early 1970 without the required validated export license. The firm also made misrepresentations in export documents which indicated that a validated license was not required. There was no compromise of national security in the transaction and it appeared that on proper application a license to export the commodities in question would have been issued.

OVER-VIEW
OF
THE EXPORT CONTROL PROGRAM

March 6, 1972

OFFICE OF EXPORT CONTROL
BUREAU OF INTERNATIONAL COMMERCE
DEPARTMENT OF COMMERCE

LEGISLATION

Export controls have been in operation continuously since July 1940. It was expected that they would be terminated as soon as adequate supplies of commodities became available after the end of World War II, but the development of the cold war led to passage of new legislation in 1949 providing for a continuation of controls as a means of combating the spread of Communism. The Export Control Act of 1949 continued in force for twenty years, being extended and amended from time to time. It was replaced January 1, 1970, by the Export Administration Act of 1969, which was scheduled to expire on June 30, 1971, but continues under temporary extension pending Congressional hearings. Although several other Government departments also administer some export controls under other legislation, 1/ most commercial exports are under the jurisdiction of the Department of Commerce.

OBJECTIVES

The Export Administration Act of 1969 calls for the control of exports to the extent necessary for any of three purposes: (1) to exercise necessary vigilance over exports from the standpoint of their significance to national security, (2) to further significantly U.S. foreign policies and aid in fulfilling international responsibilities, and (3) to protect the domestic economy from excessive drain of scarce materials and reduce the serious inflationary impact of abnormal foreign demand. National security controls far outweigh those for the other two purposes. Since the end of the Korean War Period there have been only sporadic, temporary controls for short supply reasons, principally involving copper commodities and veneer-quality walnut logs. There are a few controls in effect for reasons of policy or international responsibilities; for example, the Cuban embargo in support of a resolution by the organization of American States; the virtual embargo over exports to Southern Rhodesia in support of a U. N. Security Council Resolution; control over exports to South Africa of commodities that might be used for military purposes there, also in support of a U.N. resolution; and, as part of the implementation of our nuclear test ban commitments, control over exports of commodities related to nuclear weapons and explosive devices.

1/ State Department--arms, ammunition, and implements of war; Treasury Department--gold; Maritime Administration--watercraft; Atomic Energy Commission-- certain materials, equipment, and facilities related to atomic energy; Federal Power Commission--natural gas and electrical energy; Department of Agriculture--tobacco seed and plants; Department of Justice--narcotics; Department of Interior--migratory birds and endangered fish and wildlife.

POLICIES

The Act permits denial of any application for authority to export commodities or data "...to any nation or combination of nations threatening the security of the United States, if the President determines that their export would prove detrimental to the national security of the United States, regardless of their availability from nations other than a nation or combination of nations threatening the national security of the United States..."

From the beginning of the security export control program there have been some who felt strongly that all trade with Communist countries should be embargoed as detrimental to U.S. security, while others have regarded trade in nonstrategic goods as beneficial both from an economic standpoint and in improving international relations generally. Official policy had been to permit nonstrategic trade with Eastern Europe. With passage of the Export Administration Act of 1969, which specifically encourages trade with all countries with which we have diplomatic or trading relations except where determined by the President to be against the national interest, the Department has embarked on a positive program of encouraging peaceful trade with Eastern Europe.

At the present time, a virtual embargo is maintained on exports to North Vietnam, North Korea, and Cuba. The same kind of embargo was applicable to the People's Republic of China until June 1971, when the regulations were revised to permit exports of a large number of nonstrategic items to the PRC without obtaining a license document. When, in February, 1972, the PRC was placed in the same export control status as the USSR, additional peaceful goods became eligible for export without obtaining a license document. Exports are permitted to East European countries if the commodities or data involved will not prove detrimental to the national security of the United States. Yugoslavia, although Communist, has been treated the same as free world countries since it rebelled against Soviet domination in 1948. When Poland took steps to assert a measure of independence from the Soviets (in 1957) controls over exports of commodities to that destination were eased, but they are still considerably more restrictive than those for Yugoslavia. On the other hand, effective May 1, 1971, controls over exports of commodities to Romania were relaxed to the point where comparability to Yugoslavia is very close.

Commerce also exercises licensing controls on exports and reexports to free world countries (generally excepting Canada) of both strategic or short supply commodities and a few types of technical data (such as data related to aircraft, maritime nuclear propulsion plants, neutron generators, etc.). Except where there is a short supply situation, most such controls are maintained to assure against transshipment to any destination

that would not be approved by Commerce. For the same reason, the regulations require that authorization must be obtained in order to reexport from one foreign country to another any U.S. commodities or data for which a license would be required to make a direct export from the United States to the new destination.

Since passage of the Export Administration Act, the OEC has devoted considerable attention to reviewing licensing controls in order to reduce them to the minimum level consistent with the objectives of the Act. This review, which is continuing, has resulted to date in removal of the validated license requirement from over 1700 commodities for export to various countries.

If a commodity is in short supply, export controls apply to all countries, generally excluding Canada. The quantity available for export is distributed as equitably as possible among exporters and countries of destination, usually on the basis of their proportion of total U.S. exports of the commodity during a specified past period in which there was "normal" trade.

INTER-AGENCY COOPERATION

The policies under which export controls are administered by Commerce are developed after consultation with other U.S. Government agencies. In addition, specific export license applications that present policy problems are also considered on an inter-agency basis before action is taken. To accomplish this consultation, interested agencies are represented on a formal committee, the Advisory Committee for Export Policy (ACEP).1/ A sub-committee (Operating Committee) of the ACEP meets regularly (about once a week) to discuss problems and applications. The representatives of the agencies serving on the Operating Committee are expected to bring to these discussions whatever relevant expert knowledge is available in their departments, including intelligence information, technical information about the commodity, etc. If the Operating Committee cannot reach unanimous agreement in a situation where a policy or licensing decision is required, then the question is referred to the major committee (ACEP) and, if necessary, to the Export Administration Review Board.2/

1/ Membership in ACEP includes representatives from the Department of Agriculture, Commerce, Defense, Interior, State, Transportation, and Treasury; and the Atomic Energy Commission, National Aeronautics and Space Administration, and others as necessary and appropriate. In addition, there are observers from the Office of Emergency Planning and Central Intelligence Agency.

2/ Membership in the Export Administration Review Board consists of the Secretaries of Commerce (Chairman), State, and Defense.

INTERNATIONAL COOPERATION

The United States also cooperates in an international security export control system. Fifteen countries 1/ work together through an informal Coordinating Committee ("CoCom") to maintain tight controls over exports to Eastern Europe and Far Eastern Communist countries of commodities mutually agreed to be strategic. The other countries in this group do not carry their controls as far as the United States does, however, and generally do not control exports of any commodities not on the agreed list.

ORGANIZATION AND REGULATIONS

The administration of the control system is based on a licensing procedure and is carried out by a staff of approximately 185. 2/ The principal operating unit is the Office of Export Control in the Bureau of International Commerce. The regulations are published in the Federal Register and in a Commerce publication, Export Control Regulations. They set forth all of the licensing requirements, including a complete list of the commodities under the licensing jurisdiction of the Bureau of International Commerce and identification of the countries for which export license documents are required for each listed commodity.

LICENSING

(1) Validated and General Licenses -- A "validated export license" is a document for which the exporter must make specific application. For every commodity over which the Department of Commerce has export control jurisdiction, the Export Control Regulations specify those destinations for which validated license must be obtained before an export shipment is made. Where such requirement is not set forth in the regulations, exports may be made without a license document under the authority of certain provisions in the regulations that are called "general licenses."

About 325 applications are received by OEC per day. 3/ Of these, roughly 5% are for licenses for direct exports to Eastern Europe, 90% for direct exports to other countries, 4% for authority to reexport U.S. commodities from one foreign country to another, and 1% are for extension or amendment of previously issued export or reexport authorizations.

1/ Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Turkey, United Kingdom, United States.

2/ This figure covers OEC personnel only. In addition, 45 positions in other areas of BIC are funded from the Export Control appropriation.

3/ Relaxation of controls in 1970-71 brought application receipts down from a daily average of 579 in 1969 to 425 in FY 1971.

Since the requirement for a license constitutes at least some extra burden and delay for the U.S. exporter that may be a disadvantage in a competitive situation, the OEC makes every effort to process applications as quickly as possible. About 90% of all types of applications for all countries are acted on and on their way back to the applicants within a week after receipt in OEC. At least 95% are acted on within two weeks. The remainder represent the difficult cases that require technical research or raise policy issues.

Statistics on exports under general and validated licenses are not recorded separately, but probably less than 10% of total U.S. exports go out under validated license.

(2) Applications for Non-Communist Countries. License applications for non-Communist countries are checked against available information about the commodity and the parties to the transaction to see if there is any likelihood that the shipment might be diverted to an unauthorized destination. If not, a license is issued. When there is a short supply situation, of course, it may also be necessary to apply quantitative restrictions not related to security considerations. There are also a few instances of special country policies to be considered, such as the current restrictions applicable to Southern Rhodesia and South Africa and restrictions on exports of nuclear-related commodities to certain countries.

(3) Applications for Communist Countries. Applications for Communist countries make up the bulk of the difficult cases, because most of the applications now received for these countries present problems that require detailed study before a decision can be made to approve or reject. In calendar year 1971 we processed 4,277 applications for the USSR, Eastern Europe (including Poland and Romania), Communist China, and Cuba, of which 215 were rejected and 4,062 approved. 1/

Involved in the decision to approve or reject an application for Eastern Europe are such considerations as:

a. Is the item designed or intended for military purposes? Does it have significant military use?

b. If the item has both military and civilian uses, will the transaction involve only the latter?

c. Does the item contain advanced or unique technology of significance in terms of the export control program's objectives?

1/ The "Processed" figures include original applications for license, requests for reexportation authorization, and amendments for increase in total value. They do not include other types of amendments. Total of applications received in CY 1971 for these destinations was 6,279 including original applications, all amendments, reexportation requests, and cases resubmitted after having been returned to the exporter without action by the Office of Export Control.

d. Is there a shortage of the item in the area of destination that affects the military potential?

e. For strategically significant non-military items, can non-U.S. sources supply a comparable item or an adequate substitute? What is the normal use here and in the free world, and probable use in the country of destination?

(4) Rejections. If an application is rejected (regardless of destination) the exporter is notified and given the reason therefor. He has the right to ask for an administrative review of this decision or to appeal to the Appeals Board of the Department of Commerce for reconsideration.

ENFORCEMENT

If an application is approved, Commerce sends the exporter a license document that describes the transaction as authorized, including the commodity and the consignee. When ready to make shipment, current regulations require the exporter to present this license to Customs at the port of export. At this point, Customs takes over as an export control enforcement office. They check out the documents, make some actual inspections, and generally keep alert for any signs of exports that are contrary to Commerce's approval. They do this for all exports, whether leaving under a general license or under a license document. If anything appears wrong, Customs will take whatever action is appropriate, ranging from a mere report to Commerce up to seizure of the shipment.

Present plans are to initiate a simplified export clearance system July 1, 1972, which will eliminate a major portion of Customs involvement in export control enforcement. Exporters will no longer be required to present licenses to Customs, nor will the latter check out documents prior to shipment. While Customs will continue to be involved in actual inspections, this activity will be for the first time under Commerce supervision. There will thus be a considerably reduced reliance on Customs and an increased involvement by Commerce, not only in the Office of Export Control, but also in Census and the Department's Automatic Data Processing Facility.

If a shipment that is not properly licensed is exported, or if an approved shipment is later diverted from the approved destination to one that is not approved, or if any other violation of the regulations takes place, the Department will investigate to develop the actual facts and take appropriate action which, depending on the seriousness of the violation, may be a warning letter, administrative action denying the U.S. or foreign firm the right to participate in any further U.S. export transactions, a fine, or referral to the Department of Justice for prosecution through the courts.

Most of the Department's enforcement effort, however, is devoted to preventing violations -- thus, the requirement for and careful examination of applications for license to ship certain commodities

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or data to free world countries and the use of the services of the Foreign Service to check out the probable disposition of a shipment for which an application is pending with Commerce or actual disposition of a shipment already made. Other means used to prevent violations include the requirement that importers furnish certain documents in support of license applications, giving some information about the transaction and assuring the Department that the importer understands that restrictions are imposed on the distribution of U.S. goods; the requirement that shippers enter prescribed statements on bills of lading and invoices notifying carriers, foreign forwarders, and importers of the destinations in which Commerce has authorized distribution of the shipment; press releases and other publicity on changes in the regulations; meetings of Commerce representatives with business firms, trade associations, etc., to explain controls and the reasons therefor.

PUBLICATIONS

Information about the export control activities of the Department of Commerce is freely available. Each day the Department publishes a list of all licenses issued the preceding day; this sells for $37.50 a year, but it may be reviewed free of charge at the Department's main office or the field offices. At the end of each quarter, a Quarterly Report to Congress and the President is published, including narrative and statistical reports on activities during the quarter; this is available to the public for 40¢ a copy. Export control regulations are published -- the annual subscription for the full regulations with all amendments issued during the year is $20; a summary of the regulations (not including the list of specific items that require licenses or the full detail of other sections of the regulations) may be obtained from the Superintendent of Documents for 25¢. One kind of information that is not made public, although not classified from a security standpoint, is the name of the exporter or other parties involved in a license application. This is treated as confidential business information pursuant to the Export Administration Act.

92D CONGRESS
1ST SESSION

S. 1487

IN THE SENATE OF THE UNITED STATES

APRIL 5, 1971

Mr. SPARKMAN (for himself, Mr. MONDALE, Mr. PACKWOOD, and Mr. TOWER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To provide for continuation of authority for regulation of exports.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 14 of the Export Administration Act of 1969
4 (83 Stat. 847; 50 U.S.C. App. 2413) is amended by
5 striking out "1971" and inserting in lieu thereof "1975".

II
★(Star Print)

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

May 24 1971

Honorable John J. Sparkman
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

This is in reply to your request for our views on S. 1487, a bill "To provide for continuation of authority for regulation of exports."

This Department favors enactment of the proposed bill.

The purpose of the proposed bill is to extend for an additional four years the export control authority contained in the Export Administration Act of 1969 (83 Stat. 847; 50 U.S.C. App. 2413). The bill provides that Section 14 be amended by striking out 1971 and inserting in lieu thereof 1975.

The Export Administration Act of 1969 authorizes the President to regulate exports to the extent necessary to safeguard our national security, to protect the domestic economy and to further our foreign policy interests. This authority has been delegated by the President to the Secretary of Commerce. The Department of Agriculture advises the Secretary of Commerce on many aspects of this Act involving agricultural commodities. Under this Act, the Department of Commerce has been actively reviewing the list of items still under export control and has made considerable progress in reducing the size of this list. This Department has been participating in this review on agricultural products.

We believe, however, that existing world conditions make it absolutely necessary that the President continue to have the authority to regulate exports harmful to our security or contrary to our foreign policy interests. The United States should not be left without authority to exercise this control. The Export Administration Act of 1969 is flexible enough to allow the President to exercise controls necessary for our security while at the same time offering the potential of expanded trade with the Communist countries of Eastern Europe.

Honorable John J. Sparkman

The Office of Management and Budget advises that there is no objection to the presentation of this report and that enactment of H.R. 1487 would be consistent with the Administration's objectives.

Sincerely,

J. Phil Campbell

J. Phil Campbell
Under Secretary

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
WASHINGTON, D. C. 20301

24 May 1971

Honorable John Sparkman
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Reference is made to your request for the views of the Department of Defense with respect to S. 1487, 92d Congress, a bill "To provide for continuation of authority for regulation of exports."

The bill would extend until June 30, 1975 the Export Administration Act of 1969, which authorizes the President to regulate exports of United States goods and technology to the extent necessary.

The Department of Defense supports the enactment of the bill.

The Office of Management and Budget advises that there is no objection to the submission of this report and that the enactment of S. 1487 would be consistent with the Administration's program.

Sincerely,

J. Fred Buzhardt

J. Fred Buzhardt

DEPARTMENT OF STATE

Washington, D.C. 20520

[illegible] 4 1971

Honorable John Sparkman
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for your letter of April 7, 1971 requesting comment on S.1487, a bill to provide for continuation of authority for regulation of exports.

This bill would extend until 1975 the Export Administration Act of 1969. The act has promoted the effective and responsible administration of export control policy taking into account our national security and foreign policy interest as well as our need to expand exports. Under this act, the Department of Commerce has been able to decontrol for export to the Soviet Union and Eastern Europe over 500 commodity control entries considered to be predominantly in the civilian sector of these countries' economies and readily available from other free world sources. Consequently, an important administrative burden has been reduced both for the exporters and the Department of Commerce without any detriment to our national security.

We believe the Export Administration Act of 1969 contains sufficient authority for a continuation of this process of reducing unnecessary export controls in the interest of expanding U.S. non-strategic exports to the Soviet Union and other Communist countries covered by the export control regulations. The Department of State therefore supports S.1487.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this report and that enactment of S.1487 would be consistent with the Administration's objectives.

Sincerely yours,

David M. Abshire
Assistant Secretary for
Congressional Relations

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

MAR 1 1972

Dear Mr. Chairman:

Reference is made to your request for the views of this Department on S. 1487, "To provide for continuation of authority for regulation of exports."

The proposed legislation would extend until June 30, 1975, the existing authority of the President to regulate exports from the United States. The authority under the Export Administration Act of 1969 will expire on May 1, 1972.

The Department recommends the enactment of S. 1487.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee and that enactment of S. 1487 would be consistent with the Administration's objectives.

Sincerely yours,

Samuel R. Pierce

General Counsel

The Honorable
John Sparkman, Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

AUTHORITY FOR REGULATION OF EXPORTS—1972

TUESDAY, MARCH 14, 1972

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
Washington, D.C.

The subcommittee met, at 10 a.m., in room 5302, New Senate Office Building, Senator Walter F. Mondale (chairman), presiding.

Present: Senators Mondale and Taft.

Senator MONDALE. The subcommittee will come to order. This morning we have a series of witnesses to testify on the extension of the Export Administration Act.

Mr. Earl Wantland, I think is the first witness.

STATEMENT OF EARL WANTLAND, WESTERN ELECTRONICS MANUFACTURERS ASSOCIATION, AND T. A. CHRISTIANSEN, MANAGER, INTERNATIONAL TRADE RELATIONS, HEWLETT-PACKARD; ACCOMPANIED BY HAL BAILEY, DIRECTOR OF INTERNATIONAL OPERATIONS FOR APPLIED MAGNETICS CORPORATION

Mr. WANTLAND. Mr. Chairman, my name is Earl Wantland. I am the president of Tektronix, Inc. headquartered in Beaverton, Oreg.

Our major business is designing and manufacturing oscilloscopes and other related high-technology electronic instrumentation equipment.

I also serve on the board of directors of WEMA, and it is on behalf of its member firms that I am appearing today.

Senator MONDALE. I might say that the ranking minority member of this subcommittee, Mr. Packwood, very much wanted to be here to introduce you this morning, but he has a conflict and couldn't come. He asked personally that I mention that he wanted to introduce you and express his appreciation for your being here.

Mr. WANTLAND. Thank you, Senator.

I have with me today to help answer questions two very well qualified gentlemen, Mr. Tom Christiansen, manager of international trade relations for the Hewlett-Packard Co.

Senator MONDALE. We know him. He is an old hand around here.

Mr. WANTLAND. OK.

The other gentleman on my left is Hal Bailey, director of international operations for Applied Magnetics Corp. in Goleta, Calif., and a member of WEMA's international committee.

WEMA is a trade association of 600 companies, located primarily in the Western United States, engaged in electronics and information technology.

Many WEMA member firms are actually engaged in selling their products abroad. In our company's case, last year we sold approximately $62 million outside of the United States. This represented more than 40 percent of the company's total sales.

WEMA is very pleased to have been invited to appear before you and present our views on the implementation and extension of the Export Administration Act of 1969.

We believe the 1969 act was a substantial change for the betterment of world trade, and that the administration of the act by the Secretary of Commerce has been consistent with the intent of the act.

The administration has made substantial progress in reducing the level of U.S. unilateral export controls. This progress has been particularly evident during the last year and a half in the area of electronic products, instrumentation equipment, calculators, et cetera; the types of products manufactured by WEMA companies. My own company's experience may illustrate this progress.

Prior to the 1969 act, Tektronix was able to sell only $1.25 out of each $100 of orders received under general license—without restriction—to the U.S.S.R. and Eastern European countries, except Yugoslavia. Today, we can sell about $25 out of each $100 in Eastern Europe without restriction.

Senator MONDALE. In other words, in the experience of your own company, there has been dramatic improvement in export sales since the adoption of the 1969 act.

Is it your opinion that much of this is attributable to the new administration and the program?

Mr. WANTLAND. Yes. I was going to comment a little bit later on that.

Senator MONDALE. All right, fine. We can pick that up in the course of your testimony.

Mr. WANTLAND. To obtain an objective evaluation of how well the provisions of the Export Administration Act of 1969 are being implemented, WEMA last year prepared and distributed a questionnaire to 77 of its member companies, which were interested or actively selling in Eastern Europe. Some of the statistics resulting from two questionnaires are contained in my written statement, and a more detailed analysis is available if you might desire one.

In the interest of saving time, I will not go into the results of the survey, with one exception. One interesting, and I believe, significant trend to emerge from the questionnaire was that 82 percent of the companies selling in Eastern Europe reported increases in sales in 1970. Only one firm reported a decrease in Eastern European sales since the adoption of the Export Administration Act in 1969. Thus it seems clear that the intent of the act, to encourage trade with the countries of Eastern Europe, is being implemented at least insofar

as high technology products are concerned. This has come about for two reasons.

First, the more liberal provisions of the act have encouraged WEMA member firms to increase their marketing efforts in Eastern Europe, and second, the reduction of U.S. unilateral controls has made it easier for our firms to sell our products in this area. This has certainly been the case for my company. The act has encouraged us to put more effort into marketing in Eastern Europe, and it has made it easier for us to sell these results of WEMA's once we receive the order.

It is also our interpretation of the results of WEMA's survey that the Secretary of Commerce, for the most part, has been responsive to the wishes of Congress as stated in the Export Administration Act of 1969 to increase trade with the USSR and the Socialist countries of Eastern Europe.

The progress has been admirable. However, it is WEMA's belief that there is room for improvement if U.S. firms, particularly those in high technology industries, are going to compete effectively in Eastern Europe and now the Chinese markets.

The figures tell the story. In 1970, for example, $350 million, less than 1 percent of the $43 billion of U.S. exports, went to Eastern Europe. At the same time, exports to Eastern Europe from other Western countries were in excess of $8 billion.

Putting it another way, in terms of total trade, the U.S. share of the world market was approximately 16 percent in 1970. For Eastern Europe, it was only 3 percent.

The situation is more dramatic in terms of high technology products which the WEMA member companies are quite interested in, such as SITC category 72952, (electric measuring and controlling instruments). In 1969, total world trade of these devices amounted to approximately a billion dollars. The U.S. share of this was 36 percent in that year. For that same group of products, the U.S. share of the Eastern European market was only 7 percent in 1969.

Senator MONDALE. This high technology area that you represent, the U.S. share of that world market is 36 percent.

Mr. WANTLAND. Thirty-six percent.

Senator MONDALE. But our share of that market into Eastern Europe is 7 percent.

Mr. WANTLAND. Seven percent.

Senator MONDALE. Has that share been increasing of late; do you know? What is the trend there?

Mr. WANTLAND. These figures are the latest ones that we were able to obtain. I understand in testimony yesterday some statement was made in this regard: that perhaps this percentage has not improved significantly.

Senator MONDALE. All right.

Mr. WANTLAND. The root causes of poor performance of the U.S. exports to Eastern Europe are many and complex. Many of them are not appropriate for discussing here today, such as the geographic proximity and interrelationship of the economies in Europe.

Some others, lack of U.S. credits for East European purchase of

products, and the lack of most favored nation tariff treatment for imports into the United States, are not directly related to the Export Administration Act of 1969.

I would like to turn now to several areas in which WEMA believes the Export Administration Act of 1969 might be modified to further increase the sale of peaceful U.S. goods in the USSR and the Socialist countries of Eastern Europe.

WEMA believes that the Export Administration Act of 1969 should be extended until 1975, and strengthened so that with few exceptions, U.S. unilateral controls would be reduced to the Cocom levels. Although significant reductions have been made, a number of unilateral U.S. controls still remain. We see no reason why the majority of the remaining controls should not also be removed. In our opinion, most of the controlled products are readily available for direct shipment from other Western countries without licensing. Unilateral control requirements increase the cost of U.S. products. Unilateral licensing also loses sales because of delays in processing licensing applications. These delays do not occur when foreign products are purchased.

All things considered, the major effect of most of the U.S. unilateral controls is to deliver the markets for those controlled products to our Western European and Japanese competitors.

We do realize that unilateral controls are justified in some instances. In most cases, this occurs when the U.S. firm is the sole or major source of some unique technology or product which the U.S. Government deems to be of strategic advantage, and where the Cocom participants are unable to agree that control is required.

Although WEMA believes that, in cases like these, unilateral U.S. controls are justified, we also believe that some sort of mechanism should be established whereby these controls are subject to an ongoing review. All too often, unilateral U.S. export controls, originally imposed for very legitimate reasons, seem to have an almost indefinite existence. We are convinced a mechanism should be established whereby both unilateral and Cocom controls are specifically justified before being imposed, and then examined from time to time, to determine whether they should be continued or modified.

The establishment of such a mechanism is an area in which this subcommittee might be able to make a meaningful change in the Export Administration Act of 1969.

WEMA is convinced that a joint Government-industrial body, or bodies, focusing on specific product categories, should be established to review and make specific recommendations on U.S. unilateral and Cocom export controls. One of the first tasks of such a group should be a fresh, in-depth, examination of the various unilateral U.S. controls in terms of current technology and U.S. strategic needs to see whether they should be retained.

This same type of examination should also be made of the various Cocom controls.

The Government-industry groups should be empowered to make recommendations for modifying various controls to the executive branch, and also to report their findings to Congress. As we envision

it, in addition to focusing on the present level of U.S. and Cocom controls, this group, or groups, would also be able to provide valuable assistance to our Government in preparing for Cocom negotiations. At present, although industry is sporadically consulted on a few specific problem areas, the U.S. Government prepares and negotiates its Cocom position without much industrial participation.

The proposed Government-industry composition of such a review group would, we believe, result in an even more balanced and more meaningful system of export controls, since the Government representatives who are more familiar with strategic problems would be brought together with industry executives who are well versed in the state of U.S. technology, and who are aware of actual commercial conditions in the U.S.S.R., elsewhere in Eastern Europe and in the People's Republic of China.

In addition, such cooperative effort would insure greater industry support of the control measures adopted. Companies who participate in the review process will be more effective supporters of controls than presently is the case when the Government hands down regulations without consultation or participation.

WEMA also believes that positive steps must be taken to improve the competitive position of U.S. business by reducing the amount of supporting documentation and the amount of time required to process export license applications.

Among other things, this requires adequate funds and further delegation of licensing authority.

Adequate funding is important if the Department of Commerce is to employ a sufficient number of well-qualified licensing officers who will be able to process cases rapidly, and who, through selected travel abroad, can become familiar on a firsthand basis with the actual conditions existing in the countries for which U.S. products are licensed.

We believe that well-qualified licensing officers, familiar with the conditions abroad, will not need a tremendous volume of supporting information and thus will be able to process license applications more expeditiously.

We also are convinced that an increased familiarity with actual conditions in Eastern Europe will assist the U.S. Government in focusing its attention on specific areas where export controls, both unilateral and Cocom, should be relaxed.

We also recommend that the authority of the Commerce Department's licensing officers be increased, so that more license applications can be processed without having to pass through the time-consuming interagency review process. Increasing the authority of licensing officers would mean, of course, that the interagency committee would have to develop additional guidelines to assist the licensing officers in making their determinations.

WEMA believes however, that these efforts would be very worthwhile since the combined effect of an increased delegation of license authority would be a speedier processing of simpler cases through the Office of Export Control, and a more rapid processing of complex cases through the interagency review committee.

In conclusion, Mr. Chairman, I should point out that as a result of circulating our questionnaire last year, we were able to identify several specific instances where licensing delays, or U.S. unilateral controls have resulted in WEMA member firms losing sales in the U.S.S.R. and Eastern Europe to foreign competitors. An abbreviated summary of several of these cases is appended to my testimony for your information. If it would be helpful for you to have more specific details of any of these cases, I would be pleased to ask the WEMA staff to work with you and your staff to develop them.

To my way of thinking, these examples illustrate the fact that despite the progress which has been made, WEMA companies are still not able to compete as effectively as they might for business in the U.S.S.R. and Socialist countries of Eastern Europe. We believe, however, if Congress and the executive branch would move in the direction of further reducing United States unilateral and Cocom controls, insuring business involvement in the overall control process, expanding the limited authority of the Commerce Department licensing offices, and maintaining both qualified and knowledgeable licensing officers in the Commerce Department, that our companies will be able to compete effectively with our European and Japanese competitors for these markets.

This concludes the formal presentation. We would be happy to try to answer any questions you might have.

Senator MONDALE. Thank you very much.

I think we will hear from Mr. Christiansen. Do you have a statement, Mr. Christiansen?

Mr. CHRISTIANSEN. Yes.

Senator MONDALE. And then we will ask the questions.

Mr. CHRISTIANSEN. Thank you, Mr. Chairman.

I am manager of international trade relations for the Hewlett-Packard Co. in Palo Alto, Calif., and I am appearing before the subcommittee today on behalf of Hewlett-Packard in support of Senate bill 1487 for the extension of the Export Administration Act of 1969.

I would like to thank you, Mr. Chairman, for affording me the opportunity of appearing before you today.

Senator MONDALE. We are pleased to have you with us.

Mr. CHRISTIANSEN. I have prepared a written statement which, with your permission, I would like to have inserted in the record.

Senator MONDALE. We will put it in the record at the conclusion of your remarks.

(The full prepared statements of Mr. Wantland and Mr. Christiansen may be found at pp. 134, 148).

Mr. CHRISTIANSEN. I also have a summary of the statement.

Senator MONDALE. Very well.

Mr. CHRISTIANSEN. The Hewlett-Packard Co. is a major designer and manufacturer of electronic test instruments used in the fields of electronics, medicine, and chemistry, for scientific research, engineering, production, and maintenance.

We also design and manufacture sophisticated calculators and engineering-oriented computers.

In fiscal 1971, last year, shipments reached an alltime high of $375 million, while the value of orders received totaled $397 million.

Forty-one percent of these orders, or $164 million, were received from customers outside the United States; $125 million of this total, or about 76 percent, came from Hewlett-Packard's 15 U.S. factories. The balance came from our four international factories.

We anticipate further growth in sales in the years that lie ahead. Predictions indicate that our international business will continue to grow at a fairly rapid rate and by 1976 international sales might reach $300 million.

Up to the end of 1967 we did very little to stimulate the markets in the U.S.S.R. and in Eastern Europe.

Late in 1967, however, we realized that we could no longer afford to ignore this rapidly growing market. We were convinced that we should undertake a program of effective sales promotion or else we would find it virtually impossible to break into this market which had gone to our West European and Japanese competitors largely by default.

As a result we began a serious long-range program of increasing our sales of nonstrategic products in the U.S.S.R. and Eastern Europe.

This effort, started very modestly with a single sales engineer and a secretary, has now expanded to an operation of 20 people, approximately half of whom are technically trained sales engineers. Each sales engineer has an extensive travel schedule which enables him to provide on-the-spot assistance to Russian and East European purchasers and end-users.

In addition, in 1968, and in subsequent years, we participated in a number of exhibitions, trade fairs and private showings in the U.S.S.R. and elsewhere in Eastern Europe. Over the years these efforts have caused considerable increase in sales from approximately $100,000 in 1967 to $3.5 million last year, which represents about 3 to 4 percent of our total European business. Further substantial increases are anticipated in the years that lie ahead.

Three years ago during the hearings on the Export Control Act of 1969 many businessmen advocated a major reduction in unilateral U.S. controls. The reduction was supported on the grounds that most of the products under control were freely available to other Western countries, and as a result U.S. business was being penalized by the cost of preparing applications and by the time delays involved in the licensing process.

Attached to my written statement is a chart, exhibit 1, which shows the effect of export controls on our worldwide business prior to the passage of the Export Administration Act of 1969.

You will note that in each of the three cases shown on exhibit 1 that internationally imposed Cocom controls at that time affected 44 percent of our sales. These controls also affected the sales of our competitors in other Cocom participating countries with similar product mixes. As a U.S. firm however, we also had to contend with unilaterally imposed controls which were not duplicated by the other Cocom countries.

These unilateral U.S. controls affected some 6 percent of our

sales to friendly countries and a huge 53 percent when we dealt with the U.S.S.R. and most of the countries of Eastern Europe. In fact, in that latter category, we could only supply $3 out of every $100 free of licensing. In contrast, our West European and Japanese competitors with similar product mixes could sell $56 out of every $100 without licensing.

In drafting and passing the Export Administration Act of 1969 the Congress took these problems into account, and the emphasis of the act was changed. It was declared that it was the policy of the United States ". . . to encourage trade with all countries with whom we have diplomatic or trading relations except those countries with which such trade has been determined by the President to be against the national interest. . . ."

This change in emphasis encouraged U.S. exporters to actively sell in a number of areas where previously they had been reluctant to enter. The clearly expressed intent of Congress also gave the administration ample authority to reduce the unilateral export controls and to modify those licensing practices which had been weighted towards denial.

Exhibit 2, attached to my prepared statement, is based on our worldwide business over the 6-month period from August 1, 1971 to January 31, 1972. This exhibit shows the present effect of export controls, and in comparison with exhibit 1 is very illuminating. As you see, unilateral U.S. controls to friendly countries have been reduced from 6 percent to about a half percent.

