TARIFF AND TRADE PROPOSALS

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

ON

TARIFF AND TRADE PROPOSALS

MAY 11, 12, 13, 14, 18, 19, 20, 21, 22,
JUNE 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 15,
16, 17, AND 25, 1970

Part 2 of 16 Parts

(May 12 and 13, 1970)

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TARIFF AND TRADE PROPOSALS

TUESDAY, MAY 12, 1970

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

We are pleased this morning to have as our next witness the Secretary of Commerce, the Honorable Maurice H. Stans.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE; ACCOMPANIED BY STANLEY NEHMER, DEPUTY ASSISTANT SECRETARY FOR RESOURCES; LAWRENCE FOX, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL TRADE POLICY; FOREST ABBUHL, DIRECTOR, TRADE AND COMMERCIAL POLICY DIVISION; SETH BODNER, SPECIAL ASSISTANT TO DEPUTY ASSISTANT SECRETARY FOR RESOURCES; AND MICHAEL F. BUTLER, ASSISTANT GENERAL COUNSEL, DOMESTIC AND INTERNATIONAL BUSINESS

The CHAIRMAN. Mr. Stans, we appreciate your being here. You are recognized to proceed without interruption until you complete your statement.

Secretary STANS. Thank you very much, Mr. Chairman.

I would like first to introduce the people who are with me. Mr. Stanley Nehmer, Deputy Assistant Secretary of Commerce for Resources; Mr. Lawrence Fox, Deputy Assistant Secretary for International Trade Policy; Mr. Forest Abbuhl, Director, Trade and Commercial Policy Division; Seth Bodner, Special Assistant to the Deputy Assistant Secretary for Resources; and Michael Butler, Assistant General Counsel for Domestic and International Business.

The CHAIRMAN. We are pleased to have all of them here with you, Mr. Secretary.

You are recognized.

Secretary STANS. Thank you. I have a two-part statement, Mr. Chairman. The first relates to the administration's trade bill, and the second relating to the bill on textiles and shoes.

The CHAIRMAN. All right.

Secretary STANS. Mr. Chairman and members of the committee, before I turn to the specifics of the trade bill, I should like to provide you with a brief overview of where the United States stands in today's world trade picture and also touch upon our trade prospects for the immediate future.

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UNITED STATES AND WORLD TRADE IN PERSPECTIVE

By any standard, the postwar growth in world trade has been phenomenal. In the 20-odd years before World War II, there was very little net growth. World trade peaked in the 1920's and then fell sharply during the 1930's. In 1938, exports of all nations combined added up to less than $25 billion. By contrast, in the past 20 years, free world trade has grown some 350 percent, from exports of about $55 billion in 1950 to about $245 billion in 1969. The United States shared in the benefits of this unprecedented expansion of international trade. Our exports in the same period rose from $10 billion to over $37 billion.

Such vigorous postwar growth would not have taken place unless the nations of the world had determined not to repeat the mistakes of the 1930's in building higher and higher quota and tariff walls, engaging in ever-escalating retaliatory actions and waging mutually destructive trade battles. Instead, with the United States in the forefront, they decided to work together in a long-term effort to dismantle, to the extent possible, the multiple restrictions and protective measures that hobble the exchange of farm and industrial commodities between peoples, manufacturers and retailers of different countries.

Mr. GIBBONS. Have we a copy of the witness' statement?

The CHAIRMAN. Apparently not. We will just have to listen.

Secretary STANS. They are on the way, Mr. Gibbons.

The CHAIRMAN. Go ahead, Mr. Secretary.

Secretary STANS. For some two decades after World War II, the United States enjoyed comfortable export surpluses which provided strong support to our international payments position and helped importantly to finance our worldwide responsibilities. During the 1950's our trade surpluses averaged nearly $3 billion annually. From 1960 to 1967, they averaged over $5 billion annually. In the past 2 years, however, our export balances shrunk dramatically, hovering around the $1 billion range on a total trade turnover of some $70 billion. Such a narrow balance constitutes very thin support to our balance of payments and gives reason for concern about our present international trade posture.

Many reasons have been cited for our deteriorated trade position: The sharp expansion in our domestic economy, the apparent growth in consumer preference for certain foreign-made goods, the increased industrial capabilities and marketing know-how in Europe and Japan, the narrowing of our technological and managerial lead, more agricultural self-sufficiency abroad, and greater emphasis on the export sector in other countries. Competent analysts have differ widely among themselves as to the emphasis and weight to be accorded each of these factors in the total picture of cause and effect. This country's trade involves thousands of commodities being exchanged with over 100 countries. It is not surprising, therefore, to find even among the experts diversity of opinion in trying to analyze so complex a process subject to such a multiplicity of influence.

One thing is clear: Our export growth in recent years, which impressive in absolute terms, has not kept pace with the growth in foreign import demand or the growth in our own imports. In the last 5 years, for example, the annual rise in total U.S. exports averaged 7.6 percent, while the annual rise in foreign import demand averaged some 9.0

percent. Our manufactured exports rose an average of 10 percent a year while our agricultural exports actually declined. By contrast, our total import growth averaged about 14 percent a year, with the growth in manufactured imports averaging some 20 percent. Whatever the priority of causes for the deterioration we face the question: Is our present situation a temporary one or shall we recover in due time?

THE OUTLOOK FOR U.S. TRADE

For the short run, as much as one can read the crystal ball at this stage, we see a somewhat better trade balance for 1970 but it is too early to make any specific estimates.

Last year, our imports rose 8.5 percent over 1968. This year we would expect a somewhat smaller rise in imports. Much, of course, depends on the extent to which the slowdown in the domestic economy moderates pressures for imports. Conversely, our exports depend on the demand for imports abroad which could, in turn, be affected by a decline in imports in the United States. Most signs point to some slowing down this year in the rate of economics expension in Europe and Japan, but we hope that through our intensified export promotion measures we can at least maintain, if not incease, last year's export growth of 9.5 percent.

As for the longer term outlook, a guess is much more difficult. We hope, as I said, to maintain a good rate of growth in our exports. It appears probable that we shall reach our goal of $50 billion in exports by the end of 1973. On the import side, many more unknowns and variables are involved. But it seems fair to say that even with the slowdown in the growth of our purchases from abroad, it is not likely within the next few years that we shall achieve the spread between exports and imports that will restore our former annual surpluses of $5 billion.