In the case of the U.S.S.R. and most of the countries of Eastern Europe the drop has been dramatic, from 53 percent to about 5 percent.

If our experience is typical, it is quite clear that the administration has indeed followed the intent of the Congress. It has removed or reduced many controls.

Senator MONDALE. That is a fairly dramatic change.

Mr. CHRISTIANSEN. Very dramatic; yes, sir.

Seantor MONDALE. So that you would say at this point the 1969 act plus some decent administration has moved significantly toward the objective which we sought?

Mr. CHRISTIANSEN. I would say there are two major reasons: the act itself, which gave authority to liberalize the controls and then within the administration itself there have been a number of people who have been pushing liberalization. I think they deserve a considerable amount of credit.

Senator MONDALE. Now, I notice that in your 1968 example 44 percent of your trade was covered by Cocom restrictions and it is now 47 percent.

Mr. CHRISTIANSEN. That is right.

Senator MONDALE. Does that mean that while our unilateral export controls have been reduced the Cocom restrictions have increased?

Mr. CHRISTIANSEN. No. The Cocom controls have remained fairly constant. Our product mix has changed. We are now heavily involved in computer activities and related fields, and these, of course, are almost all subject to Cocom controls, so it is really a product

mix change rather than Cocom. Hopefully the Cocom controls will be going down within a few months.

Senator MONDALE. Is there some hope that they will?

Mr. CHRISTIANSEN. I think so. Discussions are going on now. Hopefully they will result in some reduction.

I think that total U.S. controls are now very much more in line with the Cocom list than maybe they have ever been, certainly in many, many years.

Although the reduction in the unilateral U.S. controls has been considerable, there are some areas still under unilateral control that should be further liberalized. It is true that the potential volume in these areas is rather small, certainly compared to what it was some years ago. But I think the adverse effect of these residual controls far exceeds the volume.

For example, a number of U.S. exporters are very lackadaisical about entering the East European and U.S.S.R. markets. I think they feel that these residual controls illustrate how difficult it is to market in these areas, and this becomes a reason for not taking any action.

Also, there are a number of purchasers in Eastern Europe who have bitter memories of delays in obtaining U.S. products. The residual unilateral U.S. controls keep these memories alive as do a number of our competitors in Western Europe and in Japan who use them to their advantage as a great sales device. The argument they use is that the United States is still being restrictive, and you should buy our products instead.

Senator MONDALE. Now, we had testimony yesterday from Mr. Scott and I reported what I heard from some U.S. businessmen, that even the Cocom list has been used by competing businesses in other countries in a very flexible way, that on some occasions they have been pushing for restrictions which have the effect of keeping us out of markets in which they are involved; and secondly, that on occasion when they get a hot business deal they ignore the Cocom restriction.

Would you agree that that happens?

Mr. CHRISTIANSEN. In general, yes. Although I do not have any specific examples, like Secretary Scott, I feel that this is a problem. Examples are very difficult to come by.

Senator MONDALE. He thinks it is a problem.

Mr. CHRISTIANSEN. Yes, sir.

We have expressed our concern over these remaining unilateral controls on a number of occasions, and most recently in November of last year to the Office of Export Control.

Attached to my prepared statement as exhibit 3 is a list that was submitted at that time. If you will run over the list you can see that there are quite a few miscellaneous categories, some of which certainly should be examined.

Senator MONDALE. Now, often they say that in fact many of these otherwise available categories are not as clear as the U.S. business might suggest, that often there are quality differences in the U.S. products which make them discretely different, even though the

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generic term might be the same, but in fact, if you analyze it the technology is superior or it may have strategic implications as well.

This list here, I take it, is a list of items which you believe to be rather widely available and comparably produced in other countries.

Mr. CHRISTIANSEN. The list is a total list of all of our products affected by unilateral controls in November of last year, and it is current.

Senator MONDALE. This is all unilateral?

Mr. CHRISTIANSEN. Yes, sir.

Senator MONDALE. I see.

Mr. CHRISTIANSEN. The list is basically made up of two different types of products, one of which perhaps has some strategic implications. Digital voltmeters might fall in this category. Other products, the large bulk of the list, are items which have not yet been cleaned up. For the most part these fall into basket categories that should be looked at.

If you just run down the generic descriptions of some of the items you see they are very innocuous, little bits and pieces and odds and ends that should be cleared up.

The Office of Export Control has told us that further review action is going on and that there are several areas where changes can be made. I assume these changes will be made although I think the Office of Export Control will probably wait until they see which way the present Cocom discussions wind up before they rush wholesale into further changes in the unilateral U.S. controls.

I might add in this connection that within the last 2 or 3 years on two separate occasions the Department of Commerce has asked for our suggestions on the relaxation of controls. One of these occasions concerned oscilloscopes and the second concerned calculators. I assume the information we provided was used to develop or support the U.S. position in the current Cocom discussions.

Another reason for paying close attention to the remaining unilateral controls, is that the current Cocom negotiating sessions are likely to lead to further reductions and many exporters feel that without continued concern being expressed to the Office of Export Control that new unilateral export controls might be imposed. A replacement of these obsolete Cocom controls by new unilateral U.S. controls would be the last thing we would want to see.

Another thing to bear in mind is that the reduction of these unilateral controls has had a beneficial effect on the Office of Export Control and on some of the other interested agencies of the Government, for they have been able to concentrate more of their time and effort on those license applications, subject to Cocom controls.

As a result, in some cases the U.S. reviewing process has been expedited, and in other cases borderline applications have been examined more carefully, and in some instances, approved. Unfortunately, the full positive effect of this has frequently been limited by force reductions within the U.S. Government and/or by lack of funds to attract and maintain high caliber people who can understand and speedily process these more complicated applications.

Senator MONDALE. Do you find some occasions when they lack the in-house technological capacity?

Mr. CHRISTIANSEN. No, I think it is available, though perhaps not within the Commerce Department, and therefore obtaining appropriate technological information is more time consuming.

We have been asked on many occasions to give additional information of a technical nature, and sometimes to cast certain technical specifications into some accepted format which the Government can use.

Despite the success of the Secretary of Commerce in carrying out the intent of Congress, one major area remains where improvement is necessary if U.S. exporters are to approach purchasers in the USSR, Eastern Europe, and now the People's Republic of China, on more nearly the same level as their West European and Japanese competitors. This area is the considerable time required to make formal license applications and the delays encountered in getting decisions.

Time delays, serious in any transaction, are especially serious in dealing with the USSR and the East European markets, where U.S. suppliers already face several built-in disadvantages, such as the lack of familiarity with the market, remoteness, lack of hard currency, the inability or unwillingness of U.S. exporters to accept merchandise in payment for goods, etc. The list is endless.

It is difficult to assign an average figure, but as a rough estimate, we find it takes from 2 to 3 weeks to get supporting documentation from the Russian or East European purchaser or end user. This is information about what the item is going to be used for and getting the end use statement prepared and signed. It also takes time to prepare and type the license application and send it to the Commerce Department.

But the time required to process the application can be looked at more objectively. For example, in the last 7 months we have prepared and filed license applications for 78 transactions, with the U.S.S.R. and the countries of Eastern Europe. Of the 78 transactions, 16 involve products subject to unilateral U.S. control; 14 of the 16 have been approved with an average processing time of 2½ weeks. This is down substantially from what it was 3 years ago.

The remaining two, submitted just a few days ago, will probably also be processed within the average 2½-week period.

Now, at this point one might say that a total of 5 or 6 weeks—2½ or 3 to prepare the application, and 2½ to 3 for processing—with no denials isn't much of a hindrance to U.S. sales. But this is not true, because during this 5- or 6-week period, we really didn't know whether the application would be approved or not, and besides, in one-half the cases, the delays are greater than 5 weeks.

Under circumstances such as these, there is little wonder that many Russian and East European purchasers prefer to buy similar products from West European or Japanese manufacturers who face no licensing delays and who often can ship the products directly on receipt of an order.

The remaining 62 of the 78 transactions involve products listed as "A" on the U.S. commodity control list, that is, subject to Cocom control. To date, 40 of the 62 have been either approved or denied. Those which have been denied were accompanied by an explanation of some of the broad reasons for denial. It's true that some of these explanations have been quite thin, most likely because of security problems, but at least there has been some attempt to explain why.

Three of the 62 have been returned to us and are currently in our hands with a request for more information.

Nineteen are still under consideration; 10 of the 19 have been submitted within the past month, so it's too early to expect anything on them. Processing on the remaining nine has been underway over a time span from 6 to 21 weeks, with both the average and the median at 14 weeks. These obviously are the more difficult cases.

Of the 40 transactions which have been processed, 20 or one-half were approved or denied within 5 weeks. Now, this rather short time interval suggests to me that the processing was completed wholly within the Department of Commerce.

Another six applications, six of the 40, took from 6 to 8 weeks to process and so not only passed through the Commerce Department, but also probably became involved in interagency review as well.

The remaining 14 transactions took from 11 to 25 weeks to process, with a median of 15 weeks, that is 4 months, and an average of almost 17 weeks. These transactions undoubtedly went through the full Department of Commerce screening and interagency review. Probably some were even sent to Paris for Cocom review as well.

In this connection, Mr. Chairman, let me say that I welcome Assistant Secretary Scott's comments yesterday that the administration is more willing to indicate where applications may be bogged down and, on occasion, allow exporters to meet with those individuals or review groups who have doubts.

Senator MONDALE. Has that been your experience?

Mr. CHRISTIANSEN. Up until now, no. It has been very difficult to secure information as to where applications have bogged down, and it is our impression that our interface should be the Department of Commerce, and we should not spend our time scurrying around to all sorts of other people in the administration who might have objections.

Senator MONDALE. That is more or less the understanding.

Mr. CHRISTIANSEN. I think that is generally the understanding within the export community.

Senator MONDALE. They did call after their testimony to say that Secretary Scott made a mistake on the question of whether the individual businessman appears before the operating committee. He was under the impression they did. They called back to say that was not accurate, and he wanted the record to reflect that statement.

But I got the clear impression from him, despite that, that businessmen were encouraged to appear before the export control office to find out why things were slowing down, to learn which department was concerned, and then where to go, so they would have a hearing.

Mr. CHRISTIANSEN. I would say that we have no trouble in talking to the people in the Office of Export Control. It has been my impression, however, they are quite reluctant to indicate where applications have bogged down, or for what reason.

Senator MONDALE. Didn't our 1969 act sort of specify that they were supposed to tell people where the problem was?

Mr. CHRISTIANSEN. Yes; but not specifically. It indicated, as I recall, in general terms that delays would be called to the exporter's attention, but not the particular reasons, or who or what was holding up the applications.

Senator MONDALE. "Give each exporter the opportunity to present evidence and information which he believes will help the agency," et cetera, "resolve any problems or questions which are or may be connected with his request for license."

I think we intended that to mean that he would be able to go before the appropriate agency. Maybe we ought to spell that out.

Mr. CHRISTIANSEN. In my experience, we haven't had that opportunity up until now, and I think it might be very useful.

I would like to talk a little bit more about this delay business, because it is quite crucial.

If we look at these 40 approved or denied transactions I have been talking about, as a group, we find that a median processing time of 5½ weeks exist, and that the average processing time is 8½ weeks. If you add to this the estimated 2½ to 3 weeks preparation time, then we have a delay of from 8 weeks on the median, to 11 weeks on the average.

A concentrated look at the 5½- to 8½-week processing time within the Government is rather useful but very difficult. This is because it is virtually impossible for me as a private individual or Hewlett-Packard as a company to accurately determine the amount of time spent in the various screening and policy determination activities within the Commerce Department or in the interagency review process.

We do know, however, that as a rule of thumb, our competitors in the other Cocom countries allow approximately 1 month for a decision on a Cocom controlled item. If this is correct, then it would be safe to assume that the U.S. processing time on our 40 applications ran between three and a half to six weeks, or from a month to a month and a half.

If this estimate is correct, then we, as a U.S. exporter, face an additional delay of at least 1 month in the processing of our U.S. export license requests for Cocom controlled products, that is, requests to ship to Eastern Europe and the USSR.

It should be borne in mind that the figure of 1 month is an average and in half the cases the additional delays exceed a month, sometimes substantially. Similar delays do not hinder our competitors in the other Cocom countries, whose governments go through very little screening prior to exercising their Cocom delegated licensing authority or to submitting the license requests to Paris for Cocom review.

Delays of this type were not so important years ago when the United States had little interest in developing the market and, in addition, enjoyed a near monopoly of products of high technology. This is not the case today. Today we are interested in developing the market, and as we all know, there are many competent competitors abroad. Under these conditions, licensing delays of even one or two months can easily mean the difference between the sale of a U.S. product or a sale of a foreign product.

It is well to point out at this time that very few of our U.S.S.R. and East European orders have been canceled despite the fact that licensing delays of from two to three months and even more are common. The real loss is in those orders which are placed on West European or Japanese suppliers, rather than United States, because delays for U.S. soul-searching cannot be tolerated, or because of greater confidence in the ability of the foreign firm to deliver.

Senator MONDALE. In other words, if the East European customer is worried about time, he may go to a European company, and if he takes him as a customer, it means he is taking these delays into account. A lot of our losses thus show up on the basis of orders not received from East European purchasers because they already assume they are going to lose a lot of time.

Mr. CHRISTIANSEN. Right. The order is not placed, because they have disregarded our ability to supply them in the first place.

I have a couple of recommendations.

I believe the Export Administration Act of 1969 should be extended to 1975 as provided in the Senate bill 1487.

In addition, I have two recommendations which I believe will speed up the licensing process and improve the determination and administration of export controls.

The first recommendation might be accomplished through the inclusion of an additional paragraph under section 4 of the present Export Administration Act, to the effect that:

> The Secretary of Commerce, in conjunction with other U.S. government agencies to whom export control authority or responsibility has been delegated, shall, consistent with other provisions of this Act, use all practical means available to expedite the processing of export license applications.

I believe the provisions of this new paragraph would encourage the Secretary of Commerce to speed up the processing of license applications by seeking an increased delegation of licensing authority to the Office of Export Control. This would require, of course, close cooperation and coordination with the interagency review group and the establishment of additional guidelines.

I also believe that under this new paragraph, the Secretary of Commerce, and the responsible congressional committees, would be more inclined to see that adequate funds and other support are provided for the hiring and retention within the Commerce Department of an adequate number of technically qualified licensing experts. These experts should be encouraged, I believe, to obtain firsthand exposure to actual conditions by visiting, where possible, the areas subject to licensing controls.

Senator MONDALE. That is one thing that they would handle in their budget request.

Actually, their budget has been cropped.

Mr. CHRISTIANSEN. I am a great believer in firsthand experience as the best way to cut through some of the delays.

Senator MONDALE. I agree.

Mr. CHRISTIANSEN. Personal knowledge of this type would reduce the need for detailed, difficult to obtain supporting information, and in conjunction with the increased licensing authority already mentioned, would substantially speed up the processing of license applications.

My second recommendation is to provide improved liaison between the U.S. Government and the business community. This could be accomplished through the creation of a joint Government/business committee (or committees) of technically competent people who, on a periodic and continuing basis, would review the unilateral U.S. and Cocom controls and the Government's program of administering them.

I believe that such a committee (or committees) would provide the business community with a clear, firsthand expression of the objectives of the U.S. Government in exercising export controls.

On the other hand, the Government participants would gain from the business community's ability to contribute up-to-date information as to the state of U.S. technology and the actual conditions occurring within the various countries subject to licensing controls.

I believe the recommendations of this committee (or committees) would be effective in helping to chart the manner in which U.S. export controls are administered.

In addition, the involvement and participation of the business community would make the administration of controls more effective. Finally, the functioning of a committee (or committees) such as the type I have been talking about would be of major assistance to the U.S. Government in its review and updating of the unilateral U.S. controls and the Cocom controls.

In conclusion, Mr. Chairman, in the years that lie ahead, we foresee a continued growth in the sale of peaceful goods to the U.S.S.R., Eastern Europe, and the People's Republic of China. The success of our activities, however, is largely dependent upon a continuing interest by the U.S. Government in east-west trade and by a relaxation of the major impediments to that trade.

By this I am referring to further reduction in obsolete or obsolescent controls, the extension of medium term credits, and, finally, a judicious extension of most-favored-nation tariff treatment.

For these reasons, and the continuing need to maintain controls over strategic goods, goods which would assist an enemy in his ability to produce or use weapons of war, we support extension of the Export Act of 1969 to 1975.

We also hope that consideration will be given to additional measures which would speed up the licensing process and improve the determination and administration of U.S. export controls.

Mr. Chairman, on behalf of the Hewlett-Packard Co., I wish to thank you and the members of the subcommittee for your attention and for the opportunity of being heard.

Senator MONDALE. Thank you very much.

Senator Taft?

Senator TAFT. Thank you very much, Mr. Chairman. I think the statement was, indeed, excellent. I am sorry I did not get here for the first part of it, but I have been able to review a little of it.

In the sale of the products of your company, Mr. Christiansen, how many times do you find that you are selling something that may be on our list but not on the Cocom list?

Mr. CHRISTIANSEN. Increasingly less. If you will look at exhibit 2 attached to my prepared statement, you will see that on a dollar volume basis, about 5 percent of our products are under unilateral U.S. controls to U.S.S.R. and most of the countries of Eastern Europe. This is not a very big volume.

There has been a substantial decrease in unilateral U.S. controls since the Export Administration Act of 1969 was passed over 2 years ago. So, what I am saying, is that there are presently relatively few instances where these unilateral controls cause us substantial trouble.

Senator TAFT. Do you believe they could be eliminated entirely without any problem of national security insofar as your particular types of equipment are concerned?

Mr. CHRISTIANSEN. I think there are probably two or three areas where greater surveillance may be justified, but I think the bulk of that 5 percent could be decreased very radically. I would say it could cut down to 1 percent or something like that without too much trouble.

Senator TAFT. Now, the type of controls you are talking about, those over and beyond the Cocom list, do you feel that logically these should continue to be regulated by the Department of Commerce?

Mr. CHRISTIANSEN. Well, my understanding, sir, is that the Department of Commerce merely serves as the interface, and when you say regulated by the Commerce Department, really the whole administration is involved. I do not see how this could be changed.

I would think this would continue to be a total administration function, or should be.

Senator TAFT. I looked at your first recommendation. Maybe it would have the effect that you indicate, but it really is salutary, isn't it, insofar as its approach is concerned.

It seems to me that you are advocating writing into law just what you hope would happen, but that is about all that it amounts to.

Mr. CHRISTIANSEN. I certainly hope it would happen, yes, sir. I don't know how effective it would be. There has to be a will to perform.

Senator TAFT. I may be a skeptic, but I have a feeling it lies far more in the administration of the act than it does in action by the Congress.

Mr. CHRISTIANSEN. That is quite possible.

Senator TAFT. That is all I have at this time.

Senator MONDALE. Thank you very much. I don't think I have any questions. I think we have been over this ground enough.

We are most grateful to the two of you and for your association in developing the kind of information that helps us do our work. Instead of just generalized discussions, both statements are excellent examples of what really helps the Congress do its job.

You have specific details, percentages, hard examples, which I think really moves the congressional and the administrative process in the right direction.

I am most encouraged, really, based on your testimony of the direction in which we are going. It is a far different situation today than it was when we first dealt with the Export Act, both in terms of the spirit of the administration and the effectiveness, and that certainly is a hopeful situation. Yet we are a long way from where we should be, and I think perhaps the thing we dropped in the 1969 act, which I think we could have maintained, was to encourage and enable the business community to work with the Export Control Office.

My personal opinion is that there is a certain amount of inherent conservatism or caution built into the present system, the safest thing to do when you are in doubt is to delay or say no when the best thing for this country might be to say yes. This is not to say that the businessman is always right, but I think the present bias needs a little more of a healthy clash of ideas between the businessman, and maybe the export control officer, or the Defense Department official, who is more concerned about his situation in the Department. From that dialogue I think the handling of export controls would become a little more balanced than we sometimes see, even though we are seeing, I think, an important change in this.

Now, unless you have other questions, Senator Taft, thank you very, very much for your contributions.

Mr. CHRISTIANSEN. Thank you.

(The complete statements of Mr. Wantland and Mr. Christiansen follow:)

STATEMENT OF EARL WANTLAND IN BEHALF OF WESTERN ELECTRONICS MANUFACTURERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

I am Earl Wantland, president of Tektronix, Incorporated, headquartered in Beaverton, Oregon. Our major business is designing and manufacturing oscilloscopes and other related high-technology electronic instrumentation equipment.

I also serve on the Board of Directors of WEMA, and it is on behalf of its member firms that I am appearing today. WEMA is a trade association of 600 companies, primarily in the Western United States, engaged in electronics and information technology. WEMA member companies operate in the field of high technology, designing and manufacturing sophisticated components and equipment for a number of end markets. Many of our member companies face competition from abroad, but most have been successful in maintaining a technological lead and thus have been able to continue their growth.

Many WEMA member companies are actively engaged in selling their products abroad. In a recent survey of 300 WEMA member companies, approximately 58% indicated that their international sales accounted for between 5% and 15% of their total sales. Another 24% of the companies surveyed indicated that their international sales were in excess of 15% of their total sales. My own company, Tektronix, enjoyed an international sales volume of approximately $62 million last year. This represented 42% of our total sales. And, let me add: for many WEMA firms, during the past two years of the domestic stagnation, international business has meant the difference between profitable and unprofitable operations.

By way of background, it is also worth noting that, in the past several years, the sale of high technology products abroad--such as those manufactured by WEMA member companies--has been the prime area in which the U.S. has continued to hold its own in the world marketplace. According to U.S. Department of Commerce statistics, the favorable balance of technology intensive exports over imports was +$7.5 billion in 1957, +$9.0 billion in 1964, +$9.3 billion in 1969 and +$9.6 billion in 1970.

While our high technology industries have tended to maintain a constant surplus of exports over imports through 1970, we are convinced that this situation will not continue if our government and industry do not work together to bring our international trade and investment policies into line with the realities of the 1970's.

It is in this context that WEMA is very pleased to have been invited to appear before you and present our views on the implementation and extension of the Export Administration Act of 1969. To assist me in presenting our views, and to help answer any questions you might have are two extremely well qualified men: Tom Christiansen, manager of international trade relations for the Hewlett-Packard Company in Palo Alto, California and chairman of WEMA's International Committee, and Hal Bailey, director of international operations for Applied Magnetics Corporation in Goleta, California, and a member of WEMA's International Committee.

In 1969 WEMA member companies supported the efforts of this Subcommittee and those of other members of the Congress to reduce the complexities, uncertainties and delays in the administration of U.S. export controls and thus increase trade in peaceful goods with the U.S.S.R. and the other Socialist countries of Eastern Europe.

As a result of these congressional efforts, the Export Control Act of 1949 was sharply revised and extended under a new, more liberal and more descriptive name: The Export Administration Act of 1969. In this legislation the Congress recognized that "...the uncertainties of (export control) policy towards certain categories of exports has curtailed the efforts of American business." The Congress also stated unequivocally that "it is the policy of the United States to encourage trade (in peaceful goods) with all countries with which we have diplomatic or trading relations." In addition to these clearly stated matters of congressional intent, the Act provided a substantially improved framework within which:

1) the unilateral U.S. export controls could be reduced to a level more nearly consistent with those of the other major non-Communist countries,
2) the business community could be:
   a) consulted, consistent with considerations of national security, on proposed changes of export control policy and procedures,
   b) appraised when changes in export control policy and procedures occurred, and

c) informed of licensing delays, given an opportunity to present additional evidence and information and, informed of the reasons for denial of an export license request.

After a slow start, the Administration made substantial progress in reducing the level of U.S. unilateral export controls. This progress has been particularly evident during the past year and a half in the area of high technological products--electronic products and instrumentation, calculators, etc.--the types of products manufactured by WEMA member firms. My own company's experience may illustrate the progress that has been made in reducing the level of U.S. unilateral controls. Prior to the adoption of the 1969 Act, Tektronix was able to sell only $1.25 out of every $100 under general license--without restriction--to the U.S.S.R. and Eastern European countries, except Yugoslavia. Today, we can sell about $25 out of every $100 in Eastern Europe without restriction. Clearly, commendable progress has been made in reducing the U.S. unilateral export controls. Despite this progress, it is obvious that more has to be done if we are going to get down to the level of controls governing our West European and Japanese competitors.

To obtain an objective evaluation of how well the provisions of the Export Administration Act of 1969 were being implemented, WEMA, last year, prepared and distributed a questionnaire to 77 companies within its membership. Companies receiving this questionnaire were selected on the basis of likely interest or active pursuit of the East European market. 46 questionnaires--60%-- of those distributed were returned. Of those companies returning the questionnaire, 19, or 41%, were engaged in selling in Eastern Europe. The percentage of sales to East European destinations ranged from less than 1% to 10% total sales.

The major reason for not selling in this area given by those companies responding to the questionnaire was simply that the firm had not tried (51%). This response is not unusual since an active selling program in Eastern Europe is both expensive and time-consuming. For this reason, many U.S. companies, especially those of small or medium size, tend to concentrate their marketing efforts in other areas of the world where orders are easier to obtain and at less expense. Other reasons cited for not selling in Eastern Europe were:

1) the denial of too many license applications.
2) company investigation of this market is just beginning.
3) company policy prohibits.
4) restraints imposed by the U.S. government
5) end-use documentation is too difficult to secure.

One interesting, and I believe significant, trend to emerge from the responses to the WEMA questionnaire was that 82% of the companies selling in Eastern Europe reported an increase in sales in 1970. Only one respondent reported a decrease in East European sales since the adoption of the Export Administration Act of 1969. Thus, it seems clear that the intent of the Act to encourage trade with the countries of Eastern Europe is being implemented, at least insofar as high technology products are concerned. I believe this has come about for two reasons. First, the more liberal provisions of the Act have encouraged our member firms to increase their marketing efforts; and second, the reduction of U.S. unilateral controls has made it easier for our firms to sell their products in Eastern Europe. There are, of course, other reasons for an increase in East European sales, including an increased demand for the types of products manufactured by WEMA member firms.

Most of the questions in our questionnaire were designed to determine how effectively the Secretary of Commerce had carried out the provisions of the Export Administration Act of 1969. Specifically, we were interested in: 1) learning what progress our member firms felt had been made in relaxing the U.S. unilateral export controls; 2) if changes in export control policy and procedures were being effectively disseminated; 3) whether or not exporters were being informed whenever significant delays in licensing process occurred; and 4) if exporters were receiving adequate information whenever an export license request was denied. A quick review of some of the questions and the summarized response is revealing.

Q. *The Export Administration Act of 1969 directs the Secretary of Commerce to review any list of items whose export has been curtailed with a view to making promptly changes and revisions in such lists in furtherance of the stated policies of the Act. Relative to this:*

Has your company been requested by the Office of Export Control to provide information and/or assistance leading to the revision of these lists?

If you were not contacted by the Office of Export Control for this purpose, did your company initiate any action to provide information to be used in revising the lists?

Have there been any revisions or changes to the lists as a result of your actions?

R. Seventy-two percent of the companies responding indicated that they had not been asked to provide information or assistance leading to the revision of the U.S. export control list. Twelve percent of the respondents had given assistance along these lines at the request of the Office of Export Control. Another twelve percent indicated that they had initiated their own efforts to revise portions of the control list. Only three companies were aware of any changes in the U.S. control list as a result of their actions.

Q. *The Export Administration Act of 1969 directs the Secretary of Commerce to encourage the widest possible trade by keeping U.S. business fully apprised of changes in export control policy and procedures.*

Since this policy was adopted a year-and-a-half ago, have you noticed any improvement in the Commerce Department's efforts to inform business of these changes?

R. Forty-seven percent of the companies responding to the questionnaire indicated that they had noticed no improvement in the Commerce Department's efforts to inform businessmen of changes in U.S. export control policy. Thirty-four percent of the companies responding indicated that improvements had been made, of which the most widely mentioned was the publishing of regular up-dates on the export control regulations.

Q. *The Export Administration Act of 1969 requires that all departments responsible for administering export controls shall, if requested, and insofar as is possible:*

"(1) inform each exporter of the considerations which may cause his export license request to be denied or to be the subject of lengthly examination and,

"(2) in the event of undue delay, inform each exporter of the circumstances arising during the Government's consideration of his export license application which are cause for denial or for further examination."

Have you contacted the Office of Export Control in the past year-and-a-half by letter, telephone or in person about your licensing problems?

R. Fifty-nine percent of the companies surveyed indicated that they had been in contact--many on a weekly or monthly basis--with the Office of Export Control. Seventy-one percent of these companies reported that the cooperation they received was excellent. Forty-nine percent of the companies responding indicated that the Office of Export Control had, on occasion, contacted them on specific licensing problems which were holding up their applications. Ninety-five percent of these companies felt that this contact was helpful, either in securing a license, or by reducing the time it took to process the license.

Q. *The Export Administration Act of 1969 directs the Secretary of Commerce, if requested, and insofar as possible, to "inform each exporter of the reasons for a denial of export license request." Have you received such information within the past year-and-one-half?*

R. Forty-seven percent of the companies responding indicated that they had not been informed by the Commerce Department as to the reasons for a denial for an export license request within the past year-and-a-half. Ninteen percent of the respondents indicated that this information supplied by the Commerce Department was more informative than that which was supplied before the passage of the Export Administration Act of 1969.

In the course of investigating, and later compiling, the responses to our questionnaire, we became convinced that the Secretary of Commerce, for the most part, has been responsive to the wishes of Congress as imposed in the Export Administration Act of 1969, to increase trade with the U.S.S.R. and the Socialist countries of Eastern Europe. It's true, of course, that a number of people, while agreeing that progress has been made in reducing U.S. unilateral export controls, complained that reductions had proceeded too slowly and, in some instances, had not yet touched some items of special interest to them. Others, perhaps not sufficiently versed in the complexities of export policies and procedures, complained changes were not being effectively disseminated. Still others wanted what amounted to individual weekly attention to their export licensing requests and, finally,

some dissatisfaction arose from time to time over the amount and quality of information received whenever export license requests were denied. This latter point, of course, may pose difficulties since certain items of information connected with denials are obviously of a strategic or classified nature. Our conclusion, however, is that in general the Secretary of Commerce has followed the intent of the Congress and has, indeed, reduced the extent and complexity of U.S. export controls.

As admirable as this progress has been, however, it is WEMA's belief that there is considerable room for improvement if U.S. firms, particularly those in high technology industries, are going to compete effectively in the East European, and now the Chinese, markets. The figures tell the story.

In 1970, for example, only some $350 million, less than 1% of the $43 billion in U.S. exports, went into Eastern Europe while, at the same time, exports to Eastern Europe from other Western countries were in excess of $8 billion. Put another way, in terms of total trade, the U.S. share of the world market in 1970 was approximately 16%. In Eastern Europe this share was only 3%.

This situation is much more dramatically expressed when high technology items, such as those produced by Tektronix, are considered. For example, world trade in 1969--the last year for which full marketing statistics are currently available--of "other electric measuring and controlling instruments" (SITC category 72952) was almost $1 billion.

The U.S. share of this market was approximately 36%--some $350 million. In 1969 the U.S. exported more than twice the volume of SITC 72952 commodities as West Germany, over three times that of the U.K. and about seven times the exports of Japan and France.

In contrast, U.S. performance in the East European market the same year was discouraging. In 1969 free world imports into the East European market of SITC 72952 commodities was some $55 million. West Germany's share of the East European market was some 36%. The United Kingdom and France each held a market share of close to 15%, while the United States and Japan were close together at some 7%.

The root causes of the poor performance of U.S. exports to Eastern Europe are many and complex. They include, for example, some things over which the United States has no control such as: 1) the historic close and complementary trading relationship existing between Eastern and Western Europe, 2) the rigidities of the Communist state trading systems and, 3) the shortage of hard currency within Eastern Europe.

The poor performance of U.S. exports to Eastern Europe is also due to the almost total lack of U.S. credits to help East Europeans purchase U.S. products and the lack of nondiscriminatory, Most-Favored-Nation (MFN) tariff treatment. Of the two, the lack of credit is probably of greatest immediate importance. Much of the growth, for example, of Western Exports to Eastern Europe has been supported by credits extended or guaranteed by governmental institutions of the exporting countries of Western Europe and Japan. Fortunately, the repeal of the Dirkson/Fino Amendment to the Export-Import Bank Act and the general strengthening of the Bank itself, in which this Subcommittee played a major role last year, should go far to remedy the situation as soon as the President determines that the extension of credit to East European countries is in the national interest.

The lack of Most-Favored-Nation tariff treatment to most of the countries of Eastern Europe poses both an actual and psychological barrier to the increase of trade. The lack of MFN tariff treatment means that high Smoot-Hawley U.S. duty rates are imposed on East European products. This makes these products all the more difficult to sell in the U.S. and severely limits the ability of the East Europeans to earn U.S. dollars which, in turn, could be used to purchase U.S. goods. Many East Europeans are also insulted by the unwillingness of the United States to extend MFN treatment and see proof in this of a hostile feeling on the part of the United States. It seems clear that the East Europeans will continue to harbor feelings of distrust and unwelcomeness and that these will serve to limit communications, trade and understanding until the United States is able to take a more flexible, more realistic attitude toward the extension of MFN treatment. WEMA hopes that this necessary change in U.S. attitude will occur soon.

Another important factor severely limiting trade with Eastern Europe is a certain lack of interest, sometimes almost amounting to apathy, among many U.S. businessmen. This attitude can, for the most part, be traced to obsolete or obsolence U.S. cold war attitudes developed in the 1950's and 1960's. While the reasons for our extremely limited penetration of the East European market are many and depressing, it seems clear that a combined effort on the part of business and the government will be necessary if we are going to be able to compete more effectively for our share of the East European and Chinese markets.

I would like to turn now to several areas in which WEMA believes the Export Administration Act of 1969 might be modified to further increase the sale of peaceful U.S. goods in the U.S.S.R., the Socialist countries of Eastern Europe and in the Peoples Republic of China.

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WEMA believes that the Export Administration Act of 1969 should be extended until 1975 and strengthened so that, with few exceptions, U.S. unilateral controls would be reduced to the COCOM levels. Although significant reductions have been made, a number of unilateral U.S. controls still remain. We see no reason why the majority of the remaining controls should not also be removed. In our opinion, most of the controlled products are readily available for direct shipment from other Western countries without licensing. Unilateral licensing requirements thus increase the cost of U.S. products since, obviously, licensing costs are passed on to the end-user. Unilateral licensing also loses sales since similar delays are not required if foreign products are purchased. All things considered, the major effect of most of the U.S. unilateral controls is to deliver the market for these products to our West European and Japanese competitors who, unlike many U.S. firms, are perfectly clear about what they can sell and how long delivery will take.

We do realize that unilateral controls are justified on some occasions. In most instances, this occurs when a U.S. firm is the sole or major source of some unique technology or product which the U.S. government deems to be of strategic advantage and where the COCOM participants are unable to agree that a control is required. Although WEMA believes that, in cases like these, unilateral U.S. controls are justified, we also believe some sort of mechanism should be established whereby these controls are subject to a on-going review. All too often unilateral U.S. export controls, originally imposed for very legitimate reasons seem to have an almost indefinite existance. We are convinced a mechanism should be established whereby both unilateral and COCOM controls are specifically justified before being imposed and then examined from time to time, to determine whether they should be continued or modified.

The establishment of such mechanism is an area in which this Subcommittee might be able to make a meaningful legislative change in the Export Administration Act of 1969.

During the 1969 hearings on the modifications and extension of the Export Control Act of 1949 (S. 2696) this Subcommittee recommended that an Export Expansion Commission be established. This Commission, which was subsequently deleted during later Congressional consideration, was to have conducted a study to determine practicable ways by which U.S. exports could be expanded without jeopardizing national security, to all nations with which the U.S. is

presently trading. Special emphasis would have been placed on promoting trade with the Soviet Union and the nations of Eastern Europe, as well as other countries eligible for trade with the U.S. but not significantly engaged in such trade.

As a result of the Williams Commission Report, the Peterson Report and sundary other studies and commissions that have been working on a wide range of international/economic and trade problems since 1969, perhaps an Export Expansion Commission such as envisioned in S. 2696 is too broadly chartered and therefore not needed. WEMA is convinced, however, that an independent government-industry body (or bodies) focusing on specific product categories, should be established to review and make specific recommendations on the U.S. unilateral and COCOM export controls. One of the first tasks of such a group (or groups) should be a fresh, in-depth examination of the various unilateral U.S. controls in terms of current technology and U.S. strategic needs to see whether they should be retained. This same type of examination should also be made on the various COCOM controls. The group (or groups) should be empowered to make recommendations for modifying various controls to the Executive Branch and also to report their findings to the Congress.

As we envision it, in addition to focusing on the present levels of U.S. and COCOM controls, this group (or groups) would also be able to provide valuable assistance to our government in preparing for COCOM negotiations. At present, although industry is sporatically consulted on few specific problem areas, the U.S. government prepares its COCOM position and negotiates as pretty much of a solo affair. This is in decided contrast to the joint government-industry efforts of the other COCOM participants. For example, the British government and British industry have been jointly preparing for the present COCOM talks for well over a year.

The proposed government-industry composition of such a review group (or groups) would, we believe, result in a more evenly balanced, more meaningful system of export controls since government representatives, who are more familiar with strategic problems, would be brought together with industry executives who are well versed in the state of U.S. technology and who are aware of actual commercial conditions in the U.S.S.R., elsewhere in Eastern Europe and in the Peoples Republic of China. In addition, such a cooperative effort would insure greater industry support of the control measures adopted. Industries and com-

panies which participate in the review process will be much more effective supporters of the controls than is presently the case when the government hands down regulations without consultation or participation.

WEMA believes that it is not enough to merely establish joint government-industry review boards which would work towards the lowering of the unilateral U.S. export controls and the reduction of obsolete or obsolescent COCOM controls. Positive steps must also be taken to improve the competitive position of U.S. business by reducing the amount of supporting documentation and the amount of time required to process export license applications. Among other things, this requires adequate funds and a further delegation of licensing authority. Adequate funding is important if the Department of Commerce is to employ a sufficient number of well qualified licensing officers who will be able to process cases at a rapid rate and who, through selected travel abroad, can become familiar on a first-hand basis with actual conditions existing in the countries for which U.S. products are licensed. We believe that well qualified licensing officers familiar with conditions abroad will not need a tremendous volume of supporting information and thus will be able to process cases more expeditiously. We also are convinced that an increased familiarity of actual conditions in Eastern Europe will assist the U.S. government in focusing its attention on specific areas where export controls, both unilateral and COCOM, should be relaxed. It seems clear to us that efforts to develop realistic export controls will benefit business by speeding-up the licensing process, and, at the same time, reduce the administrative burden currently placed on the Office of Export Control.

We also recommend that the authority of the Commerce Department's licensing officers be further increased so that more license applications can be processed without having to pass through the time-consuming interagency review process. Increasing the authority of licensing officers would mean, of course, that the interagency committee would have to develop additional guidelines to assist the licensing officers in making their determinations. WEMA, however, believes that these efforts would be very worthwhile since the combined effect of an increased delegation of license authority would be a speedier processing of the simpler cases through the Office of Export Control and a more rapid processing of the complicated cases through the interagency review committee.

In conclusion, Mr. Chairman, I should point out that, as a result of circulating our questionnaire last year, we were able to identify several specific instances where licensing delays or U.S. unilateral controls have resulted in WEMA member firms losing sales to foreign competitors in the U.S.S.R. or Eastern Europe. An abbreviated summary of several of these cases is appended (Attachment A) to my testimony for your information. If it would be helpful for you to have more specific details on any of these cases, I would be pleased to ask the WEMA staff to work with you and your staff to develop it. To my way of thinking, these examples illustrate the fact that despite the progress which has been made, WEMA companies are still not able to compete as effectively as they might for business in the U.S.S.R., the Socialist countries of East Europe and the Peoples Republic of China. We believe, however, if the Congress and the Executive Branch were to move in the direction of further reducing U.S. unilateral and COCOM controls, insuring business involvement in the overall control process, expanding the limited authority of Commerce Department's licensing officers, and maintaining well qualified and knowledgable licensing officers in the Commerce Department, that our companies will be able to compete effectively with our European and Japanses competitors for these markets.

This concludes our formal presentation; we will be pleased to respond to any questions the Committee may have.

Attachment A

Among other things, WEMA's questionnaire on the Export Administration Act sought to identify specific instances where WEMA member firms had lost business to foreign competitors because of delays in the licensing process or because an export license was denied for an item which was subsequently supplied by a non-American competitor.

Although we did not ask for detailed supporting documentation, we thought the Committee might be interested in the following summary of several individual responses to these questions.

Company A, a manufacturer of computer perpherial equipment, indicated that both delays and denials were of concern. For both reasons, the company reported it had lost sales to Japanese and West German manufactures.

In addition, the company reported that the shipment of certain equipment to the U.S.S.R. for a technical seminar had been denied because it was not the policy of the U.S. government to promote trade in A-item equipment which would require COCOM approval. The company was asked to withdraw its demonstration request and did so. The potential volume of business that might have been generated by this demonstration was estimated by the company to be in excess of $1 million.

This company estimated that its U.S. exports would increase between 5%-25% if the controls administered by the Commerce Department were reduced in scope and complexity to the level of controls exercised by other COCOM countries.

Company B, a manufacturer of electronic high-vacuum pumps, power supplies and related equipment, reported that it lost approximately $20,000 in orders per year to foreign competitors (principally in England, France and Italy) because of delays in licensing. The company also reported that it has been denied an export license for items which were subsequently supplied by French and British competitors.

Company C, a manufacturer of electronic equipment, reported that a recent U.S. policy change regarding the sale of proton magnetometers has halted any U.S. sales to the U.S.S.R. or other East European countries. Although the market potential is limited, this firm reported that British companies are continuing to sell this product in Eastern Europe.

This company estimated that its U.S. exports would increase by about 15% if the controls administered by the Commerce Department were reduced in scope and complexity to the level of controls exercised by other COCOM countries.

Company D, a manufacturer of computer perpherial and graphic display equipment, reported that the Hungarian government secured bids of competitors in Italy, France and Norway last year for equipment to replace an order the U.S. company lost when its license application was rejected. The company also reported that licensing delays had resulted in the loss of business to competitors in France, England and Switzerland.

The company estimated that its U.S. exports would increase by about 20% if the controls administered by the Department of Commerce were reduced in scope and complexity to the level of controls exercised by other COCOM countries.

Company E, a manufacturer of computer perpherial equipment and components, reported that in February of this year it was advised that it would be unlikely to secure approval for a license to export its machinery, equipment and manufacturing processess (principally a soldering technique) for the establishment of a printed circuit board manufacturing facility to make both multi-layer and doubled-sided circuit boards in Bulgaria. The company estimates that the value of this export would exceed a half million dollars. The company also reported that both types of circuit boards in question are presently being manufactured in every Eastern European country including Bulgaria, on commercial equipment built in Western Europe and Japan. Additionally, it stated many thousands of such boards were sold to the Soviet Bloc by West German firms in 1970 to supplement local production.

SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

HEARINGS ON SENATE BILL S-1487 FOR THE EXTENSION OF
"THE EXPORT ADMINISTRATION ACT OF 1969"

March 14, 1972

STATEMENT OF THOMAS A. CHRISTIANSEN
MANAGER OF INTERNATIONAL TRADE RELATIONS
HEWLETT-PACKARD COMPANY
PALO ALTO, CALIFORNIA

My name is Thomas A. Christiansen and I am Manager of International Trade Relations of the Hewlett-Packard Company, Palo Alto, California. I am appearing before the Subcommittee on behalf of the Hewlett-Packard Company in support of Senate Bill 1487, for the extension of "The Export Administration Act of 1969." I would like to thank you, Mr. Chairman, and the members of the Subcommittee, for affording me the opportunity to appear before you today.

In my testimony I wish to: 1) briefly summarize the activities of the Hewlett-Packard Company with particular emphasis on our marketing activities in the USSR and in the Socialist countries of Eastern Europe, 2) indicate how well we believe the Secretary of Commerce has carried out the provisions of the Export Administration Act of 1969, 3) state our concern over the extensive licensing delays which have had an adverse effect on the sale of our products and 4) suggest certain legislative changes to expedite the processing of license applications and to subject both the U.S. export

licensing process and the unilateral U. S. and COCOM controls to a full, periodic review by a technically qualified joint U. S. government/U.S. industry committee (or committees).

THE HEWLETT-PACKARD COMPANY

The Hewlett-Packard Company is a major designer and manufacturer of test instrumentation used in the fields of electronics, medicine and chemistry for scientific research, engineering, production and maintenance. The Company also designs and manufactures sophisticated calculators and engineering-oriented computers and selected peripheral equipment.

Hewlett-Packard's products are designed and produced in nineteen semi-autonomous manufacturing facilities. Fifteen of these have divisional status and are located within the United States. The remaining four have separate corporate identities and are located in West Germany, the United Kingdom, France and Japan. The three factories in Western Europe are wholly-owned by the Hewlett-Packard Company. The fourth international manufacturing organization is a joint venture between Hewlett-Packard and Yokogawa Electric Works, Ltd., a Japanese manufacturer of process control equipment.

As of October 31, 1971 Hewlett-Packard, on a consolidated basis, employed 16,540 people. Although the majority were employed in this country, more than 3,858 worked outside the United States. A little over half of these were engaged in design and manufacturing activities in the three international factories. Almost all the rest were employed in marketing and service activities.

Hewlett-Packard products are sold in the United States through a wholly-owned nationwide distribution system. Sales in major areas of the world outside the U. S. are handled through 22 wholly-owned or controlled sales companies and a number of technically trained independent distributors, each responsible for the sale and service of Hewlett-Packard products in a specific country. In a number of the lesser developed areas of the world, most of Africa for example, where the market is too small to warrant even the appointment of independent distributors, Hewlett-Packard handles its sales and service activities directly.

In fiscal 1971 (year ending October 31) shipments reached an all time high of 375 million dollars while the value of orders received totaled some 397 million dollars. 41% of these orders, 164 million dollars, were received from customers outside the United States, mostly in Western Europe, Canada, Japan, Australia and the other more highly industrialized countries of the Western world. 125 million dollars, or approximately 76% of this international business, came from Hewlett-Packard's U. S. factories. The balance was supplied from Hewlett-Packard's International factories which, incidently, in 1971 used some 9 million dollars worth of U. S. origin parts and components in the manufacture of their products.

Hewlett-Packard anticipates further sales increases in the years that lie ahead. Predictions indicate that international business will continue to grow at a rapid rate. By 1976 international sales may reach 300 million dollars a year -- almost double the present international sales volume.

MARKETING OPERATIONS IN THE USSR AND EASTERN EUROPE

To date, only a relatively small amount of Hewlett-Packard's products have been sold in the USSR and Eastern

Europe. This is not too surprising, however, since up to the end of 1967 we did very little to stimulate the market. We believed that the COCOM restrictions and unilateral U. S. export controls so limited the sale of our products that any serious sales efforts would yield small returns, when compared to the returns we might expect from the same amount of effort elsewhere.

Late in 1967, however, we decided we could no longer afford to ignore the rapidly growing market in the USSR and the Socialist countries of Eastern Europe. We were, and still are, hopeful that someday tensions will ease sufficiently to allow a considerable increase in U. S. trade. We were convinced that we should undertake a more active sales program against that day, or else we would find it virtually impossible to break into a market which had gone to our West European and Japanese competitors, largely by default.

As a result, the Hewlett-Packard Company began a serious, long-range program to increase its sales of non-strategic products in the USSR and Eastern Europe. This effort, started modestly with a single sales engineer and his secretary, has now expanded to Vienna-based sales force of twenty, approximately half of whom are technically trained sales engineers. Each sales engineer has an extensive travel schedule which enables him to provide on-the-spot assistance to Russian and East European purchasers and end-users. In addition, in 1968, and in subsequent years, Hewlett-Packard participated in a number of exhibitions, trade fairs and private showings in the USSR and elsewhere in Eastern Europe. Over the years these efforts have caused a considerable increase in our East European sales -- from approximately $100,000 in 1967 to $3.5 million or about 3 to 4% of our European business in 1971. Further substantial increases are anticipated in the years that lie ahead.

Despite large percentage gains, under anticipated near-term conditions we do not expect to see great increases in our sales volume in the USSR and the Socialist countries of Eastern Europe. This is not particularly due to any lack of credit; our products enjoy a good reputation for performance, quality and price and since the value of a typical transaction is relatively small, hard currency can usually be found.

The relatively low anticipated volume is rather due to various export controls which limit the products we can sell and to a lower degree of technical sophistication and, hence, a smaller sized market. It is also due to our relative inexperience in dealing in the USSR and elsewhere in Eastern Europe as compared to many West European companies who, having been established in the market for some time, have accumulated considerable experience as to who to contact, which products to sell, what terms to offer, etc.

Finally, the smaller volume is due to some things over which neither we nor the United States have any control. This includes: 1) the historic close trading relationship between Eastern and Western Europe, where the former has been a traditional source of raw materials, agricultural products, chemicals and certain simple manufactures and the latter, Western Europe, has been a major supplier of more complicated and highly sophisticated manufactured goods, 2) the rigidities of the Communist state trading systems and the attendant difficulties this poses for U. S. businessmen and, 3) the shortage of hard currency and the scarcity of attractive products and marketing skills needed to compete in the U. S. market, an effort which would earn funds which could be used to purchase U. S. goods.

THE REDUCTION OF UNILATERAL U. S. EXPORT CONTROLS

During the congressional hearings on the Export Control Act of 1949 almost three years ago, many businessmen advocated a major reduction in unilateral U. S. export controls. Reduction was supported on the grounds that most of the products under unilateral control were freely available from other Western countries and, as a result, U. S. business was being penalized by the cost of preparing applications and by the time delays involved in the licensing process.

The chart, attached as Exhibit I, shows the affect of export controls on Hewlett-Packard's business prior to passage of the Export Administration Act of 1969. The chart was originally prepared to accompany a letter describing our problems with the unilateral U. S. export controls which Mr. David Packard, Chairman of the Board of the Hewlett-Packard Company, sent to Senator Walter F. Mondale on August 28, 1968. Reproduced below is the pertinent part of Mr. Packard's letter which appears in its entirety on pages 1040-1041 of the record of the hearings on Senate Joint Resolution 169 concerning East-West trade.

> ".....we have recently completed a major study of our world-wide business during the six-month period November 1, 1967 to April 30, 1968. If we apply the various current levels of international (COCOM) and unilateral U.S. export controls to the mix of products sold during this time, dramatic evidence can be obtained as to the effect such controls have on our business.
>
> The results of this study are shown on the attached chart.* In each of the three cases, internationally imposed COCOM controls affect 44% of our sales. These controls would also, presumably, affect the same portion of sales of foreign competitors with

*See Exhibit I

similar product mixes located in the other COCOM participating countries. However, as a U. S. firm, we must also contend with the unilaterally imposed U. S. export controls. These controls, which are not duplicated by the other COCOM countries, affect 6% of our sales to friendly Western countries and a huge 53% when we deal with the USSR and the other East European countries (excluding Poland and Rumania). In fact, in this latter category, we are able to sell only $3 out of every $100 -- mainly medical equipment such as electrocardiographs -- without restriction under General License.

In contrast, West European and Japanese competitors with similar product mixes can sell $56 out of every $100 to Eastern Europe without restriction. Now, this wouldn't be so bad if little or no competition existed in Western Europe and Japan. But this is not the case. In every instance we have investigated we have found similar items to be available from non-U.S. sources. In this light, the high level of unilateral U. S. controls makes our marketing task much more difficult. We must contend with the time and added expense required to make formal license application, the long delays encountered in obtaining decisions, and the fact that our East European customers and our East European sales force is never quite sure whether a substantial portion of our product line can be sold or not. Since most of the material over which the United States exercises unilateral export controls is readily available elsewhere, it seems to us that the high level of these controls merely serves to deny business to U.S. firms. The controls, in effect, serve to push East European purchasers into the hands of our West European and Japanese competitors who are only too willing to sell their products."

The Congress, in drafting and passing the Export Administration Act of 1969, took these problems into account and declared, "It is the policy of the United States....to encourage trade with all countries with which we have diplomatic or trading relations, except those countries with

which such trade has been determined by the President to be against the national interest.....". This change in emphasis from the essentially negative provisions of the prior Export Control Act of 1949 has encouraged U. S. exporters to actively sell in a number of areas where, previously, they were reluctant to enter. I am sure that a measure of the increase in U. S. exports during the past couple of years to the USSR and the Socialist countries of Eastern Europe can be traced to the more liberal provisions of the Export Administration Act of 1969. The clearly expressed intent of Congress in the Act to promote trade in peaceful goods also gave the Administration ample authority to reduce the unilateral U. S. export controls and to modify those licensing practices which had been weighted toward denial.

Exhibit II, based on Hewlett-Packard's world-wide business during the six-month period, August 1, 1971 to January 31, 1972, shows the present affect of export controls. Comparison with Exhibit I shows the dramatic reduction in unilateral U. S. export controls which has occurred since the passage of the Export Administration Act of 1969. If our company's experience is at all typical, it would seem that the Administration has indeed heeded the intent of the Congress and removed or reduced many of the unilateral controls so that the U. S. control list is more in line with the COCOM list than it has been for many, many years. Exhibit II also shows that the unilateral controls affecting U. S. trade with the USSR and the majority of the Socialist countries of Eastern Europe have been liberalized to minimize the gap between the treatment afforded these countries and that afforded Rumania and Poland. To me this indicates a welcome recognition by the Administration of the relative lack of success in recent years of the policy of establishing specially priviledged

U. S. control categories in order to wean away from the Soviet sphere of influence those Communist countries that have shown more liberal tendencies.

Although the reduction of unilateral U. S. controls has been considerable, I would be remiss if I did not indicate that certain areas, still under unilateral U. S. controls, should be further liberalized. It is true that the potential sales volume in these areas is relatively small in comparison to what it was several years ago, however, these residual unilateral controls have an effect on U. S. exporters, would-be purchasers and foreign competitors far in excess of their dollar value. For example, these controls tend to prevent some U. S. exporters from mounting a serious marketing effort in the USSR and Eastern Europe. These people, perhaps overly concerned with obsolete or obsolescent cold war attitudes, justify continued inaction by seeing evidence in the existence of even these relatively small unilateral controls of how difficult it is to market in the USSR and the countries of Eastern Europe. The residual unilateral U. S. controls also have an adverse effect on those Russian and East European purchasers who retain vivid memories of occasions when they would have to wait a considerable length of time if they wished to purchase a U. S. product. I might add in passing, that some of our West European and Japanese competitors find, in talking to prospective Russian and East European purchasers, that magnifying the effect of the remaining unilateral U. S. controls is a useful sales device.

The Hewlett-Packard Company has expressed its concern over the remaining unilateral U. S. export controls on several occasions; most recently and comprehensively in November, 1971 when we submitted the list attached as Exhibit III to the

Office of Export Control. The Office of Export Control has indicated, both verbally and in writing, that further reductions in the unilateral controls over some of the entries listed in Exhibit III are in process. However, since some of the considerations involved are related to the present COCOM discussions, I anticipate that little action will occur until late this spring or perhaps early this summer, after the COCOM negotiations have been concluded.

Another reason for paying close attention to the remaining unilateral controls is that the current COCOM negotiating sessions are likely to lead to further reductions and, without U. S. exporters expressing continued concern, new unilateral U. S. controls might be instituted. A replacement of obsolete COCOM measures with unilateral U. S. controls would be unfortunate indeed and one of the last things U. S. exporters want.

The reduction in unilateral U. S. controls has had a beneficial effect in enabling the Office of Export Control and the other interested agencies of the U. S. government to concentrate more of their efforts upon those license applications subject to COCOM controls. As a result, in some cases the U. S. reviewing process has been expedited. In other cases, border-line applications have been examined more closely and, in some instances, approved. Unfortunately, the full positive effect of this ability to concentrate more resources on difficult cases has been negated frequently by force reductions within the U. S. government and/or by lack of sufficient funds to attract and retain the high caliber licensing personnel able to understand and speedily process the more complex COCOM applications.

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DELAYS IN THE LICENSING PROCESS

Despite the relative success of the Secretary of Commerce in carrying out the intent of the Congress -- reducing unilateral U. S. export controls; issuing bulletins more frequently to inform the U. S. business community of changes in export control policies and procedures; informing U. S. exporters of excessive delays in the licensing process; and explaining, within the limitations imposed by national security, the reasons why license applications are denied -- a major area remains where improvement is necessary if U. S. exporters are to approach purchasers in the USSR, Eastern Europe and, now, the People's Republic of China on more nearly the same level as their West European and Japanese competitors. This area is the considerable time presently required to make formal license applications and the delays encountered in obtaining licensing decisions.

Time delays, serious in any transaction, are especially serious in dealing with the USSR and the East European markets where U. S. suppliers already face several built-in disadvantages such as: lack of familiarity with the market; remoteness and, thus, the fact that long shipping intervals are required; the relative lack of hard currency; the unwillingness or inability of the U. S. to accept merchandise from the USSR and Eastern Europe in payment for U. S. goods, etc.

Although it is difficult to assign an average figure, as a rough estimate it takes two to three weeks to get a Russian or an East European purchaser to supply application information and to complete an end-use statement. It also takes a day or so to prepare and file a formal U. S. export license application or re-exportation request.

The time required, however, to process a license request can be examined more objectively. For example, in the past seven months Hewlett-Packard has prepared and filed license applications for 78 transactions with the USSR and the Socialist countries of Eastern Europe. Sixteen of these transactions involve products subject to unilateral U.S. export controls. Fourteen of the sixteen have been approved with an average processing time of 2½ weeks. The remaining two, submitted just a few days ago, will probably also be processed within the average 2½ week period.

At this point some may argue that a total of five weeks -- 2½ to obtain documentation and prepare a license application, plus 2½ processing time -- and no denials, does not represent too much of an inhibiting factor on the sale of U.S. products. This, however, is not true for during this average five-week period, neither we nor our customers know if approval will be forthcoming. Besides, in one-half the cases the delay is greater than five weeks. Under circumstances such as these, there is little wonder that many USSR and East European purchasers prefer to buy similar products from West European or Japanese manufacturers who face no licensing delays and who often can ship their products directly on receipt of an order.

The remaining 62 transactions involve products listed as "A" on the U.S. Commodity Control List, i.e., are subject to COCOM controls. To date, 40 of the 62 have been approved or denied, three have been returned with a request for more information, and nineteen are still under consideration. Ten of the nineteen have been submitted within the past month. Processing on the nine remaining has been underway over a time-span of from six to 21 weeks with both an average and a median at 14 weeks.

Of the 40 transactions which have been processed, twenty were approved or denied within five weeks. This rather short time interval suggests that processing was completed wholly within the Department of Commerce. Another six applications took from six to eight weeks to process and so may also have been exposed to inter-agency review. The remaining fourteen transactions took from eleven to twenty-five weeks to process with a median of fifteen weeks and an average of almost seventeen weeks. These transactions undoubtedly underwent the full Department of Commerce/inter-agency review process and many were probably sent to Paris for COCOM review as well.

If we look at the 40 approved or denied transactions as group, we find a median processing time of 5½ weeks and an average processing time of 8½ weeks. Adding an estimated 2½ weeks preparation time to these figures gives a total median delay of about eight weeks and a total average delay of about eleven weeks.

A further examination of the 5½ to 8½ week processing time is useful. This is a difficult task, however, for it is impossible for me to accurately determine the amount of time spent in various screening and policy determination activities within the Department of Commerce and in inter-agency review. We do know, however, that as a rule of thumb our competitors in the other COCOM countries allow approximately one month for a COCOM decision. If this is correct, I would think it safe to assume that the U.S. processing time on our 40 transactions ran between 3½ and six weeks.

If this estimate is correct, we can say that we, as a U.S. exporter, face an additional delay of at least one month in the processing of our U.S. export license requests for COCOM controlled products. It should be borne in mind that the figure of one month is an average and that in half the cases additional delays exceed a month, sometimes substantially. Similar delays do not hinder our competitors in the other COCOM countries whose governments go through very little, if any, screening process prior to exercizing their COCOM delegated licensing athority or to submitting license requests to Paris for COCOM review.

Delays of this type were not so important years ago when the U. S. had little interest in developing the market and, in addition, enjoyed a near monopoly of the products of high technology. This, however, is no longer the case. The United States is interested in developing the market and, as we all know, there are many competent competitors abroad. Under these conditions licensing delays of even one or two months can easily mean the difference between the sale of a U. S. product or a sale of a foreign product.

It is well to point out at this time that very few of our USSR and East European orders have been cancelled despite the fact that licensing delays of from two to three months and even more are common. This is probably because such delays are anticipated. Once a purchaser makes up his mind that the characteristics of a U. S. product are so unique or desirable that no other will do, he is prepared to wait for a decision. The real loss is in those orders which are placed on West European or Japanese firms rather than U. S. suppliers because delays for U. S. soul-searching cannot be tolerated or because of greater confidence in the ability of the foreign firm to deliver.

RECOMMENDATIONS

I believe the Export Administration Act of 1969 should be extended to 1975 as provided in Senate Bill 1487. In addition, I have two recommendations which I believe will speed up the licensing process and improve the determination and administration of export controls and, thus, increase the sale of U. S. products in the USSR, the Socialist countries of Eastern Europe and the People's Republic of China.

The first of these recommendations, designed to speed up the U. S. licensing process, might be accomplished through the inclusion of an additional lettered paragraph under Section 4 of the present Export Administration Act of 1969. This paragraph would be to the effect that:

> "The Secretary of Commerce, in conjunction with other U. S. government agencies to whom export control authority or responsibility has been delegated, shall, consistent with the other provisions of this Act, use all practical means available to expedite the processing of export license applications."

I believe the provisions of this new paragraph would encourage the Secretary of Commerce to speed up the processing of license applications by seeking an increased delegation of licensing authority to the Office of Export Control. This would require, of course, close coordination with the inter-agency review group and the establishment of additional guidelines.

I also believe that under this new paragraph the Secretary of Commerce and the responsible Congressional committees would be more inclined to see that adequate funds and other support are provided for the administration of export control activities. This includes the hiring and retention, within the Commerce Department, of an adequate number of technically qualified licensing experts. These experts should be encouraged to obtain a first-hand exposure to actual conditions by visiting, where possible, the areas subject to licensing controls. I believe that this personal knowledge will reduce the need for detailed, difficult-to-obtain, supporting end-use information and, in conjunction with the increased licensing authority of the Office of Export Control, will substantially speed the processing of export license applications.

My second recommendation is to provide improved liaison between the U. S. government and the U. S. business community.

This could be accomplished through the creation of a joint government/business committee (or committees) of technically competent people who, on a periodic and continuing basis, would review the unilateral U. S. and the COCOM controls and the government's program of administering them. I believe that such a committee (or committees) would serve to provide the business community with a clear, first-hand impression of the objectives of the U. S. government in exercising export controls. On the other hand, the business community would be able to contribute up-to-date information as to the state of U. S. technology and actual commercial conditions occurring in the various areas subject to controls. I believe the recommendations of the committee (or committees) would be especially effective in helping to chart the manner in which U. S. export controls are administered. In addition, the involvement of the business community in the basic problems and its participation in the resulting decisions would make the administration of the controls considerably more effective. Finally, the functioning of a technically competent joint government/business committee (or committees) would be of major assistance to the U. S. government in its review and updating of both the unilateral U. S. controls and the COCOM controls.

CONCLUSION

In the years that lie ahead Hewlett-Packard foresees a continued growth in the sale of peaceful goods to the USSR, the Socialist countries of Eastern Europe and the People's Republic of China. The success of our activities, however, is largely dependent upon a continuing interest by the U. S. government in East-West trade and by a relaxation of the major impediments to that trade. By this I am referring to

further reductions in obsolete or obsolescent unilateral and COCOM controls, the extension of medium term credits and, finally, the judicious extension of Most-Favored-Nation tariff treatment.

For these reasons and the continuing need to maintain controls over strategic goods -- goods which would significantly assist an enemy or a potential enemy in his ability to produce or use weapons of war -- we support extension of the Export Administration Act of 1969 to 1975 as provided in Senate Bill 1487. We also hope that consideration will be given to additional measures which would speed up the licensing process and improve the determination and the administration of the U. S. program of export controls.

Mr. Chairman, this concludes my formal presentation. On behalf of the Hewlett-Packard Company I wish to thank you and the members of the subcommittee for their attention and for the opportunity of being heard.