When or whether the United States can regain balances of such magnitude depends upon how well we compete in the marketplace. Today, we stand on the threshold of a new decade of trade developments and we shall have to examine our trade posture from fresh perspectives.

The last decade gave rise to a host of factors which have deep implications for our future trade position: A completely recovered and economically strong Europe and Japan, an accelerating trend toward regional market groupings such as the Common Market in Europe, a proliferation of preferential trade agreements, an increasing, though as yet unmeasured, impact of multinational corporation operations, the growing capabilities of the developing countries in manufactured goods; and a substantial shift in the composition of our own exports and imports.

KEY POINTS IN THE TRADE BILL

The trade bill which you are considering, H.R. 14870, was not designed, as you know, to deal in detail with the substance of all of these aforementioned factors. No one bill could do that. But the trade bill before you will provide needed solutions to some of our more immediate and pressing problems. It is an important piece of legislation for several reasons.

From the standpoint of U.S. industry, a feature of this bill which I consider of prime importance is the proposed amendment of the escape-clause provisions. As you know, the escape clause permits the President to increase tariffs or otherwise impose restrictions if it is found that increased imports are causing or threatening to cause serious injury to a domestic industry. The basic reason for including an escape-clause mechanism in U.S. trade legislation has been to provide a reasonable period of time for the affected domestic producers to improve their operations so as to be in a better position to meet the competition from imports. The recent increase in demand for particular imported products has intensified the need for greater flexibility in being able to provide necessary relief to those who are injured. Under the provisions of the Trade Expansion Act of 1962, U.S. industries have generally found it difficult, I may say almost impossible, to obtain such relief. The proposed amendment will liberalize the criteria for findings of injury and thus provide desired flexibility. It will ease the eligibility requirements by reducing the test for import injury from major factor to primary cause. It would also eliminate the need to establish a causal link between the increase in imports and previous tariff concessions.

If adopted, the amendment will provide much less reason for American firms and workers to feel that their only recourse from import competition is to seek relief through special legislation.

It must be borne in mind, however, that making relief more readily available to our industry in the form of tariff adjustment or other restrictions on imports carries with it the responsibility to compensate countries whose trade may be adversely affected as a result, and who are legally entitled to such compensation under the provisions of the General Agreement on Tariffs and Trade (GATT). This is the primary purpose of the proposal to authorize the President to reduce tariff rates by 20 percent, and the two proposals are therefore interdependent. We must be in a position to offer compensatory tariff reductions to countries whose exports are adversely affected by the granting of escape-clause relief under the liberalized criteria. Otherwise, we can expect them to exercise their right under the GATT to retaliate against the exports of other U.S. industries.

ADJUSTMENT ASSISTANCE FOR FIRMS

That brings me to the feature of the bill for which the Department of Commerce has primary administrative responsibility, which is adjustment assistance for firms. The proposed amendment in the bill would clearly have the effect of making adjustment assistance more accessible to more firms. As in the case of the proposal on the escape clause, this amendment would eliminate the present requirement to prove a linkage between past tariff concessions and increased imports, a relationship which is at best exceedingly difficult to establish in a dynamic market situation. The administration's proposed amendment would also provide that adjustment assistance be available to firms if increased imports are a substantial cause of serious injury rather than the major factor as now provided. Major factor has been interpreted to mean at least 51 percent of all causes, whereas, substantial cause is intended to mean an actual and considerable cause but not necessarily one that is greater than any other single cause.

The bill would also transfer the function of making determinations on the existence and cause of injury from the Tariff Commission to the President, although the Commission would continue its fact-finding investigations. The change is intended to streamline procedures and place full responsibility on the executive branch, which is charged with administering the program.

Finally, the bill would give authority to grant adjustment assistance when an appropriate subdivision of a firm suffers injury. Under the present law, the firm as a whole must demonstrate injury in order to qualify for assistance.

We made no suggestions in the bill for changes in the assistance we are authorized to provide individual firms. This was because in the 8 years this program has been on the books we have not had the opportunity to certify a single firm as eligible to apply for aid and, consequently, we have had no experience in operating the program. However, the two escape-clause decisions by the President in February, one on upright pianos and one on sheet glass, made it possible for the first time in history for firms to apply for assistance. The Department of Commerce has now received a number of official requests for eligibility certificates and has been contacted by several firms for advice on application procedures and requirements.

Without the needed background of experience in administering adjustment assistance, I cannot tell you at this time whether the authority we have will prove adequate to the task envisioned by Congress of assisting injured or threatened firms to adjust to import competition. We are making a major effort now to organize so that we can be fully responsible to any firm that may be certified as eligible. We have assigned responsibility for administering the adjustment assistance program to the Office of Business Programs, of Business and Defense Service Administration in the Department. That office is coordinating our preparations within the Department and is establishing the necessary liaison with other agencies able to provide assistance under the program.

I would expect also that the Adjustment Assistance Advisory Board as provided in the Trade Expansion Act will take an active role in the development of adjustment assistance programs. That Board, which I chair, consists also of the Secretaries of the Treasury, Agriculture, Labor, the Interior, and HEW, the Administrator of the Small Business Administration, and other officers the President wishes to appoint. In view of the diverse agencies represented on the Board I think it can make a meaningful contribution to the development of a coordinated and sound program.

NONTARIFF BARRIERS AND ASP

A feature of the bill which may have longer range implications for U.S. trade policy, particularly if it is supplemented by an expression of congressional interest in pursuing the elimination of nontariff barriers, is the proposal to eliminate the American selling price system of valuation for certain products, primarily benzenoid chemicals. The elimination of the American selling price system would mean that other countries would carry out their agreements under the Kennedy round and move ahead further to reduce their tariffs on imports of certain chemical products. This action would thus improve our export

possibilities in major foreign markets. I am convinced that efforts to get our major trading partners to examine possible solutions for reducing or eliminating nontariff barriers will be significantly affected by the decision of the Congress on eliminating or retaining the American selling price. I may interpose that in my discussions in Europe last year and since then with European government officials, it was clear that they view the American selling price as a symbol of U.S. intentions to work in the direction of freer trade.

I would like to outline briefly for the committee how the efforts which our Government initiated concerning nontariff barriers are progressing in the GATT. The Committee on Trade in Industrial Products has completed a thorough-going examination of some 800 nontariff barrier items affecting trade and industrial products that were submitted by member countries. These barriers fall into five broad categories: Government participation in trade, such as subsidy programs and State trading enterprises; second, customs and administrative entry procedures; third, standards; fourth, quantitative and other limitations on exports and imports; and, fifth, the use of price mechanisms to limit imports and exports. Accordingly, five subgroups of this Committee have now begun to search for possible solutions to the removal of these barriers. All of the work so far is preparatory to possible further negotiations and does not involve any commitment to implement any of the solutions discussed.

A realistic view of the prospects for reducing or eliminating nontariff barriers is that progress will be slow and difficult. As in tariff negotiations, the principle of reciprocity applies. We will have to give something to get something. Most of our nontarff barriers, such as ASP, and those of other countries are statutory and can be modified only through legislative action. While there seems to be general agreement among our major trading partners that ways and means can be found for dealing with at least some of these barriers, we have had a number of indications that they are not prepared to commit themselves to work actively toward this objective without some assurance that the U.S. Congress supports the administration's efforts, and, of course, that is what we are asking in the bill.

The trade bill also proposed two additional means of strengthening the President's hands in seeking an end to certain foreign practices that unfairly impede U.S. sales abroad. Under one proposal, the authority the President now has to take action against countries which maintain unjustifiable import restrictions on U.S. agricultural products would be extended to cover our nonagricultural products as well. The second proposal would permit the President to take appropriate measures in cases where subsidized exports to third-country markets unfairly affect competitive U.S. exports in those markets as a result of that subsidization.

MEASURES TO EXPAND U.S. EXPORTS

This bill on the whole is geared primarily to give us needed tools to help handle our import problems. It does not mean that we are not seriously concerned with our export problems. The administration in the past year has probably taken more effective and meaningful steps to expand our exports than have been taken in any similar period of

recent history. To cite some examples, in the field of financing we have made encouraging progress in broadening the export financing programs of the Export-Import Bank and its private affiliate, the Foreign Credit Insurance Association. The Eximbank has been able to expand its participation in financing commercial export paper. The Bank is also using its guarantee authority to support greater commercial bank financing for exports. Also, the Federal Reserve has partially liberalized its restraint on foreign lending for U.S. exporters.

In the field of tax treatment of exports there has been progress. The administration has been working on a number of recommendations and Secretary Kennedy will discuss this further when he testifies.

In the field of transportation, we have taken two forward steps: We are in the process of completing measures to simplify shippers' export document procedures, and we have begun discussions with other governments on international standards for containerized shipments. We are also looking into proposals for reducing U.S. rail rates on exports and promoting use of U.S. flag vessels.

We have stepped up our efforts to encourage U.S. industry to export more of its products. We feel that the potential of American business to sell abroad is only being partially realized, since only 4 percent of our gross national product goes into exports. But many firms are unaware of the profit possibilities and opportunities to broaden their markets by exporting.

Commercial exhibits abroad have proved a valuable aid to export promotion. This fiscal year the Department of Commerce will stage 22 trade fair shows abroad and 51 shows in our overseas trade centers. These centers are located in key marketing areas which have a high potential for sales of American products. About 2,500 American manufacturers will participate. In the next fiscal year, beginning July 1, we intend to mount 23 trade fair exhibitions and 63 trade center shows. We will also improve the effectiveness of our trade centers by adding market development assistance services and more between-show activities.

Furthermore, we have established an International Business Assistance Service in Commerce to coordinate and expedite Government action on behalf of businessmen who need help on specific export problems involving U.S. or foreign government agencies.

In addition, we are making more sophisticated and comprehensive foreign market research available to U.S. business on specific export opportunities for specific products. We intend to improve this information service by the use of automated techniques. A number of trade missions to foreign markets will be expanded with more specialization in approach.

There is more to be done, of course, but we feel we are moving in the right direction and can take satisfaction in the real steps being taken to expand U.S. exports.

THE ROAD AHEAD

To conclude, the road ahead for United States in world trade gives every promise of leading to new heights in the volume and value of goods exchanged. But it will also have its rough stretches and tight turns. The measures which we request in the trade bill will permit us to

negotiate those stretches and turns with improved chances for success. They will provide the President with the flexibility he needs to further U.S. interests at the bargaining table and to act promptly when developments adversely affect those interests.

That, Mr. Chairman, is the first part of my two-part statement.

Textiles

As I said, I have a second portion on textiles.

The problem of textile imports is not, as the committee well knows, a new one. Rising imports of textiles and apparel have long been of concern to many in the Congress, to industry and labor, and to the executive branch.

President Nixon, as one of his early actions, asked me to work for international agreements that would enable us to assure a more orderly pattern of import growth for the future than has been the case in the past several years.

I shall describe the negotiations that have taken place thus far. But first, I would like to sum up the situation in the industry, with labor, and in the trade.

BASIS FOR ADMINISTRATION POSITION

The basic reasons for our position on the textile import question are as follows:

(1) The textile and apparel industry makes a major contribution to the economic health and well being of the country and its workers. At the present time, the industry directly employs about 2.4 million workers and provides the principal livelihood for many hundreds of thousands more on cotton farms and wool-growing ranches, in the manmade fiber industry, and in related service industries whose sales depend upon the continued good performance and strength of the domestic textile and apparel industry.

The industry is also a major employer of minority workers, of women, and of the underskilled. For the first time in many years, this industry now ranks above the national average for manufacturing industries in the employment of minority group workers. It is a vital source of job opportunities and job training for new entrants into the labor market, providing a continuing basis for their economic advancement. But employment has been declining in the past year. March employment was 53,000 lower than the previous March. We see a more substantial drop in the next 12 months if the trend continues.