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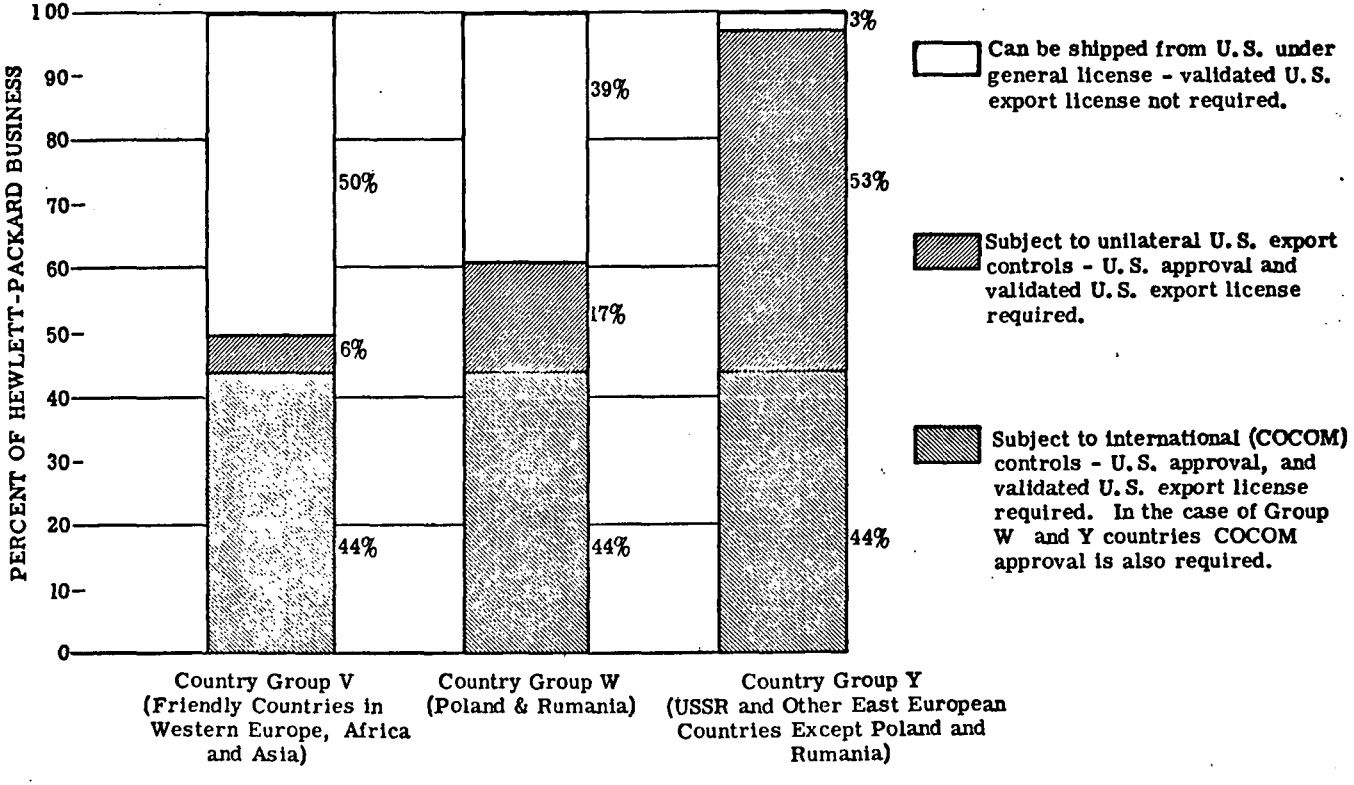
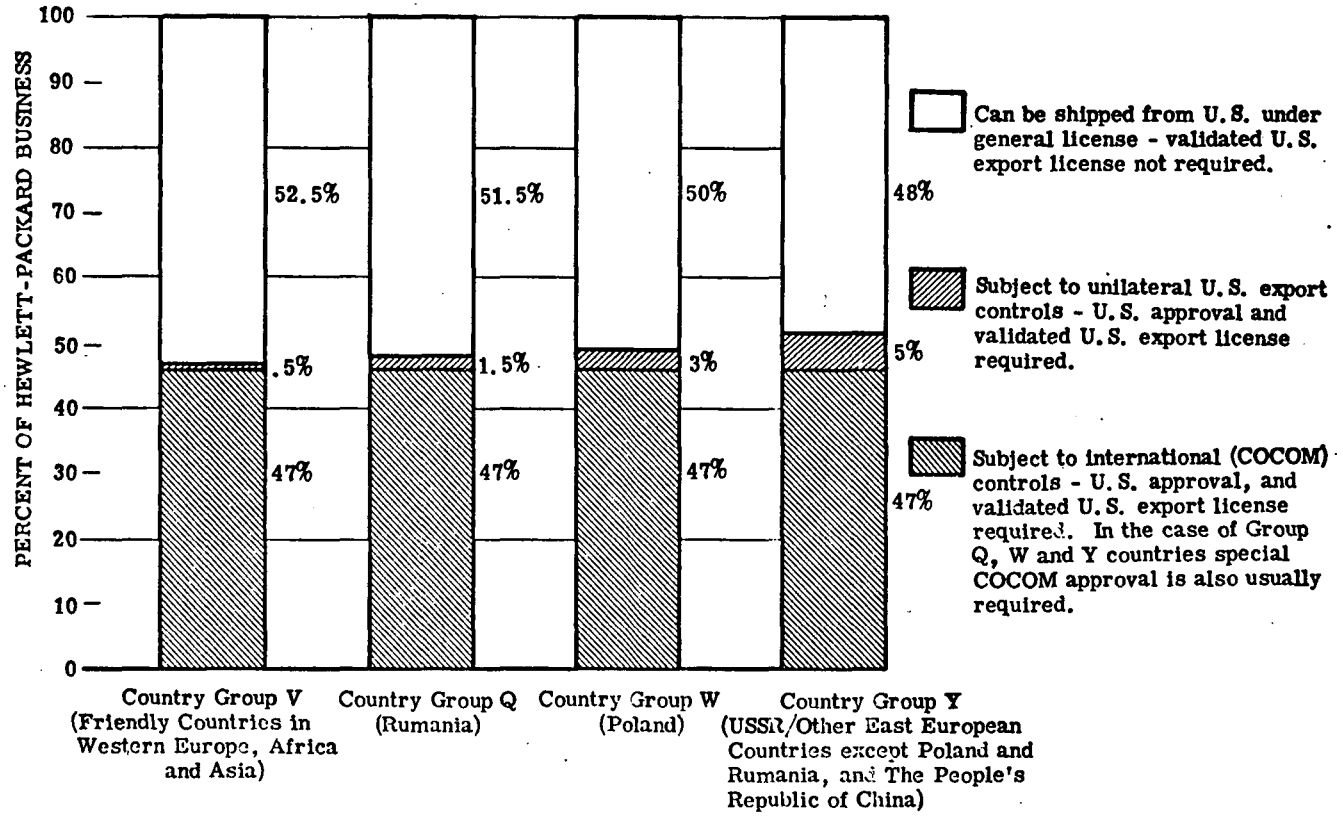


Percent of Hewlett-Packard business during first six months of Fiscal 1968 affected by international (COCOM) and unilateral U.S. export controls.

EXHIBIT I



Percent of Hewlett-Packard business during the six month period August 1971 - January 1972 affected by international (COCOM) and unilateral U.S. export controls.

EXHIBIT II

Exhibit III
November 29, 1971
Page 1 of 3

HEWLETT-PACKARD PRODUCTS
SUBJECT TO UNILATERAL U. S. EXPORT CONTROL
CATAGORIES B,J,D,E & F

CCL ENTRY NO.	BIC PROC. CODE	PRODUCTS CONTROLLED	
		MODEL NUMBERS	DESCRIPTION
723-3 B (ECB 50)	272	00501B, 00502B, 00506B, 00514B, 10120A, 10121A, 10122A, 10123A, 10124A, 10126A, 10127A, 10128A, 10132A, 10501A, 10502A, 10503A, 10507A, 10512A, 10516A, 10517A, 10519A, 11000A, 11001A, 11035A, 11086A, 11143A, 11500A, 11501A, 11508A, 15121A, 15122A, 15123A, 15524A, 15525A, 15539A, 15540A, 15543A, 15548A	Interconnecting coaxial cable assemblies -- with connectors and fabricated in specific lengths
7295-6a B (ECB 50)	612	3460B, 3462A	Digital Voltmeters
		3461A	Digital Voltmeter Plug-in
		2014A, 2014B	Digital acquisition systems
7295-14 J (ECB 50)	618	410B, 410BR, 410C, 411A, 411AR, 8405A	High frequency voltmeters
		11036A, 11040A, 11042A, 11043A, 11044A, 11045A, 1121A, 11544A, 11570A, 11576A	High frequency voltmeters accessories -- probes, dividers
		355C/D/E/F, 8750A, 393A	Attenuators
		774D, 775D	Coaxial dual directional couplers
		360A	Low pass filter
		18040A, 18041A	VHF radio equipment accessories antenna, RF probe
7295-24 J (ECB 47)	628	5201L, 5202L, 5203L	Nuclear scalers
		5583A, 5590A	Nuclear scaler plug-ins-- analyzer, scaler timer
		5554A	Preamplifier
		10630A, 10641A	Nuclear instrumentation accessories -- delay line, interface kit

Exhibit III
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CCL ENTRY NO.	BIC PROC. CODE	PRODUCTS CONTROLLED	
		MODEL NUMBERS	DESCRIPTION
7295-7 D (ECB 50)	618	5221A/B, 5300A, 5321A/B, 5330A/B, 5332B	Lower frequency counters
		5301A, 5304A, 5310A	Lower frequency counter plug-in
		10508A, 10533A, 10547A, 10548A	Lower frequency counter accessories -- decade extender, recorder, interface
7295-50 D (ECB 50)	418	302B, 501, 502	Vapor pressure & membrane osmometers
		18501A, 18502A, 18503A, 18504A, 18505A, 18506A, 18507A, 18508A, 18509A, 18510A, 18511A, 18512A, 18513A, 18514A, 18515A, 18516A, 18517A, 18518A, 18519A, 18520A, 18521A, 18522A, 18523A, 18524A, 18525A, 18526A, 18527A, 18528A, 18543A, 18544A, 18545A, 18548A, 18549A, 18550A, 18561A, 18562A, 18563A, 18569A, 18572A, 18573A, 18574A, 18575A	Vapor pressure & membrane osmometer accessories -- probes thermostats, syringes, temperature controllers, membranes,etc
7295-87 D (ECR 1 Jun)	418	2801A	Quartz thermometer
		2830A, 2831A, 2833B, 2850A, 2850B, 2850C 2850D	Quartz thermometer accessories temperature sensors, etc.
8619-57 E (ECB 50)	623	5582A	Nuclear Pulse linear amplifier

Exhibit III

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CCL ENTRY NO.	BIC PROC CODE	PRODUCTS CONTROLLED	
		MODEL NUMBERS	DESCRIPTION
7295-90 F (ECR 1 Jun)	418	508A/B/C/D	Tachometer generators
		5210B	Tachometer
		3800A/B, 3801A/B	Electronic distance meters
		11401A, 11410A/B, 11411A/B, 11412B/C/D, 11413B	Electronic distance meter accessories
		4905A, 4914A, 4916A, 4917A, 4918A	Ultrasonic translator detectors
		18002A, 18003A, 18006A, 18013A, 18014A, 18016A, 18017A, 18020A, 18021A, 18023A, 18024A, 18043A, 18100A, 18101A, 18103A	Ultrasonic translator detector accessories
		4329A	High resistance meter
		16008A	Resistivity cell for high resistance meter
		8051A, 8051P, 8052A, 8055A, 8056A, 8057A, 8062A, 8064A, 8065A	Audio test equipment - loudness analyzer, sound level recorder, octave filters, noise generator audio spectrum analyzer, etc.
		15108B, 15109B, 15114A, 15117A, 15118A, 15119C/D, 15124A, 15125A, 15127A, 15134A, 15142A	Audio test equipment accessorie microphones, microphone pre-amplifiers, microphone power supply, sound level calibrators
		5950A	ECA spectrometer
		8460A	Molecular rotational resonance spectrometer
		15170A	Piezoelectric accelerometer
86140-11 F (ECB 50)	218	195A, 197A, 198A	Oscilloscope cameras
		10352A, 10353A, 10354A, 10355A, 10356A, 10357A, 10358A, 10360A, 10361A, 10362A, 10363A, 10365A, 10367A	Oscilloscope camera accessories film backs, viewing hoods, beze adapters, carrying cases, etc.

Senator MONDALE. The next witness is Mr. Nicolaas A. Leyds, representative of the National Machine Tool Builders Association. You may proceed, Mr. Leyds.

STATEMENT OF NICOLAAS R. LEYDS, PRESIDENT, BRYANT CORP., SPRINGFIELD, VT., ON BEHALF OF THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION (NMTBA); ACCOMPANIED BY JAMES A. GRAY, EXECUTIVE VICE PRESIDENT AND EDWARD J. LOEFFLER, TECHNICAL DIRECTOR

Mr. LEYDS. Mr. Chairman, I am pleased to appear again before this subcommittee, which heard my testimony in March 1971 on legislation concerning the Export-Import Bank.

My name is Nicolaas A. Leyds. I am president of the Bryant Grinder Corp. in Springfield, Vt., which is a subsidiary of the Ex-Cell-O Corp. of Detroit, Mich.

I am here on behalf of the National Machine Tool Builders Association, and as chairman of its international trade committee.

With me is Mr. James A. Gray, who is the executive vice president of NMTBA, and Mr. Edward J. Loeffler, who is the NMTBA technical director.

NMTBA is a trade association representing over 300 American machine tool manufacturing companies. These companies account for approximately 90 percent of the U.S. machine tool production, and have manufacturing plants in 26 States.

The machine tool industry has a major and immediate interest in the system of export controls administered under the Export Administration Act of 1969.

Our experience with these controls over the past several years has convinced us that a complete overhaul of the system is required to avoid continued damage to U.S. industries, jobs, and export receipts.

U.S. export controls can and should be scaled down promptly to a level consistent with U.S. national security in the light of present-day realities.

Mr. Chairman, you have before you NMTBA's prepared submission to the subcommittee. It amounts to some 22 pages, and I think it might be an imposition on your time for me to read it all, since I know that it will be part of the record.

Accordingly, with your permission, I would like to summarize the prepared testimony, and then move forward to specific recommendations for action.

Senator MONDALE. We will include your full statement at the conclusion of your remarks, and we are much appreciative for that approach (see p. 183).

Mr. LEYDS. All right, sir.

In our statement, which you have, we point out that our world technological and trade balances have shifted radically since the end of World War II.

We point out how the American machine tool industry, which for years stood first in machine tool production and technology, has slipped to third place in production and in all respects faces substantial challenge from foreign competitors.

We point out how our export control policies work to the disadvantage of the U.S. machine tool industry.

We describe for the subcommittee's information the efforts that our industry has made to expand trade to the Soviet Union and the Eastern European countries.

We document our efforts, so far unsuccessful, to bring about significant decontrols of machine tools.

More than a year ago the Office of Export Control initiated a review of machine tool export licensing requirements. Our industry was encouraged to believe that many machine tools would be deleted from the categories requiring validated export licenses for shipments to the U.S.S.R. and Eastern Europe. We interpreted the 1969 act to require such decontrol for unilateral restrictions on nonstrategic equipment readily available from foreign sources. We therefore cooperated when it was suggested that the NMTBA provide data on the uses of various types of machine tools and their availability from sources outside the United States.

The association responded, devoting substantial staff time and expense to its presentation. Four detailed reports were submitted demonstrating that a wide variety of machine tools do not have significant strategic applications and are readily available outside the United States from sources not subject to U.S. export controls.

I regret that I must report that in a period of almost 1 year since the last of these reports was submitted not a single machine tool has been decontrolled.

We do not suggest that this lack of progress is simply the result of bureaucratic inertia. In part, it is undoubtedly due to limited manpower and funds available to the Office of Export Control and other agencies coupled with the increased export license application workload. Unfortunately, NMTBA's informal discussions with Government officials also lead us to the conclusion that at least a part of the problem lies in the lack of understanding outside the Commerce Department with regard to the advances made in machine tool design and production outside the United States.

It is against this background, as supported in our submission, that we make the following recommendations for action:

(1) DECONTROL OF UNILATERALLY CONTROLLED MACHINE TOOLS AND ACCESSORIES

Step No. 1 should be the prompt decontrol of all machine tools and accessories except those whose export presents a clear and significant threat to our national security. In this way, U.S. companies will no longer encounter the unnecessary risks, loss of time and expense involved in obtaining validated licenses for these items.

Experience shows that this decontrol effort will not be effective

unless Congress specifically directs its undertaking, prescribes the manner in which it will be done and provides the funds required to carry it out. The apparent intent of the 1969 act has not been carried out as it applies to unilateral controls on machine tools. To this end, we respectfully suggest that the Export Administration Act be amended to direct:

(a) That the Commerce department undertake with other interested agencies an immediate study to determine which unilateral export controls on machine tools may be removed without resulting in a significant threat to our national security. Sufficient manpower and funds should be provided for this study.

(b) That except in extraordinary circumstances any machine tool that is available to the U.S.S.R. or Eastern Europe from sources outside the United States should be decontrolled.

(c) That representatives of the U.S. machine tool industry be invited to participate in these studies, not only to furnish data, but also to exchange views with representatives of interested Government agencies. These industry participants should be included on joint technical committees consisting of Government officials and industry representatives. These committees could be appointed by the Secretary of Commerce.

(d) That priority be given in decontrol efforts to those U.S. machine tools for which there is a significant potential export market.

(e) That this review be completed in time to permit decontrol of appropriate machine tools subject to unilateral export controls not later than July 1, 1972.

(2) CRITICAL REVIEW OF THE U.S. POSITION ON THE SCOPE AND OPERATION OF THE COCOM EMBARGO

As noted, the Cocom multilateral controls operate in large measure to the disadvantage of the U.S. companies. The Cocom commodities are clearly of a more sensitive character in terms of our national security interest and so should not be decontrolled without careful analysis. Nevertheless, the United States should make an effort to rationalize this list and the administration of Cocom controls in the light of world conditions today. We suggest the following steps:

(a) The U.S. Government, after consultation with the U.S. machine tool industry, should take the initiative to remove from the Cocom list those machine tools that are not of direct strategic significance to the United States and its allies.

(b) The United States should take the initiative in developing criteria for the granting of Cocom exceptions that will be uniformly followed by Cocom to the end that any Cocom member, including the United States, may expect to receive nondiscriminatory treatment.

(c) The United States should adopt a policy of seeking exceptions to the Cocom list on request of U.S. companies consistent with such criteria.

(d) Commodities on the Cocom list shall be redefined after consultation with the U.S. machine tool industry to the end that all Cocom countries will interpret and apply the international embargo in the same way.

(3) FINANCIAL SECURITY FOR EXPORT LICENSING RISKS

Adoption of our recommendations would not end the necessity for securing validated licenses for many U.S. exports. One of the serious problems associated with these licenses is that they may expire, or may not be renewed, before the export transaction is completed. Nonrenewal or revocation may be due to circumstances beyond the control of the manufacturer, such as a change in foriegn relations. Many potential purchasers will not assume such a risk. In such cases, the risk falls on the manufacturer.

This problem is particularly critical for machine tool builders. The large potential machine tool orders from the U.S.S.R. and other East European countries frequently specify deliveries over an extended time well exceeding the normal 1-year export license validity period. And irrespective of the license period, the Office of Export Control reserves the right to cancel an export license at any time without prior notice. Severe economic hardship could befall a U.S. manufacturer in the event of such a revocation.

Insurance against such risks is available from the Export-Import Bank but currently not for sales to the U.S.S.R. and Eastern European countries other than Yugoslavia and Romania. The President can and should authorize Eximbank to provide insurance for the export licensing risk for sales to all countries. Moreover, we believe that legislation should be enacted so that this risk—that the U.S. Government will change its own mind—is insured without cost to the U.S. manufacturers.

Further protection could be provided by extending the initial validity period of export licenses to reflect the circumstances of an export transaction. In addition, it should be possible to enlarge the scope of export licenses to include authority to export replacement parts that may be required in the normal course of a machine's life.

Thank you for your attention, Mr. Chairman.

Mr. Gray, Mr. Loeffler and I will be pleased to answer any questions you may have concerning the machine tool industry's position on these important matters.

Senator MONDALE. Thank you, very much, Mr. Leyds, for a most interesting statement. I understand you just returned from a trip.

Mr. LEYDS. I just returned from an NMTBA trade mission to Poland, Mr. Chairman.

Senator MONDALE. Do you have industry-wide figures on the trade balance between the export and import of machine tools in international trade? How well are we doing in the machine tool business?

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Mr. LEYDS. Mr. Chairman, when I appeared before this committee last year, Senator Taft asked me a question about where we stood. Since then the "American Machinist," a McGraw-Hill publication, issued on January 24, 1972, an editorial, called "The Making of a Fourth Rate Power." This editorial lists the imports and exports of our country graphically.

Senator MONDALE. Are you talking now about machine tools?

Mr. LEYDS. About machine tools, Mr. Chairman, yes.

The United States, in the year 1970, produced in machine tools a total of $1,443 million, of which we exported $305 million, and we imported $131 million from all other countries. In 1971, our production rate for machine tools in this country dropped from $1,443 million to $980 million. During 1971 our exports were $264 million, and the imports were $96 million.

What happened, Mr. Chairman, is that the economic activity in this country went downhill over the past few years; we produced less machines. Fortunately we imported a few less machines, too, but the threat is there. The moment business picks up in this country, imports will pick up very considerably.

Senator MONDALE. What about the figures, if you have them, for machine tools sales into Eastern Europe.

Do you have those?

Mr. LEYDS. Mr. Chairman, I cannot guarantee the accuracy of these figures, because these reports are not as clear as ours.

Our exports to the U.S.S.R. in 1969, of machine tools were $12.6 million. In 1970, it was $5.9 million; and in 1971 it was $13.6 million. Those are the exports from the U.S. machine tool industry.

Senator MONDALE. Do you have overall figures into Eastern Europe?

Mr. LEYDS. Total for Eastern Europe?

Mr. Chairman, we do not have these figures, but we have another set of figures here which we call consumption, that is, the production of machine tools, plus the imports minus the exports. Those are the machine tools that are actually put to work in that country. Those figures show that for the Soviet Union, in 1971, total consumption was $1,260 million and for the United States, it was $812 million.

So, we were fourth in consumption of machine tools, and as I mentioned before, third in production of machine tools. That is the first time in history that has happened.

Senator MONDALE. We might take that document and put it in the record at this point.

(The information follows:)

WORLD MACHINE-TOOL PRODUCTION AND TRADE

[Millions of U.S. dollars]

Country	1971 estimated					1970 revised				
	Production			Trade		Production			Trade	
	Total	Cutting	Forming	Export	Import	Total	Cutting	Forming	Export	Impor
1. West Germany	$1,820.0	$1,230.0	$590.0	$920.0	$210.0	$1,479.0	$1,018.4	$460.6	$800.4	$212.5
2. Soviet Union	1,160.0	865.0	295.0	[1] 96.0	[1] 196.0	1,073.0	803.0	270.0	86.7	145.5
3. United States	980.0	662.0	318.0	264.0	[1] 96.0	1,443.1	992.9	450.2	305.1	131.8
4. Japan	912.0	722.0	190.0	100.0	132.0	1,109.4	867.4	242.0	90.9	160.6
5. United Kingdom	465.0	367.0	98.0	220.0	122.0	476.9	378.5	98.4	206.2	134.2
6. Italy	423.0	338.0	85.0	179.0	169.0	433.6	346.9	86.7	190.8	123.8
7. France	387.0	273.0	114.0	133.0	224.0	316.5	240.5	76.0	116.5	193.3
8. Czechoslovakia	275.0	230.0	45.0	136.0	68.0	250.0	210.0	40.0	122.0	66.0
9. Switzerland	266.0	226.0	40.0	218.0	40.0	242.0	206.0	36.0	198.0	51.5
10. East Germany	260.0	193.0	67.0	202.0	60.0	252.3	185.7	66.6	196.2	58.5
11. Poland	145.0	132.0	13.0	57.0	90.0	123.0	112.0	11.0	46.0	97.0
12. Spain	98.0	83.0	15.0	33.0	49.0	88.6	77.5	11.1	29.5	56.2
13. Sweden	79.0	51.0	28.0	54.0	78.0	66.0	43.0	23.0	44.8	61.0
14. China	58.0	43.0	15.0	3.0	32.0	52.0	----------	----------	3.0	40.0
15. Hungary	47.3	[1] 44.3	[1] 3.0	28.0	28.0	44.6	[1] 41.6	[1] 3.0	29.2	27.7
16. India	45.0	42.5	2.5	4.1	24.0	31.2	29.3	1.9	3.7	24.0
17. Belgium	37.4	17.7	19.7	33.1	40.3	33.9	16.3	17.6	30.5	36.5
18. Canada	37.0	22.0	15.0	24.0	90.0	34.9	21.1	13.8	20.4	143.5
19. Yugoslavia	36.3	29.0	7.3	12.0	25.5	26.0	22.5	3.5	5.5	16.5
20. Brazil	34.4	20.0	14.4	3.0	37.7	33.8	19.6	14.2	4.6	34.6
21. Argentina	34.3	19.1	15.2	2.1	32.0	32.4	18.0	14.4	2.0	36.9
22. Netherlands	33.7	21.1	12.6	27.2	51.1	29.7	18.5	11.2	24.1	44.8
23. Austria	28.1	12.9	15.2	20.7	52.7	25.4	11.6	13.8	21.5	28.5
24. Bulgaria	26.9	24.6	2.3	18.9	36.3	23.0	21.0	2.0	16.0	31.0
25. Australia	[2] 23.9	[2] 6.8	[2] 17.1	[2] 2.9	[2] 39.4	[2] 22.5	[2] 6.2	[2] 16.3	[2] 2.7	[2] 27.9
26. Romania	[1] 22.8	[1] 20.8	[1] 2.0	[1] 6.5	34.2	17.0	15.5	1.5	5.5	29.0
27. Taiwan	16.0	9.5	8.5	4.0	10.0	14.2	7.9	6.3	3.1	9.8
28. Denmark	15.3	10.1	5.2	12.5	13.0	14.7	9.1	5.6	11.4	12.7
29. South Africa	[3] 7.0	[3] 3.0	[3] 4.0	0.3	[3] 53.6	[3] 7.2	[3] 3.3	[3] 3.9	0.6	[3] 43.2
30. Mexico	[1] 5.0	----------	----------	[1] 0.1	67.0	[1] 5.0	----------	----------	[1] 0.1	65.0
31. Portugal	3.1	1.7	1.4	1.5	8.5	2.8	1.5	1.3	1.4	7.6
Total	7,781.5	5,720.1	2,056.4	2,815.9	2,209.3	7,803.7	4,744.8	2,001.9	2,618.4	2,150.4

[1] Rough estimate from fragmentary data.

[2] Year ended June 30.

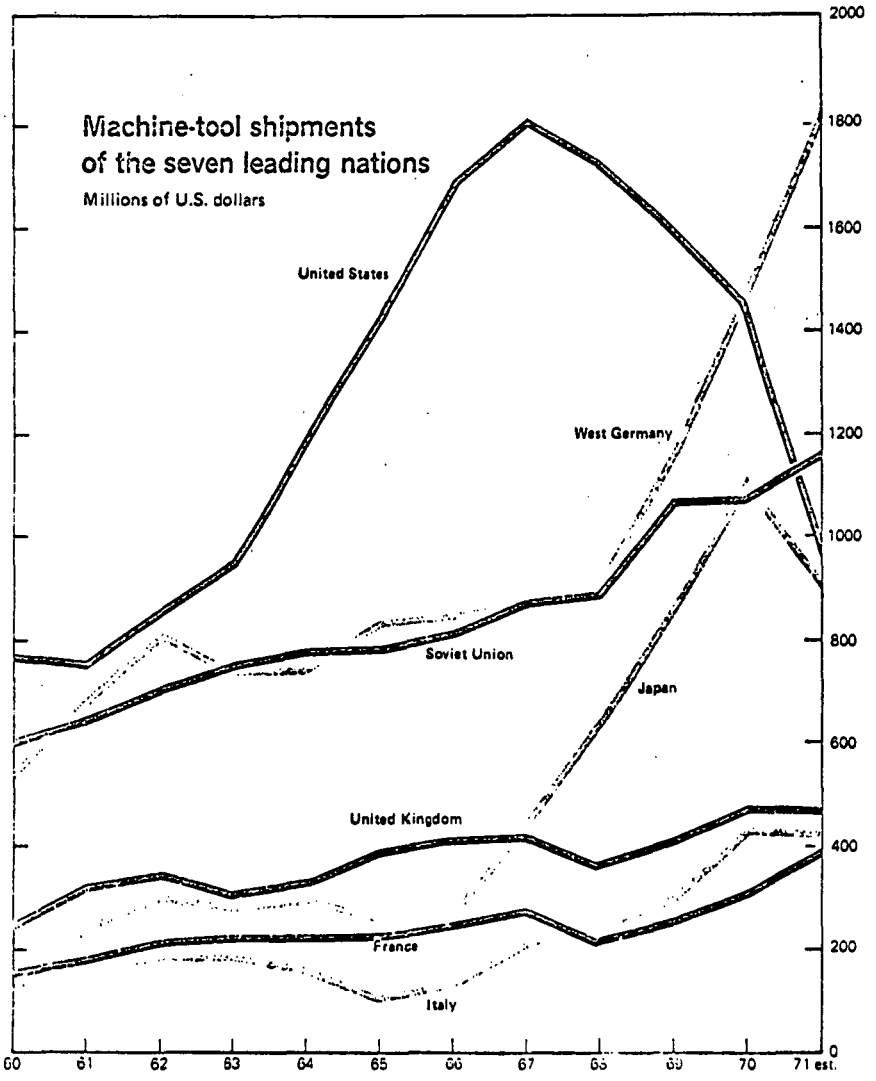
[3] Imports for South Africa include machines reexported to other nations. These amounted to $1 million in 1970 and $1.9 million in 1971.

NOTES.—*Trade statistics are based on exports and imports of machine tools only. They do not include parts and attachments.*

Changes in the relative values of currencies complicate the problem of assembling meaningful data and no one method of calculating exchange is entirely satisfactory. In the table above, 1970 figures have been converted to U.S. dollars at the rates for commercial transactions prevailing in 1970; the 1971 estimates have been converted at approximate averages of the rates prevailing in 1971. A different comparative picture for some countries would occur if the 1970 data were converted at 1971 exchange rates as follows (millions of U.S. dollars in the same order as the columns above):

West Germany	1,592.1	1,096.3	495.8	861.5	228.5
United Kingdom	486.8	386.4	100.4	210.5	136.9
Italy	440.6	352.5	88.1	193.9	125.8
Switzerland	276.0	234.5	41.5	224.4	59.1
Spain	92.1	80.6	11.5	58.4	30.7
Belgium	35.0	16.9	18.1	31.4	37.6
Netherlands	31.2	19.4	11.8	25.2	47.2
Austria	27.5	12.6	14.9	23.3	30.9

Source: American Machinist.



Source: American Machinist

LEADING MACHINE TOOL CONSUMERS—(CONSUMPION=PRODUCTION+IMPORTS−EXPORTS)

[Millions of U.S. dollars]

Country	1971	1970
1. Soviet Union	$1,260	$1,132
2. West Germany	1,110	891
3. Japan	942	1,079
4. United States	812	1,270
5. France	478	393
6. Italy	413	467
7. United Kingdom	367	405
8. Czechoslovakia	207	194
9. Poland	178	174

Senator MONDALE. Did you want to ask any questions?

Senator TAFT. Yes, Mr. Chairman. Thank you, very much.

Referring specifically to page 18 of your testimony, relating to the suggestion that the Export Administration Act be amended to direct various things. Let us take them one by one.

First, you say that the Commerce Department undertakes a study to determine what unilateral export controls on machine tools may be removed without resulting in a significant threat.

Is legislation necessary to do that?

Mr. LEYDS. Maybe a recommendation from your subcommittee might do the same job.

We believed that it was possible to do it without legislation. But, as we pointed out, a year ago we submitted studies, and nothing has happened, so some prodding might be necessary.

Senator TAFT. You do go on and say sufficient manpower and funds should be provided. Do you feel that they are not being provided today?

Mr. LEYDS. Apparently not, Senator.

Senator TAFT. Now, with regard to the second recommendation, that any machine tool available to the U.S.S.R. or Eastern Europe from outside sources should be decontrolled: As to this type of equipment how much of it is under the Cocom list?

Mr. LEYDS. None of this is under the Cocom list. These are the unilateral machines.

Senator TAFT. The productability, I take it, generally is a limited one, and the question I have with regard to this statement is whether or not there is not a practical restriction from the point of view of lack of productive capacity elsewhere. Even though one machine might be available, a series of them might not be. Is this a valid question?

Mr. LEYDS. I think, Senator, it used to be felt that was the case in the past, but not anymore today. The number of machine tools produced by nations other than the United States is very large. For instance, just having come back from Poland, I stopped on the way back in Paris. I picked up some information on shipments to the People's Republic of China. I have heard that the Swiss have just shipped a hundred machining centers to the People's Republic and are preparing a second shipment for a hundred and fifty machines. Those are quantities that we are not even talking about at this time.

They are way ahead of us.

Senator TAFT. How do we handle the definition problem? I mean, two machine tools, I realize, can do the same thing, but are not necessarily the same machine. How are you going to handle that?

Mr. LEYDS. I think, Senator Taft, that is where the people from industry could help the Commerce Department by sitting down and giving these definitions. We could show them, as we have done in these studies, here is an American-built machine, with such-and-such controls, it is able to do so-and-so, here are the catalogs of the German and the Japanese and the Swedish machines, and they can do the same thing. We have seen those machines in the various plants that we visited behind the Iron Curtain.

One thing, for instance, talking about Cocom machines, Switzerland does not belong to the Cocom embargo and neither does Sweden. I understand that the Japanese have said if certain items are not taken off the Cocom list, they plan not to belong to Cocom anymore.

Senator TAFT. When would that become effective?

Mr. LEYDS. As I understand, there is a review of machines on the Cocom list right now.

Senator TAFT. How long is the commitment of each nation under Cocom?

Mr. LEYDS. I could not tell you that, sir. I do not have the answer to that.

Senator TAFT. I do not recall whether Scott's testimony yesterday covered that point or not.

Senator MONDALE. No; he did not.

Senator TAFT. If not, I think we have a right to ask him.

Senator MONDALE. I would ask the staff to prepare a letter for us to get that information.

Senator TAFT. Next you say that representatives of the U.S. machine tool industry should be invited to participate in these studies.

Again, this is certainly something that could be done without legislation, is it not?

Mr. LEYDS. I agree, Senator Taft, but a little bit of prodding might help.

Senator Taft. Then the next one is that priority be given in decontrol efforts for U.S. machine tools where there is a potential export market.

I would hope this is already being done.

Do you feel that it is not being done?

Mr. LEYDS. Not to our knowledge, Senator, it is not. Actually, we have noted no reaction—the list was submitted in March 1971, and we have not seen anything decontrolled.

Senator TAFT. Have there been any discussions with the new Secretary of Commerce in this regard by representatives of your industry?

Mr. LEYDS. Mr. Gray, our executive vice president, can respond to that.

Mr. GRAY. Senator, we had a meeting with the interagency committee and for the first time some of the people realized that the studies were available.

I would like to go back for a moment to your earlier question, about whether or not there was a capability for the production of machine tools in other countries. There are 1,600 machine tool companies in the free world. The studies that we have made indicate the names of the companies that produce comparable machines to those built in the United States, the country from which they are available, the size, either by employment or production. We have tried to indicate, based on the inventory of machine tools in the United States, the extent to which these machines may have some military relationship, that is, they are in ordnance shops and so forth. But

none of the machine tools have ever been decontrolled from the unilateral list.

Senator MONDALE. Not a single one?

Mr. GRAY. Not a single one to my knowledge.

Senator MONDALE. Would you yield?

Senator TAFT. Yes.

Senator MONDALE. I cannot help but be mystified by the contrast between the witness we just heard on electronics, which apparently they are quite pleased with the direction, and the negative kind of report you are giving on the machine tools.

Is there some explanation for the difference?