(2) Notwithstanding the existence of the long-term arrangement on cotton textiles and the bilateral agreements thereunder, textile and apparel imports have increased dramatically. This has been particularly true of articles outside the scope of those arrangements. In 1962, our imports of cotton, wool, and manmade fiber textile products amounted to 1.5 billion square yards, of which cotton textile products accounted for 1.2 billion. In 1969, these overall imports amounted to 3.6 billion yards, with cotton textile products at 1.6 billion yards and manmade fiber textile products at 1.8 billion yards. We are importing in 1970 at an annual rate of 4 billion yards, so far.

So the increases are still continuing.

(3) The United States trade balance in textiles can be described in only the bleakest terms. As recently as 1961, we enjoyed an export surplus in textiles and apparel made from cotton, wool, and manmade fibers.

This position reversed itself in 1962, and in each subsequent year the deficit of imports over exports has climbed rapidly. In 1966 and 1967, it was over $500 million; in 1968, it rose to more than $800 million, and last year, it amounted to almost $1 billion. A key element in this trend is manmade fiber textile product imports. Between 1966, the last surplus year for manmades, and 1969, the balance in these products shifted from a surplus of $43 million to a deficit of $348 million. The deficit in wool textile products has grown from $192 million in 1961 to almost $400 million in 1969.

(4) Two key factors in the deterioration of this trade picture are, first, the existence of agreements and other unilateral measures by which other countries restrict access to their markets for the same products and; second, the large gap between wages in the United States and in other foreign textile-producing countries.

Restrictions on textile and apparel imports have long been maintained by other countries on products from the same countries now shipping so heavily to the United States. I am submitting for the record a detailed listing of these limitations—insofar as we know. Other limitations established through private agreements and administrative action also contribute to the channeling of exports of these goods to the U.S. market. These administered restraints long have been the subject of international complaint, but they evidently persist in many countries.

I have a list of these restrictions which I would like to submit for the record.

(The document referred to follows:)

FOREIGN IMPORT RESTRICTIONS ON WOOL/MAN-MADE FIBER TEXTILES

(Submitted by the U.S. Department of Commerce)

AUSTRIA/WOOL

AUSTRIA

Austro-Japanese trade agreement of November 1966 established a list of non-liberalized items which are subject to import licensing and global quotas. Certain wool yarn, fabric and apparel items are included on the non-liberalized list.

Austria has trade agreements with Albania, Bulgaria, Czechoslovakia, Democratic Republic of Vietnam, Democratic Republic of Germany, Hungary, Poland, Romania, Peoples Republic of Mongolia, Peoples Republic of Korea, Peoples Republic of China, USSR. Separate ceilings for wool products are not available.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Japan	Austro-Japanese trade agreement of November 4, 1966, extended through December 31, 1969, established a list of non-liberalized items which are subject to import licensing and global quotas. The wool textile items on the non-liberalized list are given below; specific ceilings are not in force.

Item	Tariff No.
Worsted yarn of sheep wool, not made up for retail sale	53.07
Yarn of sheep wool, of other fine or coarse animal hair or horse hair, made up for retail sale	53.10
Woven fabrics of sheep wool or fine animal hair	53.11
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and glued together other than goods falling under tariff number 58.06 (woven labels, badges and the like); all made from textile materials other than cotton	ex 58.05
Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases and sheaths, and similar bookbinding and box-making purposes; all from textile materials other than cotton	ex 59.07
Woven fabrics coated or impregnated with preparations of cellulose derivates or other plastics	59.08
Other fabrics, impregnated or coated; painted fabrics for theatrical decorations, studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton	ex 59.12
Elastic woven fabrics of other textile materials than cotton, combined with rubber threads, with a width of less than 30 centimeters	ex 59.13
Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.01

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Austria	Japan	Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton	ex 60.02
		Knitted stockings, under-stockings, socks, and the like, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.03
		Knitted (tricot) under garments, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.04
		Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.05
		Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic knee-caps and elastic stockings) made from textile materials other than cotton	ex 60.06
		Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10)	ex 61
		Other made-up textile products made from textile materials other than cotton, excluding travelling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made up articles including dress patterns (62.05)	ex 62

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Czechoslovakia	Under Article XXXV[1] of the GATT, Austria maintains restrictions on imports of certain wool products from Czechoslovakia. Given below are the liberalized items as of January 1, 1970. Licenses for non-liberalized textile/apparel products of all fibers are issued within an annual quota of $600,000.

Item	Tariff No.
Sheep's or lambs' wool, not carded or combed	53.01
Animal hair (fine or coarse) not carded or combed	53.02A, ex B
Waste of sheep's or lambs' wool or other animal hair (fine or coarse) not pulled or garnetted	53.03A 53.03B2B
Sheep's or lambs' wool or other animal hair (fine or coarse) carded or combed	53.05
Yarn of animal hair (carded or combed), not put up for retail sale	53.08, 53.09
Yarn of sheep's or lambs' wool, of horsehair or of other animal hair (fine or coarse), put up for retail sale	ex 53.10
Shawls, scarves, mufflers, mantillas, veils, etc. except of cotton	ex 61.06
Collars, flounces and similar accessories/trimmings for women's and girls' apparel, except of cotton	ex 61.08
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01
Other headgear, whether or not lined or trimmed	ex 65.03B

	Poland	Austria maintains general excepts from GATT liberalizations on the basis of Article XXXV against imports of certain wool products from Poland. Liberalized items are same as for Czechoslovakia. 1970 annual quota for non-liberalized textile/apparel commodities is included in $2 million for consumer goods of all kinds.

1/ Some countries continue legally to justify quantitative import restrictions directed at specific important textile exporting countries under GATT Article XXXV, which permits a GATT member to withhold the application of its tariff concessions or the provisions of the entire Agreement from another GATT member with whom it has not negotiated tariff concessions. This article was invoked by many European countries when Japan joined the GATT. Many of these countries have now disinvoked Article XXXV but rely on bilateral agreements or special valuation or other devices to protect domestic producers.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Romania	Austro-Romanian trade agreement effective January 1966 to December 1970. The list of liberalized wool textile products imported from Romania is identical with the list for Czechoslavakia. Import licenses for non-liberalized textile and apparel commodities are issued within an annual quota of $350,000 for various textile products and $25,000 for apparel. 1/
	U.S.S.R.	Austro-Russian trade agreement effective 1966-1970. Agreement contains a provision for Austrian imports of "consumer goods such as carpets in exchange for Austrian consumer goods." Specific ceilings are not in force.
	Hungary	Austro-Hungarian trade agreement for the period January 1, 1968 - December 31, 1972, includes the same commodity list as applied to products originating from Poland and Czechoslovakia although Hungary is not a GATT member. The following quotas apply for CY 1970. Item — Quota in U.S. Dollars Textile piece goods, knitwear, made-ups — 700,000. Apparel — 250,000
	Peoples Republic of China	Austro-Chinese trade agreement concluded in 1964 for the period up to June 1966. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be "essential" products of exchange. The Austrian import list includes "various textile products, including base material for embroideries, silk and textiles of national character" as well as "cashmere wool and camel hair."

1/ Imports beyond fixed quota may be considered.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Democratic Republic of Germany	Austro-German trade agreement concluded July 1968, effective through December 31, 1970 provides annual quotas on Austrian imports of the following textile products: Item — Quota in U.S. Dollars Woven piece goods of all kinds — 300,000 Carpets — 270,000 Home furnishing textiles, except carpets — 190,000 Knit goods — 180,000 Technical knit goods — 210,000 Miscellaneous textile products — 250,000
	Peoples Republic of Mongolia	Austro-Mongolian trade agreement for the period July 15, 1963 to July 14, 1964. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be the "essential" products of exchange. The Austrian import list includes "spinning materials and goods thereof, including wool (cashmere and sheep) and carpets."
	Peoples Democratic Republic of Korea	Austro-Korean trade agreement concluded in 1960; latest amendment negotiated in 1966, automatically extended by another year in December 1967. The list of Korean export items includes "unspecified textile products of national character and animal hair;" however, specific ceilings are not in force.
	Democratic Republic of Vietnam	Austro-Vietnamese trade agreement concluded in 1963. Automatically extended each year. The Austrian import list includes "spinning materials and goods made thereof, including hand-made carpets of wool, as well as embroideries." Specific ceilings are not in force.
	United Arab Republic	Austro-Egyptian trade agreement of June 1, 1960, renewed periodically. "Wool carpets" is only wool product on the commodity import list; a specific ceiling is not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Bulgaria	Austro-Bulgarian trade agreement concluded May 1968, effective through December 31, 1972. The list of liberalized textile products imported from Bulgaria is identical with the list for Czechoslovakia, Hungary and Poland except for the following items which remain on the non-liberalized list:

Item	Tariff No.
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01

The list of non-liberalized commodities provides the following ceilings on Austrian imports of textiles from Bulgaria:

Item	Quota in U.S. Dollars
Hand-made carpets	500,000 1/
Miscellaneous textiles and apparel	330,000 1/

	Iran	All imports subject to licensing.
	Morocco	Austro-Moroccan trade agreement of October 20, 1964, remains current. "Hand-made blankets and wall covers of wool" are only wool products on the commodity import list; specific ceilings are not in force.
	Albania	Austro-Albanian trade protocol concluded in 1961. Commodity lists for 1968 negotiated in January 1968 provide for the following ceilings on Austrian imports of Albanian textile/apparel items:

Item	Quota in U.S. Dollars
Kelims and hand-made carpets	50,000
Miscellaneous products which may include textiles	100,000

1/ Imports beyond fixed quota may be considered.

AUSTRIA/MAN-MADES

AUSTRIA

Austro-Japanese trade agreement of November 1966 established a list of non-liberalized items which are subject to import licensing and global quotas. Certain man-made fiber, fabric and apparel items are included on the non-liberalized list.

Austria has trade agreements with Albania, Bulgaria, Czechoslovakia, Democratic Republic of Vietnam, Democratic Republic of Germany, Hungary, Poland, Romania, Peoples Republic of Mongolia, Peoples Republic of Korea, Peoples Republic of China, USSR. Separate ceilings for man-made products are not available.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Japan	Austro-Japanese trade agreement of November 4, 1966, extended through December 31, 1969, established a list of non-liberalized items which are subject to import licensing and global quotas. The man-made fiber textile items on the non-liberalized list are given below; specific ceilings are not in force.

Item	Tariff No.
Yarn of continuous man-made fiber of natural polymers, not made up for retail sale	51.01 B
Woven fabrics of continuous fiber of natural or synthetic polymers including woven fabrics of monofils, strips, or similar shapes of materials listed under tariff number 51.01 and 51.02	51.04
Discontinuous viscose textile fibers (rayon staple fiber), not carded, not combed	ex 56.01 B 1
Continuous filament tow of natural polymers for the production of discontinuous fiber (rayon staple fiber)	ex 56.02 B
Rayon staple fiber waste, not carded, not combed, including waste yarn and reclaimed fibers	ex 56.03 B
Discontinuous viscose fiber (rayon staple fiber) and waste, carded, combed or otherwise prepared for spinning	ex 56.04 B
Yarn of discontinuous fiber of natural or synthetic polymers or of waste thereof, not made up for retail sale	56.05
Woven fabrics of discontinuous fibers of natural or synthetic polymers	56.07
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and gluded together other than goods falling under tariff number 58.06 (woven labels, badges and the like); all made from textile materials other than cotton	ex 58.05

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Austria	Japan	Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases and sheaths, and similar bookbinding and box-making purposes; all from textile materials other than cotton	ex 59.07
		Woven fabrics coated or impregnated with preparations of cellulose derivates or other plastics	59.08
		Other fabrics, impregnated or coated; painted fabrics for theatrical decorations, studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton	ex 59.12
		Elastic woven fabrics of other textile materials that cotton, combined with rubber threads, with a width of less than 30 centimeters	ex 59.13
		Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.01
		Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton	ex 60.02
		Knitted stockings, under-stockings, socks, and the like, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.03
		Knitted (tricot) under garments, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.04

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Austria	Japan	Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.05
		Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic knee-caps and elastic stockings) made from textile materials other than cotton	ex 60.06
		Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10)	ex 61
		Other made-up textile products made from textile materials other than cotton, excluding travelling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made up articles including dress patterns (62.05)	ex 62

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Czechoslovakia	Under Article XXXV[1] of the GATT, Austria maintains restrictions on imports of certain man-made fiber products from Czechoslovakia. Given below are the liberalized items. Licenses for non-liberalized textile/apparel products of all fibers are issued within an annual quota of $600,000.