Mr. GRAY. Senator, we are just as puzzled as you are in view of the fact that the reports that we have submitted have been granted by the Commerce Department to be the most thorough reports in this area that have ever been submitted.

Senator TAFT. What about the control equipment on these machines? Is this the problem? Is it actually the machines themselves? Why have you run up against the unilateral control problem? Why do you continue to run up against it? Is the feeling of those who are ruling on it clear enough to know whether you are relating to control equipment primarily, or if you are relating to the basic machines?

Mr. GRAY. The machines that are on the unilateral are, generally speaking, of a general purpose nature. There is one basket category, and as I recall, the heading says machine tools not otherwise or elsewhere classified. That is the largest category, of course.

It reads exactly, "other metalcutting and metalworking machines and machine tools."

Senator TAFT. To what extent are you actually getting turned down on any applications in this regard?

Mr. GRAY. Do you want to respond to that?

Mr. LEYDS. Some export licenses have been issued, particularly for the truck plants in the U.S.S.R. They are still in the nature of what I would like to call a "hunting license." The figures that have been published in the press are somewhere near a total amount of $1.5 billion dollars. This is far too high. Very few of the companies have an order. But in order to negotiate, they all applied for an export license at this time. So this figure may have to be cut down to one-quarter.

After that comes the actual negotiation for the order. Next, of course, is the financing.

The thing that at this moment concerns us most with respect to customers is the time it takes to have those export licenses handled. In those countries, and the same is true in our country, too, if you have a plan to build a factory somewhere, you have a schedule in order to do it. You go around to your suppliers and you lay out by the critical path method what machines you want and when.

If we have a customer, he says, we want a number of machines from you to replace these. We say, well, we will think it over and let you know in half a year. He will leave our office fast and go to a competitor.

This is much stricter in countries that have an economy that is completely directed like in the Eastern European countries and in the U.S.S.R. They must conclude the plan in a certain time. If they have any doubts about the length of time it will take us to get an export license, whether or not we will get it, they simply say we are not going through this agony—we are going to Japan.

I am reluctant to bring up the details of a case in which we were involved some 10 or 11 years ago with the U.S.S.R. I went last year on the first mission of NMTBA to the U.S.S.R. and I talked to the people in the Government who knew of the case and they were gun shy. They said this has happened to us; a license was withdrawn at one time and it hurt us some because we had to find another supplier. They said everyone in this office who has to put a signature on a contract thinks very deeply because he may not have his job if something like this happens again.

Senator TAFT. So what you are saying is that you don't have any figures with regard to the export licenses that have been turned down because they would be meaningless if you did.

Mr. LEYDS. Correct.

Senator TAFT. Because the loss occurs before you ever get to that point.

Mr. LEYDS. Senator, we have to overcome the sins of our fathers so to speak, and this takes time. We have to establish through hearings, which your subcommittee is holding here, the fact that we are a reliable supplier. We can't be wishy-washy about it. If we want to do business in this world, and I think we have to participate in this business in order to keep America strong, we must eventually work ourselves up so that our customers can say, yes, if I go to this company, they will get an export license. It has to be spelled out exactly what they can and cannot get, very precisely, and all of the Cocom countries have to interpret it in the same manner.

The difficulty, too, is in interpreting the definition of certain machines on the Cocom list.

Senator TAFT. Do you feel that price is a bigger factor than the export license problem?

Mr. LEYDS. No; price, of course, is a problem. I think the devaluation of the dollar has helped us some in connection with suppliers such as West Germany. But we have heard from people who have used our machines, and they are still running in three shifts. They like American machines. They are willing to pay an extra price for them. How much depends on proper negotiations and how much we are still ahead. But basically, they like American machines. They stand up three shifts. We have been told that by plant managers, both in the Soviet Union and in Poland.

Senator TAFT. I suppose there is sort of an inverse ratio between the desirability of the particular machine because of the advanced nature of its design and whether or not you have a national security aspect involved in decontrolling it; is that correct?

Mr. LEYDS. That is right, sir.

Senator MONDALE. Would you yield there?

Senator TAFT. Yes.

Senator MONDALE. Your industry made a study and submitted it to the Export Administration Act as to this whole unilateral control problem; is that correct?

Mr. GRAY. We selected certain types of machines, some 50 machines, that we said ought to be decontrolled because these machines can be purchased in other countries.

Senator MONDALE. Is it your testimony that for all practical purposes those machines available in other countries are identical or so nearly identical that there is not a significant difference?

Mr. GRAY. Exactly.

Senator TAFT. That includes controls.

Mr. GRAY. These aren't numerically controlled machines. These are the standard general-purpose-type machines.

Senator MONDALE. Can you give me an example of the typical machine that we control which is available in fact elsewhere?

Mr. GRAY. Lathes, milling machines, boring machines, and single-spindle, automatic-chucking lathes.

Senator MONDALE. Are those clearly available anywhere?

Mr. GRAY. There are 14 manufacturers of single-spindle, automatic-chucking lathes in this study from different countries. For G. Minganti & C. in Italy, for example, we give the number of employees and their annual sales.

Senator MONDALE. In your opinion, is that machine almost identicaly equivalent with what we produce?

Mr. GRAY. Certainly; yes, sir.

Senator MONDALE. I don't understand what we get out of that.

Senator TAFT. I don't either. I would like to get back just to cover the control question fully.

Are you talking about running these machines with the same type of controls? Are the controls available if they make a purchase abroad as compared to if they make a purchase in the United States?

Mr. LEYDS. Senator, controls are available from West Germany, which are closed loop and which are contour controls. Controls are available from other countries and SAAB, the Swedish company, as you know, is very advanced in controls.

Mr. Gray and Mr. Loeffler were invited specifically in Poland to see their control facilities, and maybe you would like to elaborate on that, Jim.

Mr. GRAY. I will in just a moment.

I want to make it clear that the studies that we submitted, first, deal with the more or less standard general-purpose-type equipment. We did not get into the sophisticated machines because we felt if we couldn't get any place here, there was no sense in spending a lot more time and money on the more sophisticated equipment.

We gathered catalogs from over 350 foreign machine tool builders. We submitted these catalogs to document the fact that these foreign companies build comparable machines.

Now, the invitation to visit the research center in Poland was unusual. It was extended to us the night before we left in order to permit us to view the work that they are doing in the development of their own numerical control systems.

We were quite impressed with the laboratory. It was on a par, I believe, with ENIMS, the research center that we saw in Moscow. The equipment that they had was quite good. And they have de-

veloped their own point-to-point numerically controlled system, and the continuous path system.

Senator MONDALE. What you are talking about in the list that you submitted to the Export Administration Office is a list of machines? You are not talking about the control systems even, are you? Or are you talking about controls, too?

Mr. LOEFFLER. In this particular instance the controls are relatively simple. The machines that we are talking about are the general purpose machines requiring the use of standard electrical relays, motor starters, and that type of device. They do not incorporate any of the electronic equipment except for perhaps in a few cases of large spindle drives and that type of variable speed motor drives.

So the controls in the particular list submitted are standard, off-the-shelf items obtainable anywhere in the world. The machine can be built with American controls or European controls, it makes no difference. It is not a numerical control in any sense of the word.

Senator MONDALE. Can you speculate with us why this is so?

Mr. LEYDS. Mr. Chairman, it might be speculation, but I think to begin with in today's world each country which wants to be an economic power must have a proper base for machine tools.

Machine tools are used to manufacture anything under the sun including textile machines, typewriters, airplanes—almost everything. I think it has been shown that countries who want to become economic powers in this day and age have given very great importance to the development of their machine tool industry.

So in this respect, I would say that machine tools are a sensitive area because it is the basis for building economic power. And to give you an example, for instance, in a country such as Poland, there is a minister who is the head of the Ministry of Machinery. He has a cabinet position. We have had an audience with him.

The second thing, and this is some speculation, is this: that some 10 or 11 years ago a case happened in which one of the members of the association was involved; it got into the emotional area and it got very rough. I think since then, and possibly rightly so, some of the people who have to pass on export of machine tools remember those days and are very, very, very careful about it. Maybe they want the problem to go away by just dragging their feet.

This is speculation to some extent, and I think there is some basis for it.

If I may add, Senator, I think that in some electronic equipment, and I heard part of the testimony of the gentleman who was here before me, some of this may be more in the way of a consumer article, that it is used for a certain purpose. It cannot be used to make other machines.

This is the basic idea of machine tools. Machine tools can reproduce themselves. Anything can be made on machine tools. So it is really the most basic tool to make a country economically strong. It is an absolute necessity.

Senator MONDALE. Thank you very much for your statement.

Mr. LEYDS. Thank you, Mr. Chairman.

(The full prepared statement of Mr. Leyds follows:)

STATEMENT OF NICOLAAS A. LEYDS ON BEHALF OF THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION

My name is Nicolaas A. Leyds. I am President of Bryant Grinder Corporation in Springfield, Vermont, which is a unit of Ex-Cell-O Corporation of Detroit, Michigan.

I am appearing before this subcommittee on behalf of the National Machine Tool Builders Association (NMTBA) and as Chairman of NMTBA's International Trade Committee. With me is James A. Gray, who is NMTBA's Executive Vice President. NMTBA is a trade association representing over 300 American machine tool manufacturing companies. These companies account for approximately 90 percent of United States machine tool production and have manufacturing plants in 26 states.

The machine tool industry has a major and immediate interest in the system of export controls administered under the Export Administration Act of 1969. Our experience with these controls over the past several years has convinced us that a complete overhaul of the system is required to avoid continued damage to United States industries, jobs and export receipts. United States export controls can and should be scaled down promptly to a level consistent with United States national security in the light of present-day realities.

In brief, we urge Congress to enact appropriate amendments to the Export Administration Act or take other necessary action to bring about the following results:

(1) Prompt removal of unilateral export controls on those machine tools and accessories that do not have significant military applications or that are readily available from non-U.S. sources. Machine tools for which there is a present, significant export potential should receive priority for decontrol action, such as machines to manufacture non-strategic products, including automobiles, farm equipment and consumer goods.

(2) Re-examination—by government and industry acting together—of the United States position with respect to products on the multilateral COCOM embargo list, to prevent the COCOM list from unnecessarily penalizing export opportunities of United States companies.

(3) Providing effective financial security to United States companies—by the Export-Import Bank or otherwise—for risks relating to the possible cancellation or non-renewal of required export licenses.

I. THE MACHINE TOOL INDUSTRY AND EXPORT CONTROLS TODAY

Our recommendations are made in the light of today's economic, technological and political realities. These realities are far removed from the conditions that existed in the period after World War II when broad-scale United States and multilateral export controls were first imposed. In 1945, the United States had a vast lead, approaching a monopoly, in both production capacity and technology. The factories of Europe, both East and West, had been destroyed by six years of warfare. Japan had not yet emerged as a major world industrial power.

Today's economic world bears little resemblance to that of the late 1940's. Western Europe and Japan rival the United States in almost every product, from automobiles to highly sophisticated machinery. The Eastern European countries have made great progress. Trade between Eastern and Western Europe flourishes, largely free of governmental restraints.

Nowhere are these global changes since World War II more graphically demonstrated than in the machine tool industry. Machine tools cut and form metal. They are the "master tools" of industry—the machines required to produce all others, the only machines that can literally reproduce themselves. Every industrial nation's economic strength depends on machine tools.

In the period following World War II, under the Marshall Plan and other assistance programs, U.S. companies furnished Western Europe and Japan with the machine tools essential to rebuild their industrial plant and economies. In time, these countries developed their own sophisticated, modern and efficient machine tool industry. During this same period, fostered in part by restrictions on our exports of machine tools, the Soviet Union and Eastern European countries developed their machine tool industries.

According to figures in the *American Machinist*, United States production of machine tools accounted for 31 percent of world output in 1967. By 1971 our output had dropped to below 13 percent of the world total. During 1971 the U.S. machine tool industry dropped for the first time to third place behind West Germany and the U.S.S.R., in the world ranking of value of machine tool equipment produced. Western Europe now produces nearly 50 percent of the world's machine tools. West Germany alone produces 23 percent of the world total.

The United States system of export controls has obviously failed to keep pace with these changing economic and technological realities. This failure has contributed importantly to the decline of the relative importance of this country in world machine tool production and machine tool exports. This failure has made a significant contribution to the present depressed state of our domestic machine tool industry with consequent loss of jobs and income. This failure further reduces the U.S. balance of trade and serves to increase our balance of payments deficit.

The U.S. machine tool industry has supported and will continue to support limitations on the export to any country of machine tools that would afford significant military or strategic advantages not otherwise available and contrary to U.S. national security. However, we oppose trade controls that go beyond that purpose, that hamper the export of non-strategic machine tools to the detriment of the U.S. balance of payments, industrial production and jobs, and that are ineffective because other industrial nations supply the equipment that we cannot.

II. THE COMPETITIVE DISADVANTAGES CREATED BY MULTILATERAL AND UNILATERAL EXPORT CONTROLS

The export controls imposed under the Export Administration Act may be divided into two categories:

First, certain types of machine tools that the United States, its NATO allies (except Iceland) and Japan have agreed not to furnish to certain countries without prior consultation and agreement through a coordinating committee known as COCOM;

Second, those machine tools that the United States, as a matter of its own national policy, will not permit to be exported to the Soviet Union, Eastern European countries and the People's Republic of China (and in some cases to free world countries), without a validated export license on application by the exporter. Virtually all U.S. machine tools for which there is a significant export demand that do not fall into the first category fall into the second category. Both categories operate to the disadvantage of the U.S. machine tool industry.

(A) *Multilateral Export Controls through the COCOM.* We believe the United States has consistently taken a conservative stance in COCOM negotiations. We also believe that some COCOM countries interpret and administer the international embargo list far less restrictively than the United States.

In the periodic review of changes in the COCOM list it appears that the United States has been reluctant to approve deletions. If U.S. technology lead times were still measured in years, as they were in the late 1940's and early 1950's, and if all the items we denied to the U.S.S.R. and Eastern Europe were important strategically, this policy might be defensible despite its detrimental effect upon the U.S. machine tool industry. But lead times in many instances are now measured in months, not years. In many cases, new technology relates to product refinements, such as greater production or accuracy, rather than new concepts. As a result, the COCOM controls in large measure put the U.S. machine tool industry at a disadvantage—with the result that a potential market is lost to U.S. machine tool builders.

(B) *Unilateral Export Controls by the United States.* The United States unilateral controls present even more serious problems. The machine tools subject to these controls include virtually all machines not on the COCOM list. They are, however, available without licenses from our West European and Japanese competitors. No other country controls shipments of these machine tools to the U.S.S.R. or Eastern Europe. Indeed other governments positively encourage such shipments in many cases. Moreover, Western Europe

and Japan are competitive in almost all machine tools subject to unilateral U.S. export controls.

In these circumstances unilateral U.S. controls are largely ineffective in denying these machine tools to the U.S.S.R. and Eastern Europe. This Subcommittee reached this same conclusion in 1969. We agree with the statement in your report on the bill which became the Export Administration Act that "for the United States to attempt to unilaterally control the export of goods which are freely available from other sources is both futile and useless." Unilateral U.S. controls put our industry at a major competitive disadvantage. That disadvantage looms very large in the light of present economic conditions. The United States has just recorded the first trade deficit of this century. We have suffered a staggering balance of payments deficit. Large scale unemployment persists.

The domestic machine tool industry has felt the full impact of these economic conditions. Production and new orders for machine tools have declined sharply over the past five years. By the end of 1971 backlogs had dropped 66 percent below the 1966 level. Profit margins averaged less than two percent of shrunken sales in 1971 and are likely to be even lower this year. Many machine tool companies sustained severe losses in 1971.

Historically exports have constituted an important market for domestic machine tool manufacturers. Even though in 1971 exports accounted for more than 25 percent of domestic production, we must export far more to restore a healthy domestic industry. Our opportunities to increase exports are increasingly limited in Western Europe and Japan with the growth of their own machine tool capacity and the recent slackening of demand in that market. The Soviet Union and Eastern Europe, however, are potentially rich export markets for U.S. machine tools.

The U.S.S.R. and Eastern European agencies responsible for purchasing machine tools recognize the reliability, long life and low maintenance costs of U.S.-built machines based on their experience with U.S. machines dating back to the Lend Lease Program and even the 1920's. Accordingly, our industry is engaged in a major effort to sell machine tools to the U.S.S.R. and Eastern European countries. U.S. machine tool builders have individually approached Soviet and Eastern European machine tool purchasers seeking their business. In addition, NMTBA has recently undertaken several trade missions to provide additional sales opportunities for our industry in these countries. These missions were Industry-Organized—Government-Approved (IOGA).

NMTBA conducted its first machine tool IOGA trade mission to the U.S.S.R. and Hungary last spring. The thirty members of the mission included representatives of fifteen U.S. machine tool companies, staff of NMTBA and an official of the U.S. Department of Commerce. During their stay in Moscow, the U.S. machine tool representatives described their respective companies and products to an assembly which Soviet officials estimated to include over 600 engineers and other interested personnel. Each company's representatives met with officials of Soviet foreign trade organizations interested in particular products lines to discuss the capabilities of specific machines. During these sessions, Soviet officials gave the companies requests for quotations for U.S.-built machine tools that totaled more than $50 million. The potential business for the industry in the U.S.S.R. may exceed these initial requests for quotations by a factor of, at least, 30. In addition to discussing prospective sales of their equipment, mission members visited the Experimental Scientific and Research Institute of Machine Tools, which is the leading metal cutting machine tool development center in the U.S.S.R., and a number of Soviet facilities which use machine tools.

In Hungary, part of the NMTBA trade mission was welcomed by the Hungarian Chamber of Commerce and spent the bulk of its time with representatives from Technoimpex, which purchases most of the foreign-built machine tools acquired for Hungary. Representatives of U.S. machine tool companies who joined the mission to Hungary received a number of requests for quotations for U.S.-built equipment. The mission members visited the Ikarus Body and Coach Building Works, reputed to be the largest bus manufacturing facility in Europe, and the plant of Csepel Machine Tool, which plans to exhibit equipment in NMTBA's 1972 Machine Tool Show in Chicago.

In September, 1971, NMTBA sponsored a second trade mission to the Soviet Union, in which 20 U.S. machine tool companies participated. Many of the company representatives returned with requests for quotations on specific machine tools. The mission also brought back other requests for quotations for types of equipment not manufactured by companies represented on the mission.

NMTBA has just completed its first trade mission to Poland. I participated in that trade mission and returned at the end of last week. This latest mission included representatives of 11 machine tool companies, who spent ten working days in Poland. During our stay in Poland, we met with officials of Metalexport, the Polish importer of foreign-built machine tools. In Warsaw, we visited the F.S.O. Automobile Factory and the Ursus Tractor Factory. We were also privileged to visit the Polish research and development laboratories for the machine tool industry. We traveled to Poznan and Katowice to meet with Polish machine tool purchasers. Our mission concluded with additional meetings in Warsaw with representatives of Metalexport and also Motorprojekt, which is the state enterprise that consults in planning Polish automotive production. Finally, members of the mission had an audience with the Polish Minister of the Machinery Industry who controls over 300 plants with a total employment of over 750,000 employees.

It is too early to know the actual total of requests for quotations that will result from this Polish trade mission. We estimate conservatively that more than $50 million in requests will be received by the U.S. machine tool companies participating in the mission. We were told that in the next five years the metal working industries in Poland plan to expand their production by 86 percent. We were also asked about the possibility of U.S. machine tool companies providing turnkey projects in Poland.

We learned much from these trade missions as well as from our individual efforts to obtain business in the U.S.S.R. and Eastern Europe. We saw the substantial potential for machine tool exports to the Soviet Union and Eastern European countries. There is no doubt that this development will take place. The only question is whether the U.S. machine tool industry will be permitted to participate. The U.S.S.R. and Eastern European countries have always been seriously interested in purchasing U.S.-made machine tools because of the known performance of our equipment. Our industry has earned a reputation for the quality and dependability of U.S.-built machines.

But we do not compete on equal terms for machine tool sales to the U.S.S.R. and Eastern Europe. Many of our allies have trade agreements with these countries which guarantee to West European companies substantial exports to this vast market. So far the United States does not have such agreements. The governments of West Europe and Japan provide generous financing to foster sales in the Soviet Union and Eastern Europe. So far we deny such credit, except for sales to Romania. And we continue to impose our unilateral export controls.

We have made some progress toward the reduction of this export control barrier. We started from a low point in 1961 when a major machine tool export license for sales to the U.S.S.R. was revoked after issuance. It appeared for a time that the United States would be kept entirely out of this emerging market. A breakthrough came with the decision in the mid-1960's to permit some U.S. machine tool participation in the FIAT automotive plant in the U.S.S.R. More recently the Commerce Department has licensed the sale of U.S. machine tool sales for two truck plants in the Soviet Union. There has been a selective but significant relaxation in the "firm order" requirement, which in the past has made it extremely difficult for U.S. companies to bid with any degree of certainty for business requiring a validated export license.

But progress has been agonizingly slow. Export license applications languished for months, some for more than a year, while the government debated whether to allow U.S. participation in the Russian truck plants. Even where there is no major policy issue raised by an application, it can take months to secure a license for equipment subject to unilateral controls. The licensing process is expensive and frustrating, particularly for the small company not familiar with all of the current practices and procedures. The potential business for U.S. industry equals millions of dollars in the Soviet Union and Eastern Europe. But this business can be and is lost to foreign competition not subject to these requirements.

More than a year ago the Office of Export Control initiated a review of machine tool export licensing requirements. Our industry was encouraged to believe that many machine tools would be deleted from the categories requiring validated export licenses for shipment to the U.S.S.R. and Eastern Europe. We interpreted the 1969 Act to require such decontrol for unilateral restrictions on non-strategic equipment readily available from foreign sources. We therefore cooperated when it was suggested that the NMTBA provide data on the uses of various types of machine tools and their availability from sources outside the United States.

The Association responded, devoting substantial staff time and expense to its presentation. Four detailed reports were submitted demonstrating that a wide variety of machine tools do not have significant strategic applications and are readily available outside the United States from sources not subject to U.S. export controls. I regret that I must report that in the period of almost one year since the last of these reports was submitted not a single machine tool has been decontrolled.

We do not suggest that this lack of progress is simply the result of bureaucratic inertia. In part, it is undoubtedly attributable to limited manpower and funds available to the Office of Export Control and other agencies coupled with the increased export license application workload. Unfortunately, NMTBA's informal discussions with government officials also lead us to the conclusion that at least a part of the problem lies in the lack of understanding outside the Commerce Department with regard to the advances made in machine tool design and production outside the United States.

Our industry is today in a critical condition. It is depressed and has excess capacity. We urgently need business to generate funds for research and development to keep our industry competitive and viable which is in the interest of the U.S. national security. Our workers need jobs. We cannot afford to lose their skills.

The important Soviet and Eastern European market is opening for substantial numbers of machine tools. Inestimable export opportunities also exist in the People's Republic of China with its 800 million people and unindustrialized economy.

Our overseas competition is prepared and already eagerly at work obtaining this business. We are making our own major effort, through our trade missions and active private negotiation, to secure a share of the remaining Soviet and Eastern European market. We will undoubtedly be pursuing a share of the market in the People's Republic with equal energy before too long. Our experience tells us that if we do not secure this share at the outset we are unlikely to attain a significant volume of sales in the foreseeable future. The Commerce Department has encouraged us to seek this business. President Nixon has repeatedly encouraged trade relations between the East and the West. This trade is in the interest of the United States at this time. The question is whether the continued handicap of what is an obsolete export control system will cause this opportunity to be lost.

III. ACTION PROGRAM FOR IMPROVING THE U.S. EXPORT CONTROL SYSTEM

With this background, our program, to improve our export control system in the light of present-day conditions, is as follows:

(1) *Prompt decontrol of unilaterally controlled machine tools and accessories*

The first step should be the prompt decontrol of the unilateral restrictions on all machine tools and accessories except those whose export presents a clear and significant threat to our national security. In this way, U.S. companies will no longer encounter the unnecessary risks, loss of time and expense involved in obtaining validated licenses for these items.

Experience shows that this decontrol effort will not be effective unless Congress specifically directs its undertaking, prescribes the manner in which it will be done and provides the funds required to carry it out. The intent of the 1969 Act has not been carried out as it applies to unilateral controls on machine tools. To this end, we respectfully suggest that the Export Administration Act be amended to direct:

(A) That the Commerce Department undertake with other interested agencies an immediate study to determine which unilateral export controls on

machine tools may be removed without resulting in a significant threat to our national security. Sufficient manpower and funds should be provided for this study.

(B) That except in extraordinary circumstances any machine tool that is available to the U.S.S.R. or Eastern Europe from sources outside the United States should be decontrolled.

(C) That representatives of the U.S. machine tool industry be invited to participate in these studies, not only to furnish data, but also exchange views with representatives of interested government agencies. These industry participants should be included on joint technical committees consisting of government officials and industry representatives. These committees could be appointed by the Secretary of Commerce.

(D) That priority be given in decontrol efforts to those U.S. machine tools for which there is a significant potential export market.

(E) That this review be completed in time to permit decontrol of appropriate machine tools subject to unilateral export controls not later than July 1, 1972.

(2) *Critical review of the U.S. position on the scope and operation of the COCOM embargo*

As noted, the COCOM multilateral controls operate in large measure to the disadvantage of United States companies. The COCOM commodities are clearly of a more sensitive character in terms of our national security interest and so should not be decontrolled without careful analysis. Nevertheless, the United States should make an effort to rationalize this list and the administration of COCOM controls in the light of world conditions today. We suggest the following steps:

(A) The United States Government, after consultation with the U.S. machine tool industry, should take the initiative to remove from the COCOM list those machine tools that are not of direct strategic significance to the United States and its allies.

(B) The United States should take the intiative in developing criteria for the granting of COCOM exceptions that will be uniformly followed by COCOM to the end that any COCOM member, including the United States, may expect to receive non-discriminatory treatment.

(C) The United States should adopt a policy of seeking exceptions to the COCOM list on request of U.S. companies consistent with such criteria.

(D) Commodities on the COCOM list shall be redefined after consultation with the U.S. machine tool industry to the end that all COCOM countries will interpret and apply the international embargo in the same way.

(3) *Financial security for export licensing risks*

Adoption of our recommendations would not end the necessity for securing validated licenses for many U.S. exports. One of the serious problems associated with these licenses is that they may expire or may not be renewed before the export transaction is completed. Non-renewal or revocation may be due to circumstances beyond the control of the manufacturer, such as a change in foreign relations. Many potential purchasers will not assume such a risk. In such cases the risk falls on the manufacturer.

Thank you for your attention.

Senator MONDALE. Our next witness is Mr. Henriques, representing the Business Equipment Manufacturers Association.

Mr. Henriques, we are getting very close to noon, so if you could summarize, we would appreciate it.

STATEMENT OF VICO E. HENRIQUES, BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION; ACCOMPANIED BY OLIVER SMOOT

Mr. HENRIQUES. My name is Vico Henriques. I am data processing group director for the Business Equipment Manufacturers Associa-

tion. I am accompanied this morning by Mr. Oliver Smoot, who is an assistant to me in this group.

We are pleased to have the opportunity to appear before the committee.

Our association is composed of companies engaged in the manufacture of data processing equipment, office machines and office furniture. BEMA's purpose is to provide a forum in which the industry can discuss common problems and to serve as a focal point for the determination and presentation of industry viewpoints.

Our industry's balance of trade has been favorable for the last 5 years, and in 1970 had a net balance of $1.01 billion. It has been conservatively predicted that by 1975 worldwide sales will double in the data processing industry, but that the international sales will triple. This prediction emphasizes that the use of computers and office equipment is in its infancy in many areas of the world. We feel, therefore, that there are significant opportunities before us if U.S. manufacturers are not forced to give up emerging markets to manufacturers in other countries.

We are a high technology industry, and the basic characteristic of high technology is constant change.

In order to maintain a competitive position in world markets we need an export control program in which two major points are preserved. The first is to preserve our competitive advantage and to maintain national security at the same time. Second, we must achieve favorable balance of trade to the advantage of American industry and our national welfare.

In the past when our NATO partners joined Cocom, the U.S. export control program was the determinant of the effectiveness of the Cocom program, since most of the other countries in Cocom were unable to produce significant exports in the controlled items, especially in our industry. This situation no longer exists because companies from other Cocom countries have the capability now to produce competitive equipment, and they are aggressive and eager to trade. These changed circumstances, however, do not seem to have affected U.S. export control policy.

In another sense, the maintenance of our technological superiority is necessary to encourage innovation and creativity at home so that the equipment on the drawing board will be in advance of the state of world technology in years to come. We have this kind of advantage now. We are facing, however, a closing technological gap.

The problems that we are facing in foreign trade, in controlled items, fall into four areas: foreign availability, the lack of most favored nation status, the administration of export control, and the fact that U.S. control unilaterally exceeds Cocom control.

I will not, Mr. Chairman, go into the details behind those four, since they are included in my prepared statement.

Senator MONDALE. Very well.

Mr. HENRIQUES. However, there are a couple of items that I think would bear out some of the problems that we do see. These are two examples of problems that we have encountered with the U.S. export control program.

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In June of 1968, the Deputy Chairman of the Council of Ministers of the Socialist Republic of Romania was accompanied by several distinguished Romanian scientists on a visit to the United States. They did so at the request of the special Assistant to the President for Science and Technology.

They visited a number of cities and manufacturers and at the conclusion of their visit a joint statement was issued between the U.S. Government and the Romanian Government.

The essence of the statement was that opportunities were sought for cooperation in industrial research and production, exchanges of knowledge and technology, including arrangements in the field of patent licenses and know-how with adequate protection for property rights.

As a result of this visit one of BEMA's member companies was asked whether or not it would be interested in submitting a proposal to Industrialimport of Romania for licensing the manufacturer of one of its computer systems. At the time, two other Western European companies were in negotiation, but the Romanians indicated that any proposal submitted would be given due consideration.

In the interest of saving time, the proposal submitted to Industrialimport was furnished simultaneously to the Department of Commerce, State and Defense, and requests were made for advisory opinions which could form the basis for realistic negotiations.

Questions were raised as to the end use control of such computers and to the export of technical data.

The entire situation became academic, when in December, the Romanian Government signed a licensing agreement with CII, the French Government sponsored computer company.

Our inability to give definitive answers to technical questions raised as well as the lack of assurance that we could obtain export licenses for the technology to be transferred were important factors leading to the loss of this business.

It is interesting to note that no advisory opinion has been received by our U.S. company to date.

Our second example is quite different. Another of our member companies is in the second month of waiting for a decision on a $500 paper-tape reader. This model was licensed for exhibition at the trade fair Systemotechnika 1971, implying that it should be exportable to the Soviet Union.

The company has been informed as of this date that the application will have to go before Cocom. We can only speculate that the end user, Motor Department No. 3 in Lipetsk, Ukrania, is engaged in particularly sensitive activities. In any case, we are not protecting our technological lead by not exporting paper-tape equipment with 10-year-old technology, and which was designed for attachment to an accounting machine.

The same company experienced a two and a half month processing time when it applied to exhibit at the trade fair. The exhibit consisted of one accounting machine with associated peripheral equipment, valued at $70,000, and one TV type display to be connected by telephone to a computer in Finland.

Again speculation of our industry personnel was that the delay was caused by doubts as to whether the Russians should be allowed to see the TV display.

In considering the current situation we have a number of recommendations that we would like to make regarding the legislation.

In summary these are that we concur with prior testimony that recommends the establishment of joint advisory committees to advise the Secretary of Commerce in the formulation of export control policy.

We feel that these committees can provide the necessary continuity to review areas needing immediate attention because of technological advances.

We feel that the Department of Commerce could use such joint advisory groups to attain parity between the United States and Cocom list, although I must point out that in our industry the difference is not felt because computers are controlled items in both Cocom and the U.S. list.

The joint advisory committees also would provide the Secretary of Commerce with direct input in the creation of positions for Cocom negotiations, resource which has not been uniformly used in the past.

We feel that the regulations and procedures for specific items should be made a matter of public record which could be used then by the industry and the Commerce Department in the updating of the control list.

I have supplied with our testimony a work-flow chart published by the Office of Export Control which shows the means for obtaining an export license or for being notified of rejection.

I would suggest that the routine cases should have the most rapid possible turnaround time and that the administrative procedures utilized by the Commerce Department could be streamlined and simplified.

We can offer a comment similar to the National Machine Tool Builders Association that one characteristic of the present system is that the best response for hard cases is to let them languish so that perhaps they will go away.

The natural response that industry has to this kind of situation is to pressure the offices concerned in Commerce into expediting specific cases.

Lastly, the closed nature of the decisionmaking process makes business planning difficult. While we are not certain that the requirements of operating under the Administrative Procedures Act might not introduce too many delays, we do feel that an applicant who is denied a license should be given a report of the processing of his case, including a vote, if any, in the operating committee and the reasons for rejection.

That, Mr. Chairman, concludes my summary statement.

I submit the written statement for inclusion in the record.

Senator MONDALE. Your full statement will appear at the conclusion of your remarks.

I gather that industry still feels that there is a long way to go before the spirit of the 1969 act is complied with in terms of your particular industry?

Mr. HENRIQUES. Yes, sir, in terms of the computer export control program.

Senator MONDALE. And I gather it is your impression that many items which your industry produces which are clearly not strategic,

which are clearly available from producers in other countries, are nonetheless unilaterally controlled and restricted by our own country.

Mr. HENRIQUES. No, sir. I think the difference is that those which are controlled unilaterally are also controlled in Cocom, but it is the spirit in which the control is exercised that appears to be quite different.

Senator MONDALE. So let's take a British competitor with a machine which is very similar, both of which, your machine and theirs, are controlled by Cocom. The approach of our Government would be far more conservative than the British Government?