Item	Tariff No.
Yarn of continuous synthetic man-made fibers	51.01A
Monofilament, strip (artificial straw, etc.) and imitation catgut, of man-made fiber materials	ex 51.02
Discontinuous non-cellulosic textile fibers, not processed	56.01A
Discontinuous cellulosic textile fibers, not processed	ex 56.01B1 56.01B2
Continuous filament tow of man-made fibers	56.02A, ex B
Waste (including yarn waste and pulled or garnetted rags) of man-made fibers, except viscose rayon, not processed	56.03A ex 56.03B
Man-made fibers, except viscose rayon (discontinuous or waste), carded, combed or otherwise prepared for spinning	56.04A ex 56.04B
Textile fabrics, coated or impregnated with oil or preparations with a basis of drying oil	59.09A
Shawls, scarves, mufflers, mantillas, veils, etc.	ex 61.06
Collars, flounces and similar accessories/trimmings for women's and girls' apparel, except of cotton	ex. 61.08
Stockings and socks, not knitted, of materials other than cotton	ex. 61.10
Dress patterns of textile materials other than cotton	ex 62.05
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01
Other headgear, whether or not lined or trimmed	ex 65.06B

1/ Some countries continue legally to justify quantitative import restrictions directed at specific important textile exporting countries under GATT Article XXXV, which permits a GATT member to withhold the application of its tariff concessions or the provisions of the entire Agreement from another GATT member with whom it has not negotiated tariff concessions. This article was invoked by many European countries when Japan joined the GATT. Many of these countries have now disinvoked Article XXXV but rely on bilateral agreements or special valuation or other devices to protect domestic producers.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Poland	Austria maintains general exceptions from GATT liberalizations on the basis of Article XXXV against imports of certain man-made fiber products from Poland. Liberalized items are same as for Czechoslovakia. 1970 annual quota for non-liberalized textile/apparel commodities is included in $2 million for consumer goods of all kinds.
	Hungary	Austro-Hungarian trade agreement for the period January 1, 1968 - December 31, 1972, includes the same commodity list as applied to products originating from Poland and Czechoslovakia although Hungary is not a GATT member. The following quotas apply for CY 1970. Item — Quota in U.S. Dollars Textile piece goods, knitwear, made-ups — 700,000 Apparel — 250,000
	Peoples Republic of China	Austro-Chinese trade agreement concluded in 1964 for the period up to June 1966. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be "essential" products of exchange. The Austrian import list includes "various textile products, including base material for embroideries, silk and textiles of national character"

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Democratic Republic of Germany	Austro-German trade agreement concluded July 1968, effective through December 31, 1970 provides annual quotas on Austrian imports of the following textile products: Item — Quota in U.S. Dollars Woven piece goods of all kinds — 300,000 Carpets — 270,000 Home furnishing textiles, except carpets — 190,000 Knit goods — 190,000 Technical knit goods — 210,000 Miscellaneous textile products — 250,000
	Peoples Republic of Mongolia	Austro-Mongolian trade agreement for the period July 15, 1963 to July 14, 1964. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be the "essential" products of exchange. The Austrian import list includes "spinning materials and goods thereof, including carpets."
	Peoples Democratic Republic of Korea	Austro-Korean trade agreement concluded in 1960; latest amendment negotiated in 1966, automatically extended by another year in December 1967. The list of Korean export items includes "unspecified textile products of national character; however, specific ceilings are not in force."
	Democratic Republic of Vietnam	Austro-Vietnamese trade agreement concluded in 1963. Automatically extended each year. The Austrian import list includes "spinning materials and goods made thereof, including embroideries." Specific ceilings are not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Bulgaria	Austro-Bulgarian trade agreement concluded May 1968, effective through December 31, 1972. The li of liberalized textile products imported from Bulgaria is identical with the list for Czechoslovakia, Hungary and Poland except for the following items which remain on the non-liberalized list:

Item	Tariff No.
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01

The list of non-liberalized commodities provides the following ceilings on Austrian imports of textiles from Bulgaria:

Item	Quota in U.S. Dollars
Hand-made carpets	500,000 1/
Miscellaneous textiles and apparel	330,000 1/

	Iran	All imports subject to licensing.
	Albania	Austro-Albanian trade protocol concluded in 1961. Commodity lists for 1968 negotiated in January 196 provide for the following ceilings on Austrian imports of Albanian textile/apparel items:

Item	Quota in U.S. Dollars
Kelims and hand-made carpets	50,000
Miscellaneous products which may include textiles	100,000

1/ Imports beyond fixed quota may be considered.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Romania	Austro-Romanian trade agreement effective January 1966 to December 1970. The list of liberalized textile products imported from Romania is identical with the list for Czechoslavakia. Import licenses for non-liberalized textile and apparel commodities are issued within an annual quota of $350,000 for various textile products and $25,000 for apparel. 1/
	USSR	Austro-Russian trade agreement effective 1966-1970. Agreement contains a provision for Austrian imports of "consumer goods such as carpets in exchange for Austrian consumer goods." Specific ceilings are not in force.

1/ Imports beyond fixed quota may be considered.

BENELUX/WOOL

BENELUX

A. Benelux-Japanese Bilateral Agreement: The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing, and a market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain wool narrow fabrics and apparel, and certain man-made fiber yarns, fabrics and apparel.

B. Benelux-Eastern European Trade Agreements: The Benelux countries share common commercial agreements with Hungary, Poland, Romania and Czechoslovakia which contain provisions for ceilings on the importation of certain wool and man-made fiber fabrics and apparel from these Eastern European nations.

C. Netherlands-Democratic Republic of Germany Commercial Agreement: A commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on Dutch imports of certain wool and man-made fiber fabrics, knit goods, carpets and apparel from East Germany.

D. Belgo-Luxembourg Economic Union (BLEU) - Democratic Republic of Germany Trade Agreement: A trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on BLEU imports of certain wool and man-made fiber fabrics, made-up goods, knit goods, carpets and apparel from East Germany.