Mr. HENRIQUES. Yes, sir. Taking as much as four times as long in order to get an answer and putting us at a distinct competitive disadvantage, since we cannot guarantee delivery.

Senator MONDALE. And in that example all we do is shift jobs and profits to England. We do not deny anybody anything.

Mr. HENRIQUES. No, sir.

Senator MONDALE. What is the reaction of the Export Control Office and the other agencies to this claim?

Mr. HENRIQUES. They have responded that it is necessary to consider, because of the nature of the equipment, each case on an exception basis in the difficult areas. In our concern about the export of technology into Eastern European countries, we have suggested that since the technology is available, it serves a somewhat negative purpose to prevent the equipment from going, since this forces those who can't buy it to develop their own capability.

Senator MONDALE. Which they are doing?

Mr. HENRIQUES. Which they are doing, yes.

Senator MONDALE. So that in addition to diverting commerce to, say, Western Europe we are also encouraging Eastern Europe to develop their own capacity?

Mr. HENRIQUES. That is true.

Senator MONDALE. One of your key complaints seems to be that the process by which the Export Control Office works is essentially a closed process in the development of the unilateral list, the Cocom list, and that your business, at least, is not consulted.

Mr. HENRIQUES. That is true. We feel, first of all, that once a set of procedures has been established relative to a particular item that subsequent requests for licensing should not have to go through the same detailed process if the precedent has been established; and secondly, that when denials are issued we have no way of knowing the reasons behind the denial, whether it was lack of information, end user, or perhaps a feeling that strategic or military applicability is involved.

Senator MONDALE. You know, we tried to deal with that problem in the last act, requiring them to inform each exporter of the reasons for denial of an export license. They are not complying with that.

Mr. HENRIQUES. The details of the denial are quite sketchy.

Senator MONDALE. Is that because they are dealing with highly classified strategic information?

Mr. HENRIQUES. Mr. Chairman, since the details of the denials that do come out merely cite in some instances strategic or specific military advantage we do not know what these are.

Senator MONDALE. OK. Thank you very much for your most useful statement.

Mr. HENRIQUE. Thank you.

(The full prepared statement of Mr. Henriques is as follows:)

STATEMENT OF BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION
BEFORE THE SENATE SUBCOMMITTEE ON INTERNATIONAL FINANCE OF
THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

March 14, 1972

BEMA is pleased to have this opportunity to appear before the Committee and thanks the Chairman and the members for the opportunity to review the Export Administration Act of 1969 and discuss amendments to it.

The Business Equipment Manufacturers Association is composed of headquarters, product-oriented groups, and several supportive departments. The product-oriented groups are concerned with: (1) Data processing including main frames, peripherals, devices and media; (2) Office machines, and (3) Office furniture and equipment. Each of these groups maintains a number of committees concerned with various aspects of the industry's interests and relations, including standards, trade, data telecommunications, privacy and security, government procurement, patents and copyrights, and so forth. The association's purpose is to provide a forum for discussion of common problems and to serve as a focal point for the determination and presentation of industry viewpoints in matters such as are before the subcommittee today. BEMA has 65 members.

In 1971, one of our member companies had exports exceeding 90 million dollars. These exports supported the jobs of over 5,000 U.S. employees. This company represents less than 10% of the sales in our industry. In 1971 more than 50% of the revenues of our industry were received from international operations. These figures are, of course, heavily influenced by our larger members. However, our industry's smaller

companies also export heavily--often in the range of 30%. In the area of data processing equipment we have maintained a ratio of better than 9 to 1 in terms of a favorable trade balance.

In 1970 our industry had a net balance of trade of 1.01 billion dollars. It has been conservatively predicted that by 1975 world-wide sales will double in our industry, but that international sales will triple. These predictions emphasize that the use of computers and office equipment is in its infancy in many areas of the world. We feel, therefore, that there are significant opportunities before us, if U. S. manufacturers are not forced to give up emerging markets to manufacturers in other countries. With this favorable balance in mind, we believe modifications to the Export Administration Act of 1969, which will provide equal export opportunities for United States companies when competing in the world market, are in the national interest.

Ours is a high-technology industry and the basic characteristic of any high-technology industry is constant change. In the past, American industry has had a dominant lead becuase of technological superiority. Today this lead is narrowing because of the efforts of foreign governments and manufacturers to enhance their own technological capability and to provide products which are competitive to American-made products. There is a need to preserve our technological lead from two points of view. The first is to preserve the position that the United States now holds in its utilization of high technology to maintain national security. Secondly, we need to maintain our lead to enjoy a favorable balance of trade to the advantage of American industry and national welfare.

In the past, although our NATO partners (minus Iceland plus Japan) joined in COCOM, the U. S. Export Control program was the determinant of the effectiveness of the COCOM program, since most of the other COCOM countries were unable to produce singificant exports in controlled items. This situation no longer exists, because now companies from other COCOM countries have the capability to produce competitive equipment and are aggressive and eager to trade. These changed circumstances do not seem to have altered U. S. Export Control Policy.

In another sense, the maintenance of our technological superiority is necessary to encourage innovation and creativity at home so that the equipment on the drawing board will be in advance of the state of average world technology in the years to come. In this way, we can create a climate for growth for U. S. industry and we can look to expanding world markets to assure the healthy growth of the American data processing industry.

The problems facing the data processing industry today in foreign commerce in controlled items fall in four areas:

- Foreign Availability
- Lack of Most Favored Nation Status
- Administration of Export Control
- U. S. Control Exceeding COCOM Control.

Each of these four areas serves as a deterrent to the normal and healthy expansion of trade and to the maintenance of a positive trade balance.

The first of these is the challenge presented by the matter of foreign availability. In the past when our technological lead was quite significant, the problem of availability of similar devices and equipment from foreign suppliers was not great, and as a result American industry was not easily challenged. Today, however, because of the conscious efforts of both foreign governments, and their industry we face increasing competition from abroad.

The second problem is the diminution of market areas through the use of the Most Favored Nation category. Many potential markets, which could be of significant benefit to American industry, are for all practical purposes, closed to U. S. firms because the lack of Most Favored Nation status places U. S. firms at a definite competitive disadvantage. BEMA feels that the extension of Most Favored Nation status as broadly as possible would be most desirable in opening up areas in which we are currently at a competitive disadvantage. An additional requirement to facilitate trade with these nations is the provision of flexible credit arrangements. Many of these countriés lack significant amounts of hard currency reserves; therefore, to a great degree, expanding trade with them depends on the flexible types of financing that the Export/Import Bank can provide or, in some cases, government help in arranging paired transactions in the nature of barters.

A third area of concern is the procedures used for licensing for export.

The provision of the current law for denying export of commodities deemed to have "significant military applicability" or strategic value is in the interest of national security. However, this provision is so broad as to permit overly restrictive interpretation of the law. Many items such as computers and electronic equipment are currently denied export licenses because one or more agencies of the Government consider them to have the potential for strategic use even though these items are intended for commercial or non-military scientific application. We feel that no nation would import such equipment for the sole purpose of achieving strategic or significant military advantage and at the same time be forced to rely on U. S. manufacturers for spare parts, maintenance and services, which would be necessary to maintain such an advantage. Accordingly, we believe that the terms "significant military advantage" and "strategic" require much better definition in the body of the law to preclude misinterpretation of overall U. S. Trade Policy by government agencies which seek to negate the expansion of trade through the use of overly-stringent controls.

Lastly, there is the significantly more restrictive attitude toward control which is held at the operational level in the U.S. Government. This attitude is illustrated by the fact that the U.S. control list is significantly longer than the COCOM list. This situation does not affect our industry as computers are controlled on both lists. We are aware, however, that computer manufacturers in other countries receive cooperative and expeditious handling of applications. What we want to emphasize is the difference in attitude. The movement

throughout West Europe is strongly towards normalization of trade and political relations. It is manifestly obvious that our President is seeking to bring our political and economic relationships up-to-date. However, the U. S. Export Control remains unchanged. There must be a responsible review of the role of export control programs in the Seventies.

We have covered the key issues as we see them. We would like now to give you some examples of actual cases from our industry.

In June of 1968, the Deputy Chairman of the Council of Ministers of the Socialist Republic of Romania and Chairman of the Romanian National Council of Scientific Research visited the United States along with several distinguished Romanian scientists. They did so at the request of Dr. Donald Hornig, then Special Assistant to the President for Science and Technology. They visited a number of cities and manufacturers and discussed many topics, including computers with their American counterparts. At the conclusion of their visit a joint statement was issued by the U. S. and Romanian Governments that included the following paragraph:

"Both governments favor the development of relations between American and Romanian commercial enterprises subject to the laws and rules in force in each country. For instance, they favor the development of:

a. opportunities for cooperation between industrial research and production organizations; and

b. exchanges of industrial knowledge and technology including arrangements in the field of patent licenses and knowhow with adequate protection for industrial property rights."

As a result of this visit and the contacts made with U.S. companies, one of BEMA's member companies was asked whether or not it would be interested in submitting a proposal to INDUSTRIALIMPORT of Romania for licensing the manufacture of one of its computer systems. They were informed at that time, that INDUSTRIALIMPORT already was negotiating with two Western European companies, but that any proposal submitted by the U.S. company would be given due consideration.

Interpreting the joint statement issued at the conclusion of the Romanian visit to encourage technical cooperation, the U.S. company submitted a proposal in July to INDUSTRIALIMPORT for the manufacture of one of its computer systems. In the interest of saving time, copies of the proposal were furnished simultaneously to Departments of Commerce, State and Defense, and requests were made for advisory opinions which could form the basis for realistic negotiations with the Romanians. It was at this point that the restrictive nature of our export system started to set in. Questions were raised as to the "end use control" of such computers to be built in Romania, and with regard to the export of technical data.

The entire situation became academic when in December, the Romanian Government signed a licensing agreement with CII, the French Government sponsored computer company. Our inability to give definitive answers to technical questions raised, as well as the lack of assurance that we could obtain export licenses for the technology to be transferred were important factors leading to the loss of this business. No advisory opinion has been received by our U. S. company to date.

Although this case history terminated a little more than three years ago, it typifies delays that are experienced today. More important, it emphasizes that developing countries intend to acquire necessary computer systems either by foreign purchase or by developing their own capacity to build them through joint venture enterprises with foreign manufacturers. Our export restrictions and inability to react rapidly enough to support such fast-moving opportunities pose a severe competitive disadvantage on the U. S. industry.

An interesting aftermath is the January 1971 announcement by the U. S. Department of Commerce that the Romanians had produced their first IRIS-50 computer under license from CII of France, and that initial plans called for annual production of four or five such machines, and that production was expected to increase to 20 per year.

CII also has a licensing agreement with Hungary for production of its smaller computer, model 10010. Obviously, our NATO partners are vigorously moving into a market area that we are losing through inertia.

That is what is known in export control as an "exception case". Another company is in the second month of waiting for a decision on a $500 paper tape reader. This model had been licensed for exhibition at "Systematechnika 71"---implying that it should be exportable to the USSR. The company has been informed that the application will go before COCOM! The company can only speculate that the end user--Motor Department #3 in Lipetsk Ukrania is engaged in particularly sensitive activities. Perhaps so, in any case we are not protecting our technological lead by not exporting paper tape equipment with ten year old technology and designed for attachment to an accounting machine.

This same company experienced a two and a half month processing time when it applied to exhibit at Systematechnika 71. Its exhibit consisted of one accounting machine with associated peripheral equipment valued at $71,150 and one TV-type display to be connected by telephone to a computer in Finland. Speculation of informed industry personnel is that the delay was caused by doubts over whether the Russians should be allowed to see the TV display.

BEMA has a number of recommendations to offer in support of amendments to the legislation.

1. We concur with and encourage the establishment of joint advisory committees to advise the Secretary of Commerce in formulation of policy, to provide the assistance necessary to the Secretary to carry out a trade policy consistent with the national interest, and to revise the articles (including technical data and information) subject to export control on a realistic and regular basis. We feel that these committees can provide the necessary continuity to review areas needing immediate attention due to constant technological advances.

2. The Department of Commerce can also utilize the assistance of the joint advisory committee to obtain parity between the United States and the COCOM list so that American business can compete on an equal basis with those of our allies.

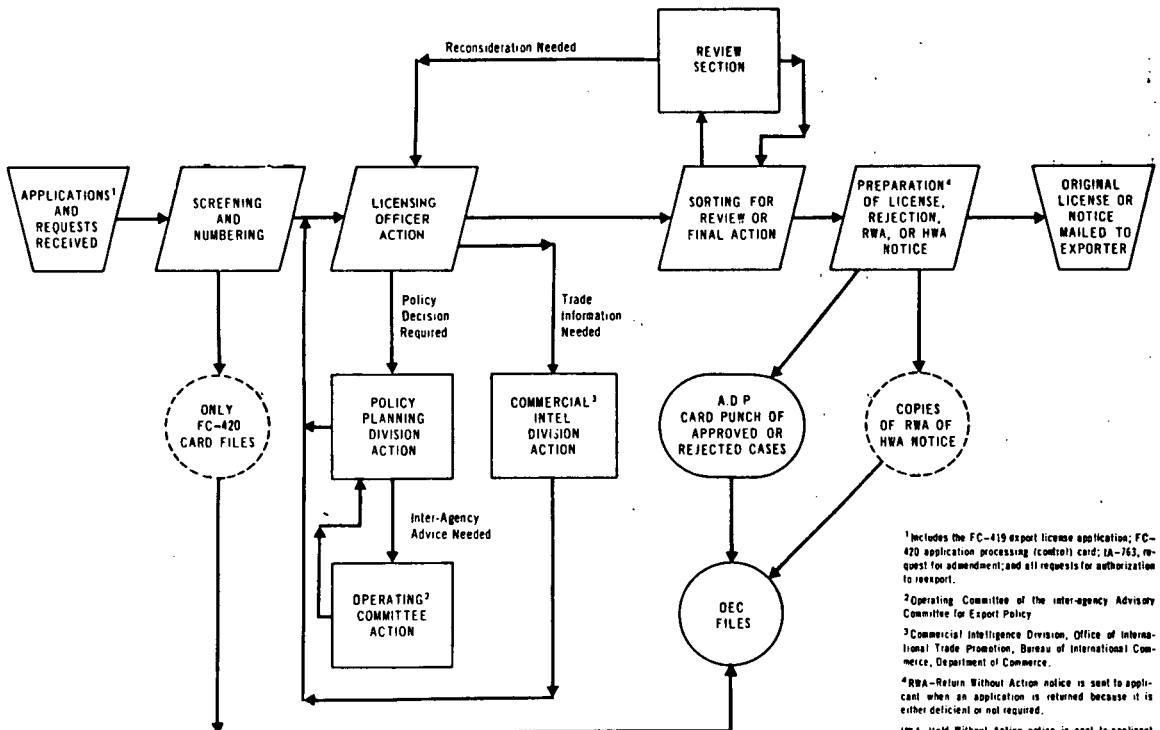
3. The joint advisory committees should be consulted fully by the Secretary of Commerce in the preparation of United States' positions for COCOM negotiations.

4. A review should be made and public recommendations developed regarding the applicability and strategic value of items relative to national security. Such recommendations can be used in updating of the control lists.

5. Our final comment concerns the administration of our Export Controls program. BEMA has addressed itself previously to the general organization of Federal international economic support. We feel it is fragmented and understaffed. No where is this more so than in the Export Control area. In addition, the organization of license processing is such as to maximize delay--for all cases. To illustrate our point we have taken the liberty of including the "work flow chart" of the Export Control Office of the U.S. Department of Commerce.

U.S. Department of Commerce
BUREAU OF INTERNATIONAL COMMERCE
Office of Export Control

WORK FLOW THROUGH THE OFFICE OF EXPORT CONTROL



[1] Includes the FC-419 export license application; FC-420 application processing (control) card; IA-763, request for amendment; and all requests for authorization to reexport.

[2] Operating Committee of the inter-agency Advisory Committee for Export Policy

[3] Commercial Intelligence Division, Office of International Trade Promotion, Bureau of International Commerce, Department of Commerce.

[4] RWA—Return Without Action notice is sent to applicant when an application is returned because it is either deficient or not required.

HWA—Hold Without Action notice is sent to applicant when action on application is not completed within 2 weeks after receipt in OEC.

Prepared by:
Operations Division, OEC
March 1967

> We feel that the routine case should have the most rapid possible turnaround because it is this type of sale in which the customer is most sensitive to slow delivery.
>
> One characteristic of the present system is that the best bureaucratic response for the hard cases is to let them languish so that perhaps they will go away. The natural industry response to this is to pressure the offices involved into expediting specific cases.

Lastly, the closed nature of the decision-making process makes business planning difficult. While we are not certain that the requirements of operating under the Administrative Procedures Act might not introduce too many delays, we do feel that the applicant who is denied a license should be given a report on the processing of his case, including the vote (if any) in the operating committee and the reason for rejection.

This concludes the BEMA statement, I would be happy to answer any questions you may have.

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Senator MONDALE. Before we continue, I would like to insert in the record, at this point, a statement from Senator Javits.

(The statement follows:)

STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

In 1965 the Congress of the United States amended the Export Control Act to include a declaration calling upon American businessmen to "refuse to take any action including the furnishing of information or the signing of agreements, which has the effect of furthering or supporting the restrictive trade practices or boycotts fostered or imposed by any foreign country against another country friendly to the United States."

This amendment did not explicitly refer to the Arab boycott against Israel but it was offered to reflect condemnation of that boycott.

Originally, as offered by Senator Harrison Williams and myself, the measure would have required American businessmen to refrain from complying with the demands of the boycotting agencies. However, at the last moment, it was modified to reflect a request rather than a requirement.

I would now urge the Committee to continue the current legislation. In my judgment, it would be a serious blunder if we were to weaken the present language or to eliminate it from the law. In promulgating the anti-boycott regulations on Sept. 23, 1965, the Department of Commerce declared that "in the long run both the U.S. business community and U.S. foreign trade interests will benefit from adherence to this anti-boycott policy."

It has always been difficult to estimate how much damage Arab boycott has done to Israel or to American businessmen who refuse to surrender to its demands.

Despite the boycott, tourism to Israel has been booming and so have investments by American companies.

On the other hand, there are large corporations which have refrained from doing business with Israel. They would deny that this can be attributed to the boycott. Yet the Arab states themselves inform us that their boycott policies continue and expand.

I have a dispatch which appeared in the *Daily Star*, published in Beirut on March 2, 1972, which informs us that the Arab Boycott of Israel Committee has added six companies and three of their subsidiaries to the blacklist for infringing the boycott rules. On the other hand, the communique discloses that the Committee had lifted its boycott of six companies and 106 subsidiaries after establishing that they had broken their relations with Israel.

Sometimes the boycott goes to ridiculous lengths. Thus, back in 1970 when 73 U.S. Senators signed a letter urging President Nixon to sell planes to Israel, the Arab League Boycott offices in Damascus announced that the 73 would be forbidden to enter or pass through the Arab states. "We are now in the process of pinning down their identities and tracking down their business connections," Mohammed Mahjoub, the director of the Boycott office announced. He said that companies on which these Senators served as directors or advisors would be blacklisted because of the Senators' position.

I do not know how many of us have been so disciplined and I suspect that this is empty bombast. On the other hand, the boycott must be taken as a serious threat, for as Arab revenues from oil increases, the Arab markets become of greater importance and, all too often, we have been told that investments from oil and exports from the United States to Arab lands will be adversely affected if we do not yield to Arab political demands against Israel.

The Arab boycott is officially prosecuted on another important economic battlefield. Egypt and Lebanon have been negotiating a treaty with the Common Market in which they have sought to maintain their right to carry on the boycott even though this is inconsistent with the overall policies and principles of the Common Market. Because this has been a major subject of debate, the Arabs have toned down the language which they have proposed. They recently submitted a text in which they indicated they would withhold imposing discriminatory measures except insofar as these may be necessary to "protect vital security interests."

Under these circumstances, it seems important that we maintain our stand against an intolerable effort to interfere with trade relationships. We should

be stiffening resistance to the boycott, not only on the part of our own American businessmen but on the part of other countries which have been too ready to comply with the Arab League's demands.

I would like to express the hope that our Department of Commerce is continuing to take measures to publicize our opposition to the boycott and that it is seeking compliance with the law as it was enacted.

Senator MONDALE. The final witness this morning is Mr. E. F. Andrews, Vice President of Allegheny-Ludlum Industries.

Mr. Andrews, very pleased to have you here this morning.

STATEMENT OF E. F. ANDREWS, VICE PRESIDENT, PURCHASING, ALLEGHENY-LUDLUM INDUSTRIES, INC.

Mr. ANDREWS. Thank you very much, Mr. Chairman. I appreciate the opportunity and the invitation to speak.

Senator MONDALE. I have read your full statement. I will include it in the record at the conclusion of your remarks. Perhaps you can summarize it.

I gather you are concerned about a short-supply problem and the purchase of short-supplied scrap by foreign purchasers?

Mr. ANDREWS. Scrap is the item that we use as an example to make our point.

The United States is negative in most all of the essential metals used in steelmaking. We import 90 percent of our nickel, 100 percent of our chrome, and I could go on ad infinitum.

The point is that we have just been through, in 1969, a stainless scrap shortage, and in 1970 a serious carbon scrap shortage. We could see the signs of shortage as much as a year ahead of time—that a shortage and an inflationary impact was occurring.

We went to the Commerce Department. We went to the various agencies of Government. We even came to the Hill. And they all, in effect, said there is nothing we can do until after it has occurred.

Senator MONDALE. In other words, they say the horse has to be out of the barn.

Mr. ANDREWS. That is right.

Our statement asks: "Is there not a way to shut the door before the horse gets out of the barn?"

Senator MONDALE. What does the law say on that point?

Mr. ANDREWS. The law says, "it is the policy of the United States to use export controls to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand."

This is the clause under which the Commerce Department acts.

Senator MONDALE. They say that they are without authority to act unless there is a big mess.

Mr. ANDREWS. Yes; they have to have statistical evidence, historical statistical evidence to substantiate some action.

Senator MONDALE. Are these problems quite easily predictable?

In other words, the stainless steel scrap shortage? Could you have predicted what was going to happen?

Mr. ANDREWS. We did, in writing to the Commerce Department, 15 months, and $250 a ton lower prices ahead of time.

Senator MONDALE. And this ran up domestic steel prices considerably?

Mr. ANDREWS. Yes.

Senator MONDALE. What about other countries? What do they do?

Mr. ANDREWS. We are the only industrial nation in the world which permits the uncontrolled export of nickel- and chrome-bearing waste.

Senator MONDALE. Now, take Japan. They produce steel. They import the ore. They have no indigenous metals.

Mr. ANDREWS. That is correct.

Senator MONDALE. What do they do with the export of their scrap?

Mr. ANDREWS. They consume it, and buy from our country when they are permitted to.

Senator MONDALE. They prohibit exportation of scrap?

Mr. ANDREWS. Yes, sir; as does the Common Market.

Senator MONDALE. What about Germany?

Mr. ANDREWS. The entire Common Market.

Senator MONDALE. We are the only country that permits exportation of scrap. How big a cost factor is this to our steel producers?

Mr. ANDREWS. Well, there are many ways this can be shown. For example, many of the carbon steel types are made out of 100 percent scrap heats. That means the total raw material is scrap, if it is available. If not, you reach for virgin material, which is higher cost.

But take a yield factor of 60 percent. That is conservative. The entire steel industry earned $6 a ton in 1969 and 1970. In 1970, the cost of scrap went up $12 a ton.

Stainless steel, the average selling price of our product is, say, $500 a ton. The industry used as much as 80 percent scrap charge, and scrap prices went up $250 a ton.

Senator MONDALE. Does this get involved with GATT rules and everything, the nation's handling of short supplies? Are there any GATT rules that bear on this?

Mr. ANDREWS. Tariffs? We fought for a long time, on nickel and finally the Congress saw our point and acted. We had an import duty on nickel into the United States, and we have no nickel; now the duty is off.

Senator MONDALE. Whatever rules of international trade there are, and I am convinced there aren't any, but if there are any, none of them bear on how a nation chooses to treat scrap?

Mr. ANDREWS. No; we like to look at it on the principle: should we in fact, sir, have the unlimited export of an item that we do not have.

For every pound of nickel we permit to be exported in the form of scrap, we must reach to a foreign shore to replace at a higher cost, if that foreign shore is willing to sell to us, and in many cases they are becoming less willing to do so, on items such as tungsten.

Senator MONDALE. I can see if every nation took the same position, you would have a world market buying the scrap, so that you could go to Japan or Western Germany, and there would be some international economic justification for what was happening.

But this one way torture that is imposed, I don't quite understand that.

Mr. ANDREWS. Chrome and nickel, for example, are very limited in the locations. God spread them around rather thinly in the world. You can count on your hand where the deposits are. There is none in Europe, there is none in the United States, there is none in Japan.

So, these nations say, goodness, we are not going to export something we haven't got. But we do.

Senator MONDALE. Thank you very much.

Mr. ANDREWS. Thank you, sir, for the privilege. The statement will be entered in the record?

Senator MONDALE. Yes, sir.

Mr. ANDREWS. Thank you very much.

Senator MONDALE. We stand adjourned.

(Whereupon, at 12:07 p.m., the hearing was adjourned.)

(The full prepared statement of Mr. Andrews, and also of Mr. Baylis, national director of the National Committee on International Trade Documentation are as follows:)

STATEMENT OF E. F. ANDREWS, CHAIRMAN, AMERICAN IRON AND STEEL INSTITUTE COMMITTEE ON CRITICAL MATERIALS SUPPLY

Mr. Chairman and members of the Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on International Finance, my name is E. F. Andrews, Vice President of Purchases, Allegheny Ludlum Industries, Inc. I am also chairman of the American Iron and Steel Institute Committee on Critical Materials Supply and appear before you today on behalf of American Iron and Steel Institute, a non-profit trade association with sixty-six member companies in the United States. These companies account for more than 95% of this country's raw steel production and employ 487,000 hourly and salaried workers.

Steel producers in the United States favor the enactment of legislation which will continue existing authority for the regulation of exports of materials from this country. We are particularly concerned that such legislation provides for safeguarding all of our national interests, including the welfare of the domestic economy.

In this connection we strongly support the Congressional Declaration of Policy contained in Section 3, Paragraph (2) of the Export Administration Act of 1969, part of which reads as follows: "It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand . . . ."

Domestic producers consume literally scores of materials in the manufacture of iron and steel products. In the case of many of these materials the United States is a negative producing nation, for example nickel, chrome, manganese, zinc, tungsten and fluorspar, to name a few. We as a nation need the necessary control mechanisms to limit the exportation of these types of materials—whether in primary or secondary form or as they are contained in ferrous and non-ferrous scrap.

Our national interests would be poorly served if we as a country permitted the unlimited export of materials which are in deficit domestic supply. The same statement may apply to the unlimited exportation of materials whose past production in the United States has been in excess of past apparent requirements. For example, is it in the best national interest to expand foreign markets for bituminous coal when most studies indicate that the U.S. must rely heavily on coal to meet the growth in energy demand over the next 20 to 30 years?

However, my purpose today is not to philosophize on export policy in general, but rather to make a specific recommendation toward implementing what

the steel industry believes was the intent of Congress in enacting Public Law 91–84, "The Export Administration Act of 1969." As noted previously, Section 3, Paragraph (2) of the Act says in part: "It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand . . . ."

Section 4(a)(1) of the Act authorizes the Secretary of Commerce to exercise such controls under this Act as he determines are necessary to facilitate and effectuate the fullest implementation of the policy set forth in this Act with a view to promoting trade with all nations with which the United States is engaged in trade.

Whereas, the intent of Congress seems clear, many interpretations have arisen regarding the degree of authority given to the Secretary of Commerce to implement the intent. Past experience of the steel industry in seeking limitations on exports of critical steelmaking materials under the 1969 Act indicates that the Department of Commerce believes it can take no action until after abnormally high exports have occurred over a substantial period of time, and it has a full measure of statistical evidence that the exports in question are causing short-supply and inflationary conditions in the domestic economy.

A procedure so inflexible as this has caused serious problems and hardships to the domestic industry being injured, and in fact may negate the protection which the law is supposed to provide. The time period between placement of the export order, actual exportation of the material, gathering of export statistics, gathering of domestic statistics, analysis of the degree of injury caused by the export, and the decision to establish or not establish controls, may extend over many quarters or even years. The domestic user of the material suffers serious damage, irrespective of whether or not controls are finally put into effect.

Two relatively recent case histories will help to illustrate the inadequacy of the present procedure for establishing controls. The first one involves the exportation of stainless steel scrap, an important source of chrome and nickel in the manufacture of stainless steel. Exports rose from 45,000 net tons in 1966 to 138,000 net tons in 1967 and 130,000 net tons in 1968. The abnormal foreign demand reduced dealer inventories in this country to minimal levels and caused the domestic price of stainless steel scrap to rise from $220 a ton at the end of 1966 to $325 a ton in late 1967, and over $500 a ton by mid-1969. While the requirement that exports of nickel-bearing scrap be licensed went into effect on July 10, 1967, short-supply export controls were not established until September 9, 1969 following the shutdown of nickel mines in Canada due to labor difficulties there. This is shown in the appended chart.

The impact of abnormal foreign demand for stainless steel scrap in 1969 and 6 months 1970 resulted in inflation of the domestic scrap price level by $250 a ton. When it is recognized that consumption of purchased stainless steel scrap by the domestic stainless steel industry averaged over 30,000 tons a month during this period, the added cost to the industry has been estimated at $100 million.

The second example relates to exports of ferrous scrap from an annual average of 6.7 million net tons in the 1966–1968 period to 9.1 million net tons in 1969 and 10.3 million net tons in 1970. The abnormal foreign demand in this period brought about a short-supply condition in this country which raised the average price of scrap purchased by the steel industry from $27.68 in January, 1969 to $37.36 in January, 1970, and to an average of $41.19 a gross ton for the year 1970. The inflation in domestic scrap prices during the two years of high exports added $250 million dollars to steelmaking costs, excluding unknown more millions of dollars spent in substituting lower grades of scrap for higher grades in short supply.

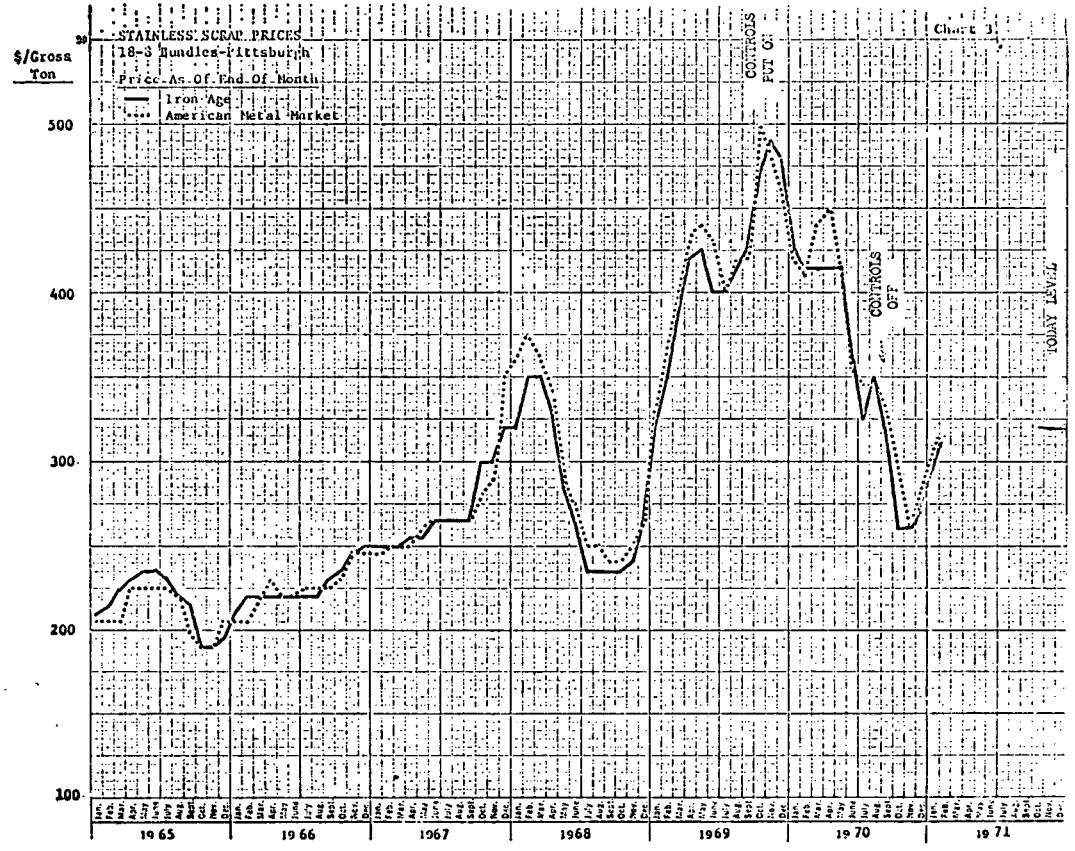
Failure of the Department of Commerce to institute controls which would have limited exports of iron and steel scrap to more normal levels in 1969 and 1970 was largely attributed by the agency to the lack of information on the total available supply of scrap in the United States. It is my understanding that Commerce is currently attempting to develop methods for collecting such data.

The steel industry believes that preliminary actions can be taken to limit abnormal high exports which will have a disruptive effect on the domestic

economy, prior to the final availability of hard, statistical evidence. For example, the Japan Ministry of Trade, the European Economic Community, and others generally announce their intentions of increasing their purchases of materials from this country. Trade sources in this country often make similar announcements. The probable impact of the heavier foreign requirements on the domestic demand-supply situation can therefore be measured well in advance.

American Iron and Steel Institute therefore recommends that Section 4 (1) (a) of the proposed new legislation be expanded to specifically authorize the Secretary of Commerce to take early prospective action to regulate exports of a given material in those instances where there is ample evidence to indicate, (1) that an abnormal foreign demand for the material already exists or will soon occur; and (2) that such foreign demand will bring about a level of U.S. exports which will be sufficiently high to cause an excessive drain on scarce materials from the U.S. economy or produce a serious inflationary impact.

Thank you for the opportunity of appearing before you today to present this statement.


STAINLESS SCRAP PRICES
18-8 Bundles-Pittsburgh
Price As Of End Of Month
Iron Age
American Metal Market
$/Gross Ton
500
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CONTROLS PUT ON
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STATEMENT OF ARTHUR E. BAYLIS, NATIONAL DIRECTOR, NATIONAL COMMITTEE ON INTERNATIONAL TRADE DOCUMENTATION

My name is Arthur E. Baylis and I am appearing before you as the National Director of the National Committee on International Trade Documentation, known as NCITD, regarding S. 1487 which has as its purpose the extension of the Export Administration Act of 1969. The NCITD neither supports nor opposes S. 1487; instead, our unique position is the same as it was when I testified in 1969 on the subject of the extension of the Export Control Act,—namely, that whatever legislation is enacted should be conditioned on elimination of, rather than further creation of, paperwork.

NCITD, which is headquartered in New York and has agencies in Washington and San Francisco, is a voluntary, non-profit, privately-financed organization, which is dedicated to simplifying and improving international trade documentation and procedures—in short, the prevention and elimination of the unnecessary and unwanted "paperwork" whch has long been the bane of international shipments.

In April, 1969 I testified on behalf of NCITD before the Senate Committee on Banking and Currency relative to proposed legislation which was ultimately enacted as Public Law 91-184, the Export Administration Act. This is the same statute which is now before this Committee for extension. At that time NCITD was asked to prepare and submit language to be incorporated in the law which would insure that documentation abuses and the proliferation of paperwork would not again be built up. As a result a provision to that effect was written into the Act, under the title "Enforcement", as section 7(d) which reads: (d) "In the administration of this Act, reporting requirements shall be so designed as to reduce the cost of reporting, recordkeeping, and export documentation required under this Act to the extent feasible consistent with effective enforcement and compilation of useful trade statistics. Reporting, recordkeeping, and export documentation requirements shall be periodically reviewed and revised in the light of developments in the field of information and technology. A detailed statement with respect to any action taken in compliance with this sub-section shall be included in the first quarterly report made pursuant to section 10 after such action is taken."

Since my testimony on this subject in 1969, NCITD has actively progressed its work to eliminate international trade documents and has achieved considerable success. We have made widespread use of research techniques and now have a reservoir of information to identify the evils of paperwork and what causes them. The scope of our work covers those international papers and related procedures that are caused by government, industry, or both. It also encompasses similar areas where the responsibility lies with foreign governments or foreign commercial parties.

The magnitude of the "jungle" of paperwork that envelopes the international commerce of the United States has been conservatively estimated to cost United States exporters and importers at least six and one-half billion dollars ($6,500,000,000.00) per year just to fill out and process the required documents involved, not including any transportation costs. This staggering figure was substantiated in a recently completed Research Study jointly prepared by NCITD and the Department of Transportation (DOT) Office of Facilitation. The same Study shows that the average documentation cost per international shipment amounts to more than three hundred and fifty dollars ($350.00), divided over three hundred and seventy-five dollars ($375.00) for exports and over three hundred and twenty dollars ($320.00) for imports, a figure very often substantially higher than the total value of the shipment itself. The cost of this paperwork can be likened to a non-tariff trade barrier, recognized and acknowledged by everyone to exist, effectively strangling opportunities for international trade, particularly in the case of small companies, and yet being so difficult of solution that none of the companies acting individually have been able themselves to penetrate or solve the maze of paperwork.

NCITD through sole concentration of this effort has tackled the problem with the cooperation of the United States Government, and through working in group liaison with many organizations throughout the world that are dedicated to the same purposes. Already we know that the paperwork required to export from the United States and to import into this country are far more

burdensome, voluminous, overlapping, and costly than those required by any other nation throughout the free world. In this connection, and before turning to the substance of S. 1487, permit me to outline in some detail, the highlights of the NCITD-DOT Research Study previously referred to. I believe you will find them entirely germane to the purposes of this proposed legislation.

This Study, entitled "Paperwork or Profits? in International Trade" was prepared from actual live shipments and the resultant data developed jointly by NCITD and the DOT Office of Facilitation and catalogues and analyzes the practices and procedures relating to international trade documentation and recommends corrective steps to eliminate paperwork in world commerce.

As is stated in the Acknowledgement to the Study, hundreds of parties participated in the research by providing factual data based on their own experiences. Their involvement covered not only their own sphere of responsibilities but also included assistance in going beyond to identify the later participants that were involved with the documents and the shipments.

Turning to the "Highlights" of the Study, the actual data developed conclusively confirms that complex and costly documentation is one of the major problems concerning international trade. While considerable attention has been devoted to trade expansion, relatively little attention has been directed to solving the expensive and burdensome practices of international trade and transport documentation.

The magnitude of U.S. international trade is shown by government figures for the fiscal year ending June, 1971, which reveal that

All international shipments totaled, 18,000,000, of which

Export shipments totaled	10,000,000
Import shipments totaled	8,000,000

In terms of dollar value, the statistics indicated that

All international shipments were valued at, $86.3 billion, of which

Export shipments were valued at	43.9 billion
Import shipments were valued at	42.4 billion

The effort concentrated in this study to identify, analyze, quantify, and determine the cost of specific documentation practices and procedures has produced and correlated an abundance of significant data not previously available. This information focuses attention on the documentation problem and provides the basis for the corrective actions being recommended.

Startling statistics from the study show that: A total of 46 different types of firms and government agencies regularly are involved in international trade . . . As many as 28 of these parties may participate in a single export shipment . . . A total of 125 different types of documents are in regular and special use . . . The 125 types of documents represent more than 1000 separate forms . . . A total of 80 types of documents are in regular as opposed to 45 in special use . . .

Average shipments involve 46 separate documents, with an average of over 360 copies per shipment being employed.

U.S. international trade annually creates an estimated 828 million documents and these generate an estimated 6½ billion copies.

Average export and import shipments required 64 man-hours to prepare and process, split on the average of 36½ man-hours for an export shipment and 27½ man-hours for an import shipment.

Total U.S. international trade documentation annually consumes more than a billion man-hours, equivalent to more than 144 million days of work, and equal to 600 thousand work years.

Average documentation cost per international shipment amounts to $351.04, divided $375.77 for exports and $320.58 for imports.

On the basis of current shipping volumes, total documentation costs aggregate almost 6½ billion dollars a year and, represent 7½ percent of the value of the total U.S. export and import shipments.

By identifying many of the problems and relating them to specific documents and procedures, the study established a foundation on which recommendations can be supported. Recognizing that the degree of involvement varies widely between parties, companies, and governments, the suggested

corrective steps and actions provide opportunities for all to reap the benefits of simplified documentation.

As an outcome of the study, a number of "Recommendations for Progress" have been developed for the effectuation of the program to simplify and streamline international trade documentation and procedures. These recommendations total twenty-eight (28) in number and are divided into three categories representative of the areas of greatest corrective interest. These are General, Government, and Industry; the Government category consisting of eleven Recommendations. While many of the problems do not stand alone, but are closely interlocked, the fact that more than one-third of the 28 Recommendations most closely involve Government action primarily, is a clear indication of the significance of the Government role in both the creation of and the need to eliminate or control paperwork and any possible occasions for the creation of paperwork.

A listing of these Recommendations involving Government will give an idea of their scope and their potential for improving the atmosphere and operational realities of our Nation's foreign commerce, particularly in view of the recently developing opportunities for increased East-West trade.

They are as follows (listed according to the numbering employed in the study):

Government

9. Replace the Government Bill of Lading with the Commercial Bill of Lading. Which is Now Aligned with the U.S. Standard Master for International Trade.

10. Review, Sponsor and Approve All Existing, New or Revised Transport Documents on a Centrally Coordinated Basis.

11. Sponsor and Encourage Programs of Statistical Exchange Between the United States and Other Countries on a Bi-Lateral Basis to Reduce Documentation and Simplify Collection of Import-Export Data.

12. Promote Inter-Government Programs to Eliminate "Counter Documentation" imposed by One Country in Response to Actions Taken by Another Country.

13. Encourage Other Governments to Grant Reasonable Tolerance Between Import License and Actual Shipment Data.

14. Simplify, Combine, Standardize, and Align Import Entry Documentation with the U.S. Standard Master for International Trade to Reduce the Complexity of Import Documentation.

15. Increase the Dollar Ceiling for Informal Entry of Merchandise.

16. Examine Customs Forms, Practices and Procedures involved in Administering Drawback to: (a) Simplify the Method by which Applicants Can Qualify and, (b) Provide for Payment of Drawback to Certified Recipients on a Current Basis.

17. Provide that Customs Adopt Commercially Acceptable Methods of Payments for Import Duties.

18. Replace All Special AID International Forms with Standard Commercial Documents.

19. Simplify Regulations and Procedures for the Issuance of Export Licenses by the Office of Export Control.

On January 26th of this year I testified before the Subcommittee on Foreign Trade and Tourism of the Senate Commerce Committee on S. 2754, the proposed "Export Expansion Act of 1971". On that occasion I outlined the results of the NCITD-DOT Research Study as I have done here and emphasized the absolute necessity, while seeking means to assist the foreign commerce of the United States, to avoid the proliferation of paperwork—and the extra personnel to process that paperwork—that too often springs up when Government agencies are established.

Since my testimony in 1969 and the enactment of Section 7(d) of the Export Administration Act of 1969, there has been improvement in the enforcement of the Act and in corrections in paperwork administration. Even now, the Office of Export Control (OEC) is working with industry on a proposal to simplify further the handling of the Shipper's Export Declaration, a separate form which we believe has outlived its usefulness and should be replaced by simpler techniques as soon as possible. The OEC is to be commended for the improvements they have undertaken. However, a great deal remains to be done, not only with respect to documentation problems under the Export Ad-

ministration Act but also those involving other agencies and other export and import controls. Proposals to alleviate paperwork problems just do not move fast enough within the government, and many offices and agencies continue to fight change and reduction of forms. While there have been some notable advances in OEC, the Bureau of the Census and some lesser ones in the Agency for International Development (A.I.D.), there is great need for improvement in the Bureau of Customs, the Department of Agriculture and the Department of Commerce.

Because of the deep concern of the Senate Committee on Banking, Housing and Urban Development, as stated in the Declaration of Policy of the Export Administration Act, "to formulate a unified trade control policy", we believe that a brief survey of some of the paperwork controls imposed on the export as well as import trade of the United States will serve to clarify the problems involved and highlight obstacles which must be eliminated if the Congressional objective is to be achieved.

First, there is a serious lack of centralization of control of documents by the U.S. government. Based on U.S. laws, various U.S. Government Agencies have been given authority to control the export and import of designated commodities. The Atomic Energy Commission controls radioactive and fissionable materials and certain equipment pertaining to these commodities. The Office of Munition Control, the Department of State, governs the export of arms, ammunition and implements of war, and also the import of most of these commodities. The Department of Treasury controls the import of certain types of arms and ammunition. The Office of Export Control, Department of Commerce, controls export of all commodities—technical data, and materials—which have not been specifically delegated to any other U.S. Agency by a U.S. law. Because of the very wide range of products manufactured by and made available for export by American companies it is necessary for them to understand and comply with the Regulations of all U.S. Agencies, and to assist numerous other companies and persons involved to comply.

Second, U.S. Regulations are unbelievably complex. The Regulations of each U.S. Agency are complicated as well as very lengthy. Intensive application, hard work and experience in negotiating with the U.S. Agencies, have enabled some companies to develop considerable knowledge of the U.S. Regulations and the ability to effectively comply with the Regulations. However, evidence shows that many exporters have not been able to develop even an understanding of the Regulations. In addition, the length and complexity of the Regulations make the task of communicating the U.S. requirements to other persons and companies very difficult. For example, in the course of complying with the Regulations, it is essential that manufacturers interpret and communicate the requirements of the applicable U.S. agency to their own personnel who are responsible for exports and thus for compliance with U.S. Regulations. It is also necessary for them, in order to satisfy a customer's order, to communicate the Regulations to forwarding agents to enable them to apply for appropriate licenses and to otherwise comply with the U.S. Regulations. In addition, it is necessary for them to communicate with a large number of customers overseas. Accordingly it is extremely difficult in many instances to communicate effectively, to such firms and persons the requirements of the various U.S. Agencies. The complexity and the variety of the U.S. requirements make effective communications difficult and make prompt compliance by such parties difficult and subject to considerable delay. The complexity of U.S. Regulations in general, plus the large number of official forms required by U.S. Agencies, make prompt compliance with the Regulations difficult, and, in many instances, create delays in import and export transactions, which do not improve our nation's position in the world trade.

Third, the sheer number of U.S. forms constitutes a serious problem in itself. At times, they seem almost as numberless as the sands of the seashore. To illustrate, there is attached a compilation of *some* of the forms (total 37) required by U.S. Agencies for Export Control. The number and variety of the forms give an indication of the difficulty inherent in administering the present system. For example, the U.S. Department of Commerce Regulations require the use of more than 30 separate forms, many of which are used on a frequent basis. In addition to the U.S. forms frequently used, companies devise and use many more internal forms to enable their personnel to furnish the information required by the U.S. form. In addition to the forms, it is neces-

sary for them to issue a large number of memoranda and letters to advise their personnel of the U.S. requirements, revisions in Regulations, etc.

Fourth, compliance is difficult. Our NCITD members' experience shows that the Regulations of the four U.S. Agencies are complex to the degree that clear, effective compliance by personnel in general is extremely difficult. Our recommendation is that all four U.S. Agencies should revise and clarify their Regulations to enable U.S. companies interested in world trade to readily understand and effectively comply with the Regulations. The experience of our member companies for a number of years has been that forwarding agents in the U.S.A. can commit technical violations and irregularities because they have misinterpreted the regulations or found the Regulations beyond their ability to understand. Many companies found it absolutely essential to spend a considerable portion of their time and effort to interpret and communicate the U.S. Regulations to forwarding agents and other parties in the U.S.A. and overseas to enable them to comply with the U.S. Regulations as well as to satisfy the customer's requirements for U.S. origin commodities.

Consistent with the recommendations in the NCITD-DOT Research Study most closely involving Government (set forth above), it is our considered opinion that a drastic revision of all U.S. export and import Regulations is required if firms in the United States are to effectively increase their total exports. More simple Regulations would undoubtedly encourage other U.S.A. companies to become active in overseas business.

Each U.S. Agency should streamline its current detailed procedures by adopting a new system of review and approval. Each U.S. Agency could use the existing worldwide facilities already available to the U.S. Government to investigate overseas customers and to investigate end uses of U.S. origin commodities. Such a program, if effectively and timely administered by the U.S. Government, could eliminate a vast number of paper forms; eliminate the current confusion and inability of customers to complete the forms; eliminate the need for customers to investigate, before resale of the commodities, whether their proposed customer is listed on any U.S. list of "prohibited parties denied access to U.S. origin commodities"; eliminate delay in supplying commodities to overseas customers; enable U.S.A. firms to reduce their administrative expenses in complying with current U.S. Regulations, and enable U.S.A. firms to more effectively compete in world trade.

The resulting increased exports would effectively support the U.S. Government in its Policy to achieve a favorable trade balance, with the highly desired result of eliminating the current balance of payments problem. In this respect, compare the effort of Japan for example, with the effort of the United States. The Japanese world trade effort is an effectively integrated process from the smallest firm up to and including the Prime Minister and his government. Their approach enables Japan to furnish commodities on extremely favorable terms to practically every market in the world. The U.S.A. could achieve the same results if the U.S. Government made a similar effort to remove the present barriers to exporters, one of the chief ones of which is the paperwork and related procedures barrier, and actively assisted and encouraged the exporters in their efforts to sell competitively any place in the world.

The time for dramatic action along these lines is particularly ripe in view of the recent lowering of barriers to increased East-West trade to which I have previously adverted. On February 10, 1972, the Office of Export Control (OEC) of the U.S. Department of Commerce announced the extension to Country Groups Q (Rumania), W (Poland), and Y (USSR and Communist-controlled countries of Eastern Europe and Outer Mongolia), of the established alternate procedure for reporting exports, under which qualified exporters may be authorized to file at the end of each month typewritten or handwritten, Form 2525–M, Shipper's Summary Export Declaration, or computer tapes, punched cards, etc., in lieu of individual Declarations.

In addition, OEC announced that for export control purposes, the People's Republic of China has been transferred from Country Group Z (North Korea, North Vietnam and Cuba) to Country Group Y, effective February 15, 1972. As a result, the lesser controls applicable to the USSR and other Group Y countries are now applicable to the People's Republic of China as is the monthly reporting procedure.

In implementing S. 1487, if approved, NCITD takes the position that greater

efficiency in the handling of export trade could be accomplished and the program for eliminating documents and simplifying paperwork procedures could be accelerated if two basic principles were observed. These are: (1) a formal program of discussion between the controlling government agencies and representatives of the commercial world before any changes are made in export control policy or procedures, and (2), in an effort to accomplish a reduction in the list of commodities subject to validated license control, those commodities generally accepted as "A" items in the present Commodity Control List, known in other parts of the world as the COCOM List, should be used as the guideline, together with such other commodities as may be specifically and individually justified.

As I previously indicated, the enforcement provisions of Section 7(d) of the Act may have served as a psychological brake on the proliferation of paperwork under the Act. Within the last few weeks NCITD has had consultations with OEC and Census regarding further procedures through which control responsibilities could be discharged while at the same time minimizing paperwork and procedures. Even with this increased cooperation and dedication to reduced reporting, we recommend that Section 7(d) be rewritten and tightened up.

We also recommend that any action taken on S. 1487 take note of the Recommendations set forth in the NCITD-DOT Research Study, "Paperwork or Profits? in International Trade", particularly those eleven Recommendations with which the Government is most closely involved and the Committee do all in its power to assist in their implementation. NCITD and the Office of Facilitation of DOT are working as closely as possible on the implementation of these Recommendations as they did on the development and preparation of the Research Study, and I am convinced that this joint activity will ultimately bear valuable fruit. But I believe that support and encouragement from the Congress and particularly from the Senate Committee on Banking, Housing and Urban Affairs brought to bear on the Government bodies involved, will stimulate and impel them to more vigorous action in the area of documentation reform.

Consider, for example, Recommendations 16(b) and 17 which involve the Bureau of Customs. NCITD has repeatedly tried to convince the Bureau of Customs that the methods for payment of Drawback and the methods of payment for import duties are completely outmoded and should be brought up to date. The NCITD proposal to provide for payment of drawback to certified recipients on a current basis was formally submitted to the Bureau of Customs on November 6, 1970, after several months of earlier discussions, and despite expressions of interest and a desultory exchange of correspondence since that date, little or no action has been taken by that Bureau to implement the proposal. Similarly, in the case of the proposal to provide that Customs adopt commercially acceptable methods of payment for import duties, discussions on which were inaugurated prior to June 30, 1970, the matter has just dragged along. To be frank, the lethargy appears to stem from the feeling that it is wrong to change practices that have been the norm from time immemorial and that there may be real or imagined legal obstacles to the progressive steps recommended by NCITD.

The United States business community which is concerned with export trade and which wants to stimulate and encourage the revitalization and expansion of that trade, for small and large companies alike, is desperately trying to achieve these goals. Indeed, it is for these very reasons that NCITD was formed. We therefore urge that your Committee instruct the Bureau of Customs and all other Government agencies involved in international trade documentation and procedures to undertake immediate and vigorous action to implement the joint NCITD-DOT Recommendations in the interest of removing obstacles to this Nation's foreign trade. We are certain that such admonition, linked to the consideration of the proposed extension of the "Export Administration Act" would be of immeasurable assistance in achieving the expressed goals of the Senate Committee.

NCITD very much appreciate the opportunity to present this statement to the Senate Committee on Banking, Housing and Urban Affairs and would be pleased to meet with members of the Committee and their personal staffs or the staff of the Committee to discuss these matters further, should that be so desired.

SOME OF THE FORMS REQUIRED BY U.S. AGENCIES

U.S. agency	Form No.	Title
I. Department of State:		
(A) Office of Munitions Control	DPS-5	Application for license to export unclassified arms, ammunition, implements, of war, and related unclassified technical data.
Do	DSP-61	Application for intransit or temporary import license for unclassified arms, ammunition, and implements of war.
Do	DSP-73	Application for license for temporary export of unclassified articles on the U.S. munitions list.
Do	DSP-85	Application for license to export classified arms, ammunition, implements of war, and related classified technical data.
Do	DSP-38	Application for license to import arms, ammunition, and implements of war.
See (B) Agency for International Development.		
II. Department of Commerce	FC-420	Application processing card.
Do	FC-419	Application for export license.
Do	1A-763	Request for and notice of amendment action.
Do	7525-V	Shipper's export declaration.
Do	FC-842	Single transaction statement by consignee and purchaser.
Do	FC-843	Multiple transaction statement by consignee and purchaser.
Do	FC-43	Statement by foreign importer of aircraft or vessel repair parts.
Do	FC-143	Request for authorization to distribute U.S.-origin commodities stocked abroad to approved customers.
Do	FC-243	Multiple transactions statement by customer of distributor of U.S. commodities stocked abroad.
Do	1A-743-A	Request for, and advice on, status of pending application, amendment, or reexport request.
Do	FC-1143	Distribution license consignee statement.
Do	FC-826/IRS 4522, FC-827.	U.S. international import certificate and supporting form international import certificate cross-reference card.
Do	FC-908	U.S. delivery verification certificate.
Do	1A-543	Service supply (SL) license statement by U.S. exporter.
Do	1A-544	Service supply (SL) statement by service facility or manufacturer.
Do	1A-1145	Request to dispose of commodities or technical data previously exported.
Do	BDSAF-138	Request for priorities assistance.
Other U.S. Department of Commerce forms, which we do not use, are as follows:		
	FC-957	Application for and notice of extension of project license.
	FC-988	Statement by ultimate consignee in support of project license application.
	1T-915	Notice of retained samples—U.S. Customs Service.
	1A-863	Notification of delivery verification requirement.
	1A-1014	U.S. exporter's report of request received for information, certification, or other action indicating a restrictive trade practice or boycott against a foreign country.
	FC-557	Export clearance continuation sheet.
	1A-1094	Report of exports.
III. Atomic Energy Commission	AEC-7	Application for license to export byproduct, source, or special nuclear material.
Do	AEC-2	Application for source material license (to receive, possess, use, transfer, deliver, or import to United States).
IV. Department of Treasury	6 (firearms)	Application and permit for importation of firearms ammunition, and implements of war.
Do	6A (firearms)	Release and receipt of imported firearms, ammunition, and implements of war.
U.S. Department of State:		
(B) Agency for International Development.	11	Application for approval of commodity eligibility.
Do	282	Shipper's certificate and agreement with the Agency for International Development.
Do	283	Certificate and agreement with the Agency for International Development concerning commission and service payments associated with commodity sales financed with foreign assistance funds.
Do	18-24	Development loan fund supplier's certificate.

APPENDIX

STATEMENT OF NORMAN LAVIN, PRESIDENT, BRASS AND BRONZE INGOT INSTITUTE

Mr. Chairman, Members of the Subcommittee: I am Norman Lavin, President of the Brass and Bronze Ingot Institute (BBII) located at 300 West Washington Street, Chicago, Ill. I am also president of R. Lavin & Sons, a producer of brass and bronze ingot. The BBII is a national trade association representing the leading producers of brass and bronze ingot. I appreciate this opportunity to appear here to support S. 1487 and recommend certain changes in the Export Administration Act of 1969.

Our industry serves an important role in the economy by recycling each year over 250,000 tons of copper and other nonferrous waste and scrap. From this waste and scrap we produce brass and bronze ingot—an economic raw material used by the nonferrous foundry industry to produce castings.

We believe that our recommendations will provide new jobs in the United States and help to improve the balance in trade. Each year United States industry consumes more copper than is produced in this country. Therefore copper must be imported to take care of our needs and in addition to replace all copper that is exported. This need is recognized in the suspension of the import duty on copper. In order to provide more jobs in the United States, exports of copper should be in finished goods and not raw material such as copper base scrap. When copper base scrap is exported and finished products containing copper are imported, which is now the case, the United States is in effect exporting jobs and also contributing to the trade deficit.

For more than 30 years, until January 27, 1972, exporters of copper base scrap were required to obtain validated export licenses from the Department of Commerce before making export shipments. For the past two years the authority for this licensing was contained in the Export Administration Act of 1969. Also under the authority of this Act, until September 3, 1970, exports of copper base scrap were subject to quantitative quota controls. The members of the BBII fully supported these export controls and believe that the removal of the controls in September 1970 and January 1972 was premature and not in the best interest of our nation.

Section 4(b) of the Export Administration Act of 1969 authorizes the President to prohibit or curtail exports in order to effectuate the policies set forth in Section 3. Section 3(2) states, "It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand . . ." We urge and recommend that Section 3(2)(A) be amended to make the policy more explicit. We believe that a review of the application of the policy, during the past six years, to exports of copper base scrap will show (1) that there was too much delay in instituting controls; (2) the level of controls was not adequate; and (3) the controls were removed too early.

Exports of copper base scrap were permitted to increase from 39,000 copper-content short tons in 1962 and 1963 to 94,000 short tons in 1964 and 79,000 short tons in 1965 before the Government placed quantitative quotas on exports. During the same period prices of scrap, as reported by the Bureau of Labor Statistics, increased 50%. We believe that the imposition of quantitative controls was fully justified at a much earlier date than November 1965.

Even with quantitative export controls in effect, exports continued to increase and reached 97,000 short tons during 1968. This increase was due to a major loop-hole in the Department of Commerce regulations which permitted unlimited exports of copper base scrap to Canada. At the time exports of short tons in 1965 before the Government placed quantitative quotas on exports from Canada to Europe and Japan were increasing at a similar rate. This loop-hole was not closed until December 1968 after exports to Canada

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had increased from 1,000 short tons in 1965 to 19,000 short tons in 1968. Again, we believe that there was too great a delay in taking action to close a major loop-hole.

Quantitative export controls were removed September 3, 1970 and exports of copper base scrap during the fourth quarter of 1970 increased to 39,000 short tons which was the highest since the fourth quarter of 1964. This action by the Department of Commerce was followed on January 27, 1972 by the removal of the requirement for validated licenses to export copper base scrap. As noted above, this requirement had been in effect for more than 30 years.

Attached to my statement is a memorandum the BBII presented to the Department of Commerce and other interested agencies on December 21, 1971 in support of the continuation of the requirement for validated export licenses.

The action to remove the validated license requirement was taken on January 27, 1972 even though there was a sharp increase in the exports of copper base scrap in December 1971. During the six weeks since the requirement for validated licenses has been removed there has been upward movement in the price of scrap which could be caused by an abnormal foreign demand. However, without the validated export license requirement there is no way to know until 30 to 60 days after the fact how much copper base scrap has actually been drained from the United States.

There are several factors that have come into play during the past 90 days that will no doubt stimulate the export of copper base scrap from the United States. This includes the currency realignment and the establishment of Domestic International Sales Corporations (DISC). With these programs in effect other commodities in addition are likely to be subject to an abnormal foreign demand which could cause a serious inflationary impact. However, without validated export licenses the Department of Commerce will not be able to accurately determine the level of exports on a current basis.

Exports are exempt from the Phase II price controls and therefore foreign demand could push the price of copper base scrap and other commodities higher than the domestic base price so that it could not be sold to a domestic consumer. (Since preparing the attached memorandum, the Internal Revenue Service in Cost of Living Council Ruling 1972-3 Dated January 14, 1972 ruled that "scraps and secondary material" are not exempt from price controls as used products.)

We suggest that the policy in the Export Administration Act of 1969 be clearly tied into the goal of bringing the rate of inflation down to 2-3% by the end of this year. The policy should require that the Department of Commerce immediately re-establish the requirement for validated licenses to export copper base scrap. It is only through such a program that the Department of Commerce can maintain timely surveillance over exports and be in a position to place quantitative controls in effect before the damage is done.

We also suggest specific guidelines be included in the Export Administration Act of 1969 for the imposition of quantitative controls so that they are not delayed as they were in 1965 and so that they are adequate to do the job.

MEMORANDUM IN SUPPORT OF THE CONTINUATION OF THE REQUIREMENT FOR VALIDATED EXPORT LICENSES FOR SHIPMENTS OF COPPER BASE SCRAP

The members of the Brass and Bronze Ingot Institute (BBII) recommend and urge that the Department of Commerce make no change in the present requirement for the issuance of a validated license for export shipments of copper base scrap to all destinations. Any relaxation of the requirement for a validated export license would be unwise, untimely and inconsistent with the New Economic Policy announced by the President on August 15, 1971. The requirement for validated export licenses is the best practical way for the Department of Commerce to maintain close surveillance over the supply-demand effects of exports before shipments are made abroad. A program of reporting exports after shipments are made would fail to provide the type of surveillance needed for a volatile commodity such as copper base scrap.

Background.—The Department of Commerce has required that exporters obtain validated export licenses for shipments of copper base scrap for more

than 30 years. In addition, during some periods of extreme short supply of scrap the Department of Commerce has also maintained quantitative export quotas. The most recent quantitative quota control program for copper base scrap was terminated on September 3, 1970. Since that date exports have not been subject to quantitative quotas, but exporters have been required to apply for and obtain a validated export license before exporting copper base scrap. Effective December 20, 1971 the export regulations were further relaxed by removing the requirement of including with the license application copies of the export order and extending the validity period of licenses issued.

The President has delegated his authority under the Export Administration Act of 1969 to the Secretary of Commerce by Executive Order No. 11533. In order for the Secretary of Commerce to exercise this authority to protect the domestic economy from the excessive drain of scarce materials, and to reduce the serious inflationary impact of abnormal foreign demand, we believe that it is essential that he have complete information on anticipated levels of export of copper base scrap. The markets for copper base scrap and supply-demand situation can change overnight, thus making it necessary to have information on levels of export before material is shipped from the United States.

We agree that applications, reporting and other paper work is burdensome and should be reduced to a minimum. However, a certain amount is necessary, such as orders from customers, bills of lading, letters of credit, and shipper's export declarations. The requirement for the issuance of a validated export license should not cause any great inconvenience or hardship. The Office of Export Control issues licenses within four or five days from the time the application is received. We believe that the current market situation fully justifies the use of the export license application procedure in exporting copper base scrap.

Exports of copper base scrap remain high.—The brass and bronze ingot industry uses as raw material both copper scrap and copper-base alloy scrap as well as refined copper. However, the industry's primary source of copper units is copper-base alloy scrap. Since the end of World War II annual exports of copper-base alloy scrap have fluctuated between 1,184 and 122,175 short tons.

The largest amounts of copper-base alloy scrap were exported during 1960 and 1961 when quantitative quotas were not in effect. The third highest year in history was 1970 when 110,365 short tons were exported. This was not far behind the average of 119,414 short tons exported during 1960 and 1961 and was equal to 35% of the scrap received by ingot makers.

During the first six months of 1970 exports of copper-base alloy scrap were at an annual rate of 102,757 short tons. There was a drop in exports after June 30 due to the longshoremen's strike. (However, during the four-month period July-October when some ports were closed by strikes exports were at an annual rate of 47,535 short tons.)

During the first quarter of 1971 there were 27,245 short tons of copper-base alloy scrap exported. This is the largest amount for any quarter since 1961 except the third and fourth quarters of 1970.

We believe that upon full resumption of activities at all ports there will be a sharp increase in the export of copper-base alloy scrap. This is confirmed by the fact that export licenses issued during November were for a larger amount of scrap than any month since June.

Volatile price of copper-base alloy scrap.—The price of copper-base alloy scrap is extremely sensitive to the supply-demand situation. During the past 10 years reports of the Bureau of Labor Statistics show that the average monthly price of heavy yellow brass scrap has fluctuated between 15¢ and 36¢ per pound, and No. 1 composition scrap between 19.8¢ and 49¢ per pound. In other words, during that period there has been price increases of over 100%. The present prices are below the highs noted above; however, an increase in the demand for United States scrap by foreign consumers could very quickly move the domestic price up and cause a serious inflationary impact on our economy.

The currency realignment now agreed to by the United States government and foreign governments will have the effect of making United States scrap more attractive to foreign buyers. The use of validated licenses is the only

practical means of monitoring the flow of exports and to be in a position to prevent an excessive drain of copper-base alloy scrap from the United States.

Phase II and copper-base alloy scrap.—The President's New Economic Policy includes the goal of limiting the rate of inflation to 2 to 3% by the end of 1972. The members of the Brass and Bronze Ingot Institute are in full accord with the goal. Since the stabilization program has been in effect, there has been a decrease in the price of brass and bronze ingot.

However, the regulations of the Cost of Living Council and Price Commission do not preclude substantial increases in the prices of copper base scrap and ingot. Section 101.32(e) of the Cost of Living Council regulations exempts from the price stabilization program "used products" apparently because of the difficulty of regulating prices of such items. Therefore, there is no limit on the amount that prices on copper base scrap can increase under the Phase II stabilization program. The regulations of the Price Commission permit increases in the price of scrap to be passed through to the price of brass and bronze ingot and the thousands of products produced from ingot. However, we are certain that it is not the desire of the Cost of Living Council or Price Commission to have price increases in scrap or ingot. Therefore, since the Export Administration Act of 1969 is clear in its authority to use export controls to reduce inflationary impact, we urge that its effectiveness not be reduced now by not requiring a validated license for exports of copper base scrap.