E. As of June 1967 the EEC Commission authorized the Dutch to restrict imports of carded wool fabrics from EEC parties and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14 million.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Hungary	The Benelux-Hungarian commercial agreement contains a provision for annual ceilings on the importation of certain products from Hungary. Agreement valid January 1, 1967-December 31, 1969. CY '68 quotas below.

Item	Quota
Certain knit socks for men of cellulosic fiber or wool	p. m. 1/
Wool cloth, pure and mixed with discontinuous man-made fibers	$100,000
Undergarments, wholly or partially of man-made fibers	$190,000

Poland	The Benelux-Polish commercial agreement contains a provision for ceilings on the importation of certain products from Poland. Agreement valid January 1, 1967-December 31, 1969.

Item	Quota in U.S. Dollars
Wool cloth, pure or mixed	20,000
Various textile products, fiber not specified	20,000

Romania	Benelux-Romanian trade agreement renewed November 21, 1969, for a period of five years beginning January 1, 1970, includes the following ceilings on Benelux imports of certain wool products from Romania.

Item	Quota
Wool fabric, man-made fiber fabric containing at least 85% by weight of man-made fibers mixed principally or only with wool or other fine animal hair	$22,000
Men's heavy knitted hosiery of wool or cellulosic fibers	4,000 dozen pairs

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Japan	Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain wool products from Japan into the Benelux countries. 1967 quotas given below remain in force. Item — Quota in Metric Tons Ribbon, lace, braid and trimming, not silk — 30 Outer garments and other articles, knitted or crocheted, of wool or wool mixtures — 85 In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If no agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.
	EEC Italy	As of June 1967 the Commission of the EEC authorized the Dutch to restrict imports of carded wool fabrics from EEC partners and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14,075,172.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Czechoslovakia	Benelux-Czechoslovak trade agreement contains a provision for the following ceilings on Benelux imports of textile/apparel products from Czechoslovakia.

Item	Quota in U.S. Dollars
Printed fabrics of continuous man-made fibers, excluding crepes Other fabrics, containing at least 85% by weight of cotton, printed Printed fabrics of discontinuous man-made fibers other than mixtures solely or in major part of wool or fine animal hair, excluding crepes	69,000
Continuous man-made fiber fabrics, excluding: Unbleached and printed fabrics, crepes, and fabrics for tires Other fabrics, containing at least 85% by weight of cotton, excluding: Unbleached and non-mercerized fabrics and printed fabrics Discontinuous man-made fiber fabrics other than mixtures solely or in major part of wool or fine animal hair, excluding: Unbleached and printed fabrics and crepes	200,000
Woven fabrics of wool or fine animal hair, excluding fabrics for travelling rugs and blankets not referred to in item 62.01 Discontinuous man-made fiber fabrics containing less than 85% by weight man-made fibers, mixed solely or in major part with wool or fine animal hair, excluding unbleached fabrics Woven pile fabrics, and chenille fabrics (other than fabrics falling within headings Nos. 55.08 and 55.05) of wool, or of fine or coarse animal hair	55,200
Men's and boys' undergarments, including collars, shirtfronts and cuffs of man-made fiber fabrics, and other textile fabrics excluding silk, yarn spun from silk waste, yarn spun from noil. silk, wool, or fine animal hair) Women's, girls', and infants' undergarments	27,600

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
The Netherlands	Democratic Republic of Germany	Commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to Dutch imports of textile/apparel products from East Germany:

Item	Partial value	Total value
Textiles		$2,208,000
including the following:		
Print fabrics:	$113,160	
including the following:		
Print fabrics of continuous man-made fibers except crepe fabrics; Other print fabrics containing 85% or more cotton by weight Print goods of man-made fibers except: fabrics mixed chiefly or entirely with wool or fine animal hair, and crepe fabrics	$ 51,060	
Other print fabrics	$ 62,100	
Unprinted fabrics	$289,800	
including the following:		
Fabrics of continuous man-made fibers, except print fabrics, unfinished fabrics, crepe fabrics and fabrics for manufacture of tires Other fabrics containing 85% or more cotton by weight, except print fabrics and unbleached, non-mercerized fabrics; Fabrics of man-made fiber yarn, except fabrics mixed chiefly or entirely with wool or fine animal hair; print fabrics, unfinished fabrics and crepe fabrics	$220,800	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION		
		Item	Partial value	Total value
The Netherlands	Democratic Republic of Germany	Fabrics of wool or fine animal hair, except fabrics for woolen blankets; fabrics of man-made fiber yarn, mixed chiefly or entirely with wool, except unfinished fabrics; velvet, plush, pile fabrics and chenille fabrics of wool	$ 69,000	
		Wool gloves	$ 5,520	
		Rugs including: Floor coverings, hanging carpets, and table spreads	$552,000	
		Tulle and netting (filet), rayon fabrics, cottons, cotton lace and punchwork, incl. burnt-out lace	$317,400	
		Miscellaneous notions, ribbons and piping	$ 96,600	
		including: Crocheted men's half-hose with knit-on selvedge edge not having inserted pattern, weighing 80 to 120 g, of man-made fiber yarns or wool	p.m. 1/	
		Knit goods	p.m.	
		Ready-to wear apparel	p.m.	

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Belgo-Luxembourg Economic Union (BLEU)	Democratic Republic of Germany	Trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to BLEU imports of textile/apparel products from East Germany.

Item	Quota in U.S. Dollars
Various fabrics	120,000
Including the following:	
Printed fabrics, fiber not specified	20,000
Fabrics, other than printed or unbleached, fiber not specified	40,000
Woven fabrics of wool, pure or mixed	30,000
Unbleached fabrics, fiber not specified	20,000
Made-up articles, including terrycloth and shirts	20,000
Travelling rugs and blankets, felt, and the like	20,000
Knitted and crocheted goods, corsets, and undergarments	320,000
Including the following:	
Undergarments and outergarments, including training clothes, fiber not specified	50,000
Socks of man-made fibers or of wool	14,000
Other stockings and socks	100,000
Undergarments, fiber not specified	74,000
Carpets, fiber not specified	100,000
Tulle, lace, net, trimmings, and the like, fiber not specified	60,000

BENELUX/MAN- MADES

BENELUX

A. Benelux-Japanese Bilateral Agreement: The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing, and a market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain wool narrow fabrics and apparel, and certain man-made fiber yarns, fabrics and apparel.