Most economists are predicting an increase of 9% in the GNP during 1972. This growth will increase the demand for copper-base alloy scrap in the United States thereby requiring closer monitoring of exports.

Balance of payments problem, copper base scrap.—There is no question as to the seriousness of the United States balance of payments problem. Actions have been taken and other actions are under consideration and discussion to stabilize the dollar. As noted above, some of these actions will result in changes in exchange rates that could create a greater demand for United States copper base scrap. We fully realize that increased exports are needed to solve our balance of payments problem; however, increased exports of copper base scrap would be self-defeating for several reasons. First, even though the United States is the largest producer of copper in the world, it is a net importer of copper. Therefore, each copper unit exported as scrap or in any other form must be replaced by imported copper. Second, exports reduce the supply of scrap in the United States with the resulting inflationary impact.

Therefore, in view of the monetary actions being taken at this time, we believe that it is very important that close surveillance be maintained over the quantity of copper-base alloy scrap being exported.

Respectfully submitted,

BRASS AND BRONZE INGOT INSTITUTE.

DECEMBER 21, 1971.

CAMERON IRON WORKS, INC.,
Houston, Tex., March 11, 1972.

Senator WALTER F. MONDALE,
Subcommittee on International Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR MONDALE: I understand that the Sub-Committee on International Finance is currently holding hearings on the Export Control Act. I would like to express some of my views on that Act as it now exists.

I believe that it is imperative for the United States Government to aggressively explore all methods of expanding international trade. This most definitely includes trade with the Eastern European countries. Not only is this important from a balance of payments standpoint, I think it quite naturally follows that increased trade will lessen international tensions. I believe that the passage of the Act, as it is now proposed, would definitely help in expanding trade with Eastern Europe.

One of the most serious obstacles to expanding trade with Eastern Europe are the export controls on certain items which cannot be considered as strategic. This is definitely true in the case of items that are not on the Cocom

List where our competitors in other western countries are permitted to sell goods that US manufacturers cannot. I would further suggest that the Cocom List be reviewed quite carefully to include only those items directly related to the national security. I think it would be of assistance if businessmen, who are active in the manufacture and sale of items under consideration for inclusion on the Cocom List, be consulted before a decision is made.

Finally, and I think this may be important in discussions with those who are opposed to liberalizing the foreign trade regulations in the United States, I think it is important to point out that our foreign trade posture will change as the international political scene changes. For that reason, rather than attempting to pass an act of an indefinite duration, I think that renewals and/or modifications should be required to the act at fairly short intervals, say one year.

I hope these comments will be of help to you in your committee deliberations.

Very truly yours,

GEORGE A. HELLAND, Jr.,
Vice President.

STATEMENT OF ERWIN TOMASH, CHAIRMAN OF THE BOARD, DATA PRODUCTS CORP.

I. INTRODUCTION

Data Products Corporation is a typical, medium size, high technology, growth company participating in the data processing industry as a supplier of peripheral equipment. The company does not manufacture computers but rather manufactures auxiliary equipment used with data processing machines such as printers, card readers and punches, and core memories. Primarily the company sells to manufacturers of computer systems who, in turn, incorporate Data Products devices into their product for ultimate sale to the end user.

Data Products Corporation was founded ten years ago. Annual revenues are now in excess of $50 million and employment is approximately 2500. From the outset, the company has participated in international markets and on the average has exported 20 to 25% of its production. In keeping with most data processing equipment manufacturers, the company is multi-national in that it maintains sales offices overseas: operates a sub-assembly plant in the Orient where highly labor intensive work is carried on; and operates a plant in Ireland where products are assembled for sale in Western Europe.

Less than 20% of Data Products peripheral equipment revenues are attributable to the United States Government. Research and development efforts are company supported and product development is not dependent on government contracts. Essentially Data Products' viability as a supplier to the industry is based on its ability to engineer high performance products and to produce these products at low cost.

II. CURRENT BUSINESS ENVIRONMENT

In order to understand Data Products' present day opportunities for export, it is necessary to review briefly the worldwide data processing industrial position. In the United States, shipments of data processing equipment have flattened after a number of years of rapid and sustained growth. As a result, the domestic industry is going through a consolidation and maturation phase. Industrial combinations of various kinds (GE-Honeywell, Xerox-SDS, RCA-Univac, NCR-Control Data) are taking place and today most major domestic computer manufacturers provide internally the bulk of their peripheral equipment needs.

Offsetting this trend toward consolidation and integration has been the emergence in recent years of many new smaller participants in closely associated fields such as minicomputers and process control. These new entrants represent a new and continuing market opportunity for the peripheral equipment supplier. Unfortunately, the recession of 1970–71 has been particularly damaging to these less well established newer entrants and has slowed their growth.

To sum up the market position in the United States, peripheral equipment companies have been going through a difficult period due to economic recession, increased foreign competition, continued consolidation by major customers and the difficulties felt by new entrants, resulting in a marked overall slowing of demand for independent peripherals. The record speaks for itself as most peripheral equipment companies large enough to report their earnings publicly have reported reduced earnings or losses for the past two years.

In Western Europe, American peripheral equipment companies successfully and profitably exported their products during the 1960's. The independent European based companies purchased American peripherals which, in turn, enabled them to compete with the American computer system manufacturers who dominate the industry worldwide. In the recent past, the rate of vertical integration and industrial consolidation has accelerated in Europe as it has in the United States. Associations of French, German, Dutch and English companies are being formed in the face of American competition, flattened market demand and higher costs. While these foreign companies are not yet completely integrated, they now supply a major percentage of their needs internally and are selling to each other to augment product lines. They are busily at work rationalizing production, setting up joint development programs and developing the capability to become net exporters of peripheral equipment. Exports of American built peripheral equipment to Western Europe, while continuing, have not grown and indeed appear to have slowed.

The story in Japan is well known. There the government has carefully nurtured Japanese peripheral capability by effectively prohibiting imports. Licensing and joint venture arrangements have been encouraged and the Japanese market carefully protected from American companies until these licensed industries could establish sufficient capability to compete. Thus, American peripheral equipment manufacturers have received some license revenue but have had only limited success in actually exporting product to Japan. The Japanese currently are producing peripheral equipment of all types for their own market and can be expected to be a factor in world markets in the future.

In this difficult business environment, only new markets, particularly those of Eastern Europe, represent potential for expansion. The growth in demand for computing capability throughout Eastern Europe is unquestioned. Computer systems manufacturers are well aware of this opportunity and are eager to supply complete computer systems. The Eastern European countries are not so eager to purchase on a large scale since, as is to be expected, they plan to establish an indigenous industry. The situation is further complicated by the fact that computers are general purpose instruments and accordingly can be used for both civil and Military use. Just as a precision machine tool can be used to produce automobiles and missiles, a high speed computer system can be used interchangeably for medical research or weapons research.

Thus, the Eastern European export opportunity presents a complex challenge. On the one hand, the Socialist countries are determined to set up their own computer industry and indeed can be relied upon to do so. On the other hand, it is clear that these same countries will not be able to supply their own needs for at least a decade and will be heavy net importers of data processing equipment. The issue of national security adds to the complexity.

The importance of Eastern Europe to the independent peripheral manufacturer is manifest. For the next several years the Eastern European countries represent a major computer equipment market opportunity as they strive to develop their own industrial capacity. Constructive action to permit American companies to compete on equal terms with Japanese and European manufacturers should be taken or this significant opportunity for export will be lost.

The Socialist countries have launched a comprehensive program to develop a broad full line of computers known as the RAJD series. The question is not will the RAJD program succeed, but rather how will the United States participate in this development. Today, America has the products that the Socialist countries want. The Western Europeans and the Japanese are now in a position to compete for this business. Their product is not quite as good as the American product but it is adequate for the purpose. By moving ahead vigorously to provide American equipment to Eastern Europe now, trading

links and associations will be formed which will last for decades. By refusing to participate with the Socialist countries as they build their own industry, our competitors will forge these links.

In summary, in his traditional markets the independent peripheral equipment supplier is faced with significant business problems in the years ahead. Domestic and freely accessible foreign markets are going through a period of flattened demand and industrial consolidation and, at the same time, competition from Japanese and Western European manufacturers seems certain to grow. Only with regard to Eastern Europe is the picture brighter. This potentially huge market, to which access has been strictly controlled and greatly restricted, is characterized by large demand for peripheral equipment products.

III. EXPERIENCE TO DATE

The growing market opportunity in Eastern Europe was first studied by Data Products in 1969. In March 1970, a one man sales office was set up in Vienna, Austria with a budget of $100,000 for a two year period. During the first year, orders amounting to about $80,000 were received and currently in the second year orders received amount to about $1,200,000. In nearly every case, the business booked represents first requirements and the customer will soon require additional equipment. In every case, competitive equipment is available from Japanese and Western European sources and, in some few cases, adequate equipment is available from Eastern European sources. In almost every case, the United States price was higher. In every case, this equipment does not represent the edge of the state of the art and none even represents the best equipment available commercially in the United States today. No special financial arrangements such as barter and discounts were made. Terms of trade were dollars on deposit in the United States at time of shipment.

To sum up, experience has shown that with a modest but continuous sales effort, coupled with sound home office technical support, American peripheral equipment products can be sold successfully against foreign competition in Eastern Europe.

IV. CURRENT DIFFICULTIES

Present United States export policy and administration present a number of difficulties to seller and buyer alike. Among these are:

1. The existence of a lengthy embargo list in addition to the COCOM list.
2. The length of time required to obtain export license.
3. The requirement for specific identification of the end-user for each item ordered.

The embargo list of high technology items is, of course, an element of overall United States defense strategy. No American company wishes to see our defense posture compromised. However, high technology is usually characterized by high rate of change and obsolescence. It is therefore essential that our embargo list be reviewed at frequent intervals and in consultation with industry to be certain that we are not attempting to keep control of generally available technology and, thus, only inhibiting the ability of American companies to export.

For example, Data Products manufactures a full line of high speed and low speed line printers. These units are on the embargo list. The machines are known as drum printers because the font is carried on a rotating cylinder known as a print drum. Drum printers are in use all over the world today. However, they are not at the technological forefront. The most advanced printers today are known as chain printers. IBM no longer even manufactures drum printers. All major suppliers of computers in the world manufacture their own printers. Western European suppliers, ICL, Siemens and Honeywell-Bull, are in volume production of drum printers. The Japanese are also in volume production and have been for years. Clearly, the technology is wide spread and well understood. Yet Data Products cannot freely export drum printers to Eastern Europe. A product no longer of interest to any major computer maker is still on the embargo list to Eastern Europe.

As another example, Data Products manufactures a line of punch card readers and punches. As is well known, equipment to read punch cards has

been in production for many years. Again, all major suppliers of computers in the world manufacture a full line of punch card equipment. Data Products, through technical innovation, has produced low cost machines designated for use with minicomputers and in process control applications. These units are attractive to the Eastern Europeans despite the fact that punch card equipment is manufactured in both East Germany and Czechoslovakia. Yet Data Products has now waited nine months and has not yet received a license for one card reader to be shipped to Poland. This same card reader has already been shipped to Bulgaria under an export license which took four months to obtain.

Finally, Data Products manufactures core memories which are also on the embargo list. Core memories are used as the central memory in the vast majority of computers in use today. The technology is understood worldwide and core memories are made in Western Europe, Japan, and in Eastern Europe. In the last few years, the technology has shifted and semi-conductor memories have started to replace core memories. For example, the latest IBM machines use semiconductor memories and the newest American minicomputers use semiconductor memories. Yet, Data Products cannot export core memories without an export license.

It is unreasonable to expect that government officials be conversant with the state of the art and the competitive market environment for each detailed item of high technology equipment. It, therefore, seems in order to establish by law some formal communication medium to permit and encourage industry and government to work together in establishing the detailed specification for each item on the embargo list. This list should include no items not on the COCOM list and, in addition, should be made up only after intensive consultation between industry and government.

A second major difficulty relates to the length of time required to obtain an export license. The delay is, of course, occasioned in part by the size of our embargo list and the fact that it is continually growing out of date.

A reversal of administrative techniques would be helpful. Export license applications should automatically become effective 30 days after application is filed unless the Department of Commerce notifies the applicant of rejection and defines the problem. In this manner, the burden for expediting action will fall on the licensing authorities rather than on the applicant.

Finally, export regulations impose an impractical prohibition on the export of peripherals which, while unintended, serves to effectively prohibit all but token exports. Licensing authorities require identification of the end user and definition of equipment application before licenses are issued. As a supplier to computer systems builders, this requirement is almost impossible to fulfill. Typically, Data Products works with a computer system manufacturer over a period of time, supplying first samples and prototypes. We are then "designed in" to the product. Thereafter, shipments are made in bulk to the manufacturer as he, in turn, goes into production. Orders are usually on a multi-year basis with shipment schedules defined at intervals. Quite obviously, the computer manufacturer in Eastern Europe does not know when placing a bulk order for peripheral equipment where he is going to ship the end system. The requirement for identification of end use simply makes doing business with Eastern Europe impractical.

V. RECOMMENDATIONS

1. The embargo list should be limited to the COCOM list.
2. A joint industry-government board should be established to define, review, and up date the embargo list on a regularly scheduled basis.
3. Export license applications should automatically become effective 30 days after date of application unless the Department of Commerce advises the applicant of a rejection and the reason therefor.
4. The requirement for end-user identification on peripheral equipment should be eliminated.

STATEMENT OF THE ELECTRONIC INDUSTRIES OF THE UNITED STATES

DEAR MR. CHAIRMAN: The Electronic Industries of the United States are proud of the export record which they have achieved and believe that this

export business, which amounted to more than $3,500,000 in 1970, made a significant contribution to the economy and to the material welfare of the United States. Further, the Electronic Industries Association suggests that U.S. export business, as a matter of national policy, should be encouraged by the Government in all appropriate ways.

In December 1969, the Congress took a constructive step in support of this policy by enacting the Export Administration Act, a law which, while authorizing a continuation of export control regulations, required the administrators of those regulations to review and revise these regulations so that unnecessary burdens on the U.S. export industry might be removed. The Executive Branch, and particularly the Office of Export Control, has made progress toward this objective. However, with the increasing need for a vigorous and growing U.S. export industry, all laws and national policies related to U.S. exports should be subjected to careful consideration in the councils of Government.

Therefore, with respect to the Export Administration Act, which is scheduled to expire June 30, 1972, the Electronic Industries Association urges Congress to take no action which would involve any long-term extension of this important legislation and specifically recommends that no action be taken on the Administration's request for a four-year extension of the Act until public hearings are held and Congress has had an opportunity to review the effect of present regulations, the progress which the Executive Branch is making toward the removal of unnecessary regulations and the desirability of amending the Export Administration Act to provide timely guidance to the Executive Branch concerning the wishes of Congress with respect to this important matter.

The Electronic Industries Association believes that certain export regulations are in the national interest and must be continued. Accordingly, it would seem that a short-term extension of the Act, for say 90 days, would afford the Congress time for fuller deliberations on this matter. The Electronic Industries Association would welcome the opportunity to testify and present its views at such times as the appropriate committees of Congress hold hearings on this legislation.

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

My name is Herschel Cutler. I am Executive Director of the Institute of Scrap Iron and Steel, Inc., the national trade association representing 1300 member firms directly and indirectly involved in the processing and brokering of iron and steel scrap and related commodities. My office is located at 1729 H St., N.W., Washington, D.C. 20006.

Prior to assuming my current position in January, 1972, I was Associate Professor of Transportation and Business Administration, The American University, Washington, D.C., and President, Distribution Economics Educators, Inc., a firm of independent transportation consultants. I was Assistant to the Economist and Associate Economist of the Association of American Railroads prior to my academic experience. I was awarded a Ph. D. in Economics from the Maxwell School at Syracuse University and, at present, remain an adjunct Professor at The American University.

The Institute understands and supports the concept of export controls available on a contingency basis "to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand." (P.L. 91–184, Sec. 3(2)(A)). The Institute understands and supports the theory and concept of the Export Administration Act of 1969 and, thus, supports S–1487, the bill which would extend the provisions of that Act through June, 1975.

However, there are two areas of extreme concern to this industry that compel comment which in no way modifies our support of S–1487. In fact, these comments hint at a means to more effectively implement the declaration of policy contained in the original Act. In that spirit, the Institute offers its opinion on (1) the matter of improper potential use of export controls to regulate domestic price and (2) the need for viable standards to establish when export controls should be instituted in the public interest.

Since the purpose of the Export Administration Act is, obviously, to insure a viable *domestic* economy as well as a healthy *export* industry, the key concept must be supply availability, not price control. The clear objective of the Act is to insure availability of materials, as is evident in the findings of Congress listed in Section 2 P.L. 91-184.

The concept of an "excessive drain of scarce materials" is obviously supply oriented and price does not properly enter that analysis except for one specific condition. Price is *only* of interest in the matter of the "serious inflationary impact". It is important to note, however, that a "serious inflationary impact" is *not* portrayed by short run price swings but rather is characterized *only* by long run movements or trends of escalating prices. The fact that a price for a given product might at any moment be higher than desired by domestic consumers does not, by any stretch of the imagination, pose a "serious inflationary" problem especially if such price fluctuations are inherent to a freely traded, marketable commodity. It would obviously be a misuse of the export control concept to force a domestic price ceiling on a commodity otherwise freely traded for the purpose of reducing domestic costs, when the *supply of that commodity is more than sufficient to meet both the domestic and the foreign demands then in existence.*

With that as background, the second problem, namely the need for effective criteria to establish whether export controls are required, comes to the fore. The Act is silent about criteria or standards available or necessary to establish when "an excessive drain" is occurring or when a "serious inflationary impact" is in existence.

The absence of such standards provides solace for those desirous of controls in the interest of price limitations while the absence of such criteria makes difficult the position of sellers in that they have no guidance as to elements of proof that would demonstrate the lack of justification for such controls. This does not mean that precise criteria should be legislated because such is not only of questionable value but would most likely be more of a hindrance than a help. Rather, what is suggested is the preparation of descriptive criteria recognizing the role of supply availability at any given moment. Such criteria require study of all parameters of supply and this Institute is about to undertake such an effort. The results of the study will be made available as soon after completion as possible.

It is the policy of this Government to stimulate a sound domestic as well as foreign commerce and the conceptual framework of the Export Administration Act was designed to codify that premise. This Institute recognizes that at certain times and under specific conditions, short term export controls might be required in the public interest and thus we support the extension of the Act through 1975. The main thrust of our statement, however, is that under no conditions should the policy of this Act be broadened to enhance price control under the guise of supply shortages. The way to preclude such an erroneous application would be to develop general criteria guidelines for the declaration of an emergency condition requiring the limited introduction of export controls in the public interest.

MATTISON MACHINE WORKS,
Rockford, Ill., March 14, 1972.

Senator MONDALE,
Chairman, Subcommittee of International Finance of the Senate Banking, Housing, and Urban Affairs Committee, Washington, D.C.

DEAR SENATOR MONDALE: The Export Administration Control Act of 1969, which involves export licenses issued by the Department of Commerce for shipment to the Communist countries, directly affects our activities and interests in the Soviet market.

Further expansion of East-West trade is vital to Mattison Machine Works.

The extinction of unilateral controls by the United States Department of Commerce is strongly advocated to further necessary expansion of legitimate East-West trade.

In developing United States export policies, the use of United States businessmen as consultants should be a firm policy. Our U.S. businessmen

have a special knowledge of, and special interest in our country's export activities.

The present Act should not be extended to more than one year because of the fluid situation of the East-West trade. When considering new approaches for export restrictions, current developments should be taken into account.

East-West trade needs to be expanded. Besides, politicians sometimes need help from U.S. businessmen to smooth the way for later and more realistic political relationships between countries.

Sincerely yours,

P. L. MATTISON, Jr.,
Secretary, Sales Manager.

STATEMENT OF M. J. MIGHDOLL, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF SECONDARY MATERIAL INDUSTRIES, INC.

My name is M. J. Mighdoll, and I am the Executive Vice President of the National Association of Secondary Material Industries, Inc. (NASMI), and I am pleased to have the opportunity to submit this brief statement to the Senate Banking Committee's Subcommittee on International Finance with reference to S. 1487, a bill designed to extend the Export Administration Act for a period of four years.

NASMI, of course, is the trade association which represents America's metal, paper, rubber and plastics recycling industries. Its 700 member firms are located throughout the United States and they include collectors, processors, consumers and exporters of recycled solid waste commodities, principally ferrous and nonferrous metal scrap, waste paper and textiles.

Today, the Federal Government is vitally concerned about our Nation's growing mountains of solid waste materials which defy effective economic disposal and both Congress and the President have decreed that all impediments and disincentives to the recycling of these solid waste materials must be removed. Indeed, Congress passed the Resource Recovery Act of 1970 and expressly directed that all federally-sponsored disincentives to recycling should be eliminated at the earliest possible date. Recently, therefore, a Subcommittee of the Joint Economic Committee of the Congress held detailed hearings on the economic disincentives to recycling and as a result several agencies of the Executive Branch are presently studying ways and means to remove existing Federal tax disincentives to the use of recycled materials and how discriminatory rail and ocean freight rates which decrease or actually proscribe the utilization and exportation of recycled solid waste materials can be eliminated. The last mentioned problem is also under active consideration in connection with the Export Expansion Act of 1971 now before the Senate Commerce Committee.

Clearly, therefore, we believe that both the Congress and our industry necessarily must be certain that legislation such as the Export Administration Act now before this Committee is enacted or continued in such form and administered in such manner that it will not improperly, unfairly and baselessly prohibit that exportation of recycled solid waste materials from the United States to foreign markets where they are solely needed and where they can be advantageously sold by U.S. exporters.

In this connection, NASMI is deeply concerned, for example, by the proposal made by the American Iron and Steel Institute in testimony before this Committee on March 14, 1972, whereby Section 4(1)(a) of the Export Administration Act would be amended in such manner as to enable or require the Secretary of Commerce to impose export controls on recycled scrap metals from the United States simply because there might be some increased foreign demand, or even the mere possibility of future increased foreign demand, for U.S. scrap metals. Patently, the adoption of this Iron and Steel Institute amendment would furnish a drastic new, totally unnecessary criterion for the triggering of export controls when such controls should be imposed only when they are absolutely necessary and there is a clear cut, present, existing need to limit "the excessive drain of scarce materials" or the Export Administration Act presently provides.

The Iron and Steel Institute states in its testimony before this Committee that today the Department of Commerce "can take no action until after

abnormally high exports have occurred over a substantial period of time, and it has the full measure of statistical evidence that the exports in question are causing short supply and inflationary conditions in the domestic economy". Obviously, since the Congress specifically provided in the Export Administration Act of 1969 that "unwarranted restriction of exports from the United States has a serious, adverse effect on our balance of payments" and that uneven administration of export controls unnecessarily curtails U.S. exports, the Secretary of Commerce has clearly proceeded correctly, wisely and properly in his refusal to impose controls simply because some U.S. company or some U.S. industry envisions the future possibility of increased foreign demand for our recycled scrap materials.

Indeed, if changes are to be wrought by Congress in the Export Administration Act at this time, then NASMI and the recycling industries it represents urge that proposals such as the one made by the Iron and Steel Institute be flatly rejected in favor of amendments which would make it abundantly clear—

(i) that export controls on recycled materials should be imposed only when it is absolutely necessary and unavoidable to prevent the excessive drain of scarce materials which are vital to our national security or our national economy; and

(ii) that once imposed, export controls on recycled materials should be removed immediately and without unnecessary delay when they are no longer required to prevent excessive drains of scarce materials, vital to our national security or our national economy.

Recently, for example, export controls on copper scrap were maintained in one form or another during lengthy periods when they were clearly unnecessary. And, regarding one of the examples referred to by the Iron and Steel Institute, the Commerce Department patently erred when it imposed tight export controls on nickel bearing stainless steel scrap during periods in 1969 and early 1970 when there was no supportable reason for the continuation of such controls. The law should be made clear: Export controls on recycled materials should be put into effect and continued in effect only when they are plainly needed for the reasons mentioned above and they must be removed as soon as those reasons cease to exist.

If the Committee requires further information regarding any of the matters discussed above, we will be pleased to endeavor to supply it. In the meantime, we sincerely hope the Committee will give full, favorable consideration to the suggestions we have submitted in this statement and that nothing will be done here which will frustrate or defeat the National recycling goals set by Congress in the Resource Recovery Act of 1970.

NATIONAL FOUNDRY ASSOCIATION,
Westchester, Ill., March 8, 1972.

HON. WALTER F. MONDALE,
Chairman, International Finance Subcommittee,
Committee on Banking, Housing, and Urban Affairs,
U.S. Senate, Washington, D.C.

DEAR SENATOR MONDALE: This letter is submitted in support of S. 1487 by five national foundry trade associations.

We would appreciate our position, as explained in this letter, being made a part of the printed record of the hearings to be held on this subject, March 13–14, 1972.

The five organizations offering this statement of support for the aforementioned bill are the National Foundry Association, the Gray and Ductile Iron Founders' Society, the Malleable Founders' Society, the Non-Ferrous Founders' Society and the Steel Founders' Society of America.

The combined memberships of the associations presenting this statement operate 750 of the leading foundries in the country. Forty-five states are affiliated with the associations having members scattered throughout the United States. We also have members in Canada and abroad.

The foundry industry, as you know, plays a substantial part in the business world and the economy of the United States. It ranks sixth among all manufacturing industries based on value added by manufacture. The Commerce

Department's Census of Manufacturers indicated that this value added by manufacture of the foundry industry approaches six billion dollars annually.

Total casting production of the industry last year exceeded twenty million tons having a dollar value of over ten billion dollars. Despite this ranking and importance as a basic industry in the United States, the great majority of foundries are small companies with 82 percent of U.S. foundries employing less than 100 workers. Total industry employment is approximately 400,000 workers, many of whom are from minority groups.

We urge your subcommittee's favorable consideration of S. 1487 to provide for the "contribution of authority for regulation of exports" for three primary reasons:

1. Increased and unrestricted exports cause severe shortages of copper base scrap, copper base alloy scrap, low sulphur coal, metallurgical coke, ferrous scrap, nickel bearing scrap and other critical materials upon which our industry depends for its existence;

2. With unrestricted exports the demand will frequently exceed the supply thus causing spiraling inflationary prices at a time when the foundry industry is doing its best to cooperate with the national economic stabilization program; and

3. Future shortages of materials critical to our industry could not help but threaten employment.

Exports of raw materials have had a very serious effect on our industry. At a time when ecologists were pressuring power plants to use low sulphur coal, the foundry industry found its usual coke supply being diverted to power plants or being exported to Japan. The same situation existed with scrap. Only the recession of 1971 prevented serious disorders in normal supply and demand relationships on coke and scrap.

For the reasons expressed here, we respectfully recommend favorable consideration and passage of S. 1487 to keep in existence the necessary machinery to implement export controls should chaotic conditions caused by unrestricted exports dictate their exercise.

Respectfully yours,

WALTER M. KIPLINGER, Jr.,
Washington Representative.

NORTHWEST STEEL ROLLING MILLS, INC.,
Seattle, Wash., March 9, 1972.

Hon. WALTER F. MONDALE,
U.S. Senate, Washington, D.C.

DEAR SENATOR MONDALE: The writer is Vice President for Marketing, Northwest Steel Rolling Mills, Inc., Seattle, Washington. Northwest Steel is a small business with about 250 employees and has operated in Seattle, Washington since 1926. It produces reinforcing bar and other steel products from scrap steel. Scrap is first melted, cast into ingots, then bloomed and rolled into the final product. Northwest Steel is known in the industry as an independent producing mill.

We understand hearings are being conducted on March 13 and 14 regarding extension of the Export Administration Act of 1969. It is requested that this letter be made a part of the hearing record as the statement of the writer and Northwest Steel Rolling Mills, Inc., in support of extending the Act.

It is submitted that the Congressional findings which resulted in the adoption of the Export Administration Act of 1969 are as valid today as when the Act was adopted in 1969.

We are confident that the materials now subject to export control require a continuation of these controls. We know that there are materials not yet made subject to the Act which require these controls. We are referring in particular to scrap steel.

Scrap steel is the raw material, as distinguished from ore, for approximately 50% of all steel produced in the United States. Northwest Steel is but one of many steel producers known as scavenger mills because scrap steel is their sole raw material. Continued unrestricted export of scrap steel will seriously deplete the domestic supply, which will result in increased raw material costs having an inflationary impact on consumers and producers of steel products. Steel producers, especially on the West Coast, are already

suffering from unfair competition from imported steel. An increase in raw material costs resulting from this unrestricted export of scrap is the type of straw that can break the camel's back. We have furnished many governmental units with evidence of unfair competition from foreign produced steel, including evidence to the Tariff Commission resulting in findings of dumping by steel producers in Canada (1964) and Australia (1968).

We understand that the National Commission on Materials Policy will be analyzing material collected and developed from many sources and making recommendations for the purpose of developing a national materials policy. We believe that the Commission should be made aware of our views regarding the continuation of the Export Administration Act of 1969 and the need for including scrap steel as one of the commodities subject to export regulation. For that reason, we are forwarding a copy of this letter to the National Commission on Materials Policy.

We welcome inquiries from your committee or the National Commission on Materials Policy regarding any questions which we may be able to answer in connection with the Export Administration Act of 1969 and the need for applying export controls to scrap steel.

Very truly yours,

ROBERT L. PHELPS,
Vice President for Marketing.

TEE-PAK, INC.,
SUBSIDIARY OF CONTINENTAL CAN CO., INC.,
Chicago, Ill., March 24, 1972.

Senator WALTER F. MONDALE,
Chairman of the Subcommittee of International Finance of the Senate Banking, Housing and Urban Affairs Committee, Washington, D.C.

MY DEAR SENATOR MONDALE: To our knowledge, hearings were held during March with respect to the extension of the Export Administration Control Act of 1969.

Even though our company, Tee-Pak, Inc., a Wholly Owned Subsidiary of Continental Can Company, Inc., is not directly affected by the enforcement and restrictions of this Act as it pertains to trade with East Block countries, particularly the USSR, we feel compelled to encourage you as an advocate of minimizing East-West trade policies.

We have been selling synthetic sausage casings, Schedule B No. 8930012, to the USSR, which does not require a special license, and are presently engaged in further business discussions.

We feel strongly that worldwide trade, including trade with communist countries, revitalizes and stimulates our economy. The East Block countries offer vast opportunities.

The U.S. business man's usual initiative in exploring and exploiting new markets has been handicapped by undue restrictions placed on East-West trade. As a result, we find ourselves tracing the footsteps of Western allies.

From a U.S. business point of view, and I am certain this finds general agreement, we are anxious to penetrate Eastern markets more than possible to date. We can gain valuable experiences in the trade with planned economies and, at the same time, market our goods and develop friendly trade relations.

It is our opinion that it is only a matter of time before a peaceful coexistence materializes. Through your involvement as well as that of the U.S. business man who enjoys worldwide respect, this positive process can be accelerated.

In view of this we find it desirable to set the expiration date of a new Act for a year from its inception in order to accommodate changes in attitudes and political trends and remain flexible, without impinging on strategic materials and/or products.

We welcome the idea of using the U.S. business man as a consultant in the area of U.S. export policies and in the development of a revamped Cocom list.

We congratulate you on your efforts in promoting East-West trade.

Sincerely yours,

SEYMOUR OPPENHEIMER,
Chairman of the Executive Committee of the Board.

UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF AMERICA,
March 23, 1972.

HON. WALTER F. MONDALE,
Chairman, Senate Subcommittee on International Finance,
Washington, D.C.

DEAR SENATOR MONDALE: It has come to my attention that the International Finance Subcommittee has held hearings dealing with export controls affecting trade with the Soviet Union and its allied countries.

As you may be aware our union has a deep interest in this matter especially as it concerns our members who are employed in the machine tool industry.

The severe depression which has enveloped that industry has caused, for example, about half of the workers to be laid off in the Vermont machine tool plants where we are the collective bargaining representative.

The employers have told us that they have had repeated inquiries from Soviet trade representatives for very large orders but have been prevented from consummating contracts because of restrictions imposed by U.S. government regulations.

Last June our members in Vermont sent a delegation to Washington, which I headed, to urge the removal of the cold war bans on trade. At both the State and Commerce Departments, we were encouraged to believe that there would be early action to promote trade especially in view of the unfavorable trade balance. At both departments we were warned, however, that there was strong opposition from the Pentagon—a situation which we verified for ourselves in a meeting with some officials there.

From our talks with the employers we learned that the overwhelming number of machines that they have been kept from selling to the Soviet Union have been available to that country in Europe and in Japan—often under license from the American firms or from European subsidiaries of the very companies which could not sell from their American plants.

In other words, the profit came to the American companies but the jobs did not come to the American workers.

Recently it was announced that one of the companies we deal with, the Fellows Co., of Springfield, Vermont, had been granted export licenses amounting to $69 million for machine tools for the Soviet Union. A substantial part of this would be manufactured in the Springfield plant where half of the 800 workers have been unemployed for a year or more.

But we find that there are still additional barriers to the completion of contracts. We understand that these include Export-Import Bank credits, a severely restricted list of embargoed equipment. Besides, at a recent meeting of the Conference Board in New York City, Secretary of Commerce Peterson said that certain "political matters" would have to be cleared up before extensive trade could be developed. He did not elaborate.

Meanwhile, our members as well as hundreds of thousands of other workers are suffering the consequences of outworn policies. On the one hand the big American multi-national corporations are encouraged to export jobs to areas where miserably underpaid workers can be exploited even more than those at home while on the other hand, we are denied the opportunity of obtaining jobs which we are assured are there for the taking.

I hope your committee will be able to help remove the barriers which are keeping jobs from American workers.

Sincerely yours,

ALBERT J. FITZGERALD,
General President.

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