B. Benelux-Eastern European Trade Agreements: The Benelux countries share common commercial agreements with Hungary, Poland, Romania and Czechoslovakia which contain provisions for ceilings on the importation of certain wool and man-made fiber fabrics and apparel from these Eastern European nations.

C. Netherlands-Democratic Republic of Germany Commercial Agreement: A commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on Dutch imports of certain wool and man-made fiber fabrics, knit goods, carpets and apparel from East Germany.

D. Belgo-Luxembourg Economic Union (BLEU) - Democratic Republic of Germany Trade Agreement: A trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on BLEU imports of certain wool and man-made fiber fabrics, made-up goods, knit goods, carpets and apparel from East Germany.

E. As of June 1967 the EEC Commission authorized the Dutch to restrict imports of carded wool fabrics from EEC parties and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14 million.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Hungary	The Benelux-Hungarian commercial agreement contains a provision for ceilings on the importation of certain products from Hungary. Agreement valid January 1, 1967-December 31, 1969. CY '68 quotas below.

Item	Quota
Printed fabric of continuous man-made fibers (excluding crepe), printed fabric containing at least 85% by weight of cotton, printed fabric of discontinuous man-made fibers (other than those mixed principally or only with wool)	$100,000
Fabric of continuous man-made fibers (excluding unbleached and printed fabric and crepe), fabric containing at least 85% by weight of cotton (excluding unbleached, non-mercerized fabric and crepe), fabric of discontinuous man-made fibers (other than those mixed principally or only with wool)	$ 40,000
Certain knit socks for men of cellulosic fiber or wool	p. m. 1/
Wool fabric, pure or blended with man-made discontinuous fibers	$100,000
Undergarments, wholly or partially of man-made fibers	$190,000
Gloves, mittens and similar woven items of non-cellulosic fibers other than women's hosiery	12,000 dozen pairs
Women's stockings and other hosiery containing non-cellulosic fibers	6,000 dozen pairs
Gloves, mittens and similar knit items of man-made fibers	8,500 dozen pairs

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Poland	The Benelux-Polish commercial agreement contains a provision for ceilings on the importation of certain products from Poland. Agreement valid January 1, 1967-December 31, 1969.

Item	Quota in U.S. Dollars
Printed fabric of man-made fibers or cotton	63,000
Wool fabric, pure or mixed	20,000
Various textile products, fiber not specified	20,000
Dyed fabric of continuous cellulosic fiber	105,000

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Japan	Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain man-made fiber products from Japan. 1967 quotas given below remain in force.

Item	Quota in Metric Tons
Yarn of man-made fibers and rayon fibers put up for retail sale	65
Woven man-made fiber filament yarn fabrics, printed	50
Woven man-made fiber filament yarn fabrics, not printed excluding grey	300
Woven man-made fiber spun yarn fabrics, printed	78
Woven man-made fiber spun yarn fabrics, not printed excluding grey	170
Grey cloth of man-made fibers and of cotton	$1,240,000
Ribbon, lace, braid and trimming, not silk of all fibers	30
Women's, girls' and infants' outergarments, not silk or wool (excluding kimonos)	60
Men's and boys' shirts and pyjamas of man-made fibers and cotton	85
Handkerchiefs of cotton and man-made fibers	18
Shawls, scarves, etc., of man-made fibers	70

In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If no agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Czechoslovakia	Benelux-Czechoslovak trade agreement contains a provision for the following ceilings on Benelux imports of textile/apparel products from Czechoslovakia.

Item	Quota
Printed fabrics of continuous man-made fibers, excluding crepes Other fabrics, containing at least 85% by weight of cotton, printed Printed fabrics of discontinuous man-made fibers other than mixtures solely or in major part of wool or fine animal hair, excluding crepes	$ 69,000
Continuous man-made fiber fabrics, excluding: Unbleached and printed fabrics, crepes, and fabrics for tires Other fabrics, containing at least 85% by weight of cotton, excluding: Unbleached and non-mercerized fabrics and printed fabrics Discontinuous man-made fiber fabrics other than mixtures solely or in major part of wool or fine animal hair, excluding: Unbleached and printed fabrics and crepes	$200,000
Dyed man-made fiber fabrics (continuous), excluding light-woven fabrics	p. m. 1/
Woven fabrics of wool or fine animal hair, excluding fabrics for travelling rugs and blankets not referred to in item 62.01 Discontinuous man-made fiber fabrics containing less than 85% by weight man-made fibers, mixed solely or in major part with wool or fine animal hair, excluding unbleached fabrics Woven pile fabrics, and chenille fabrics (other than fabrics falling within headings Nos. 55.03 and 55.05) of wool, or of fine or coarse animal hair	$ 55,200
Gloves, mitts, etc., knitted or crocheted, not elastic nor rubberized, of man-made fiber fabrics	3,850 dozen pairs
Ladies' stockings, of man-made fibers	1,050 dozen pairs

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Quota
Benelux	Czechoslovakia	Stockings and socks, of man-made fibers, other than ladies' stockings	p. m. 1/
		Undergarments, knitted or crocheted, not elastic nor rubberized, man-made fiber fabrics, cotton or other vegetable fibers	$ 69,000
		Men's and boys' undergarments, including collars, shirtfronts and cuffs of man-made fiber fabrics, and other textile fabrics excluding silk, yarn spun from silk waste, yarn spun from noil silk, wool, or fine animal hair) Women's girls', and infants' undergarments	$ 27,600
		Man-made fibers (discontinuous), not carded, combed, or otherwise prepared for spinning	
		Waste (including yarn waste and pulled or garnetted rags) of man-made fibers (continuous or discontinuous), not carded, combed, or otherwise prepared for spinning	p. m. 1/
		Tents, excluding play tents	$110,400
		Air mattresses	23,000 units

1/ The initials p. m. (pro memoria) signify that although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
The Netherlands	Democratic Republic of Germany	Commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to Dutch imports of textile/apparel products from East Germany:

Item	Partial value	Total value
Textiles		$2,208,000
including the following:		
Print fabrics	$113,160	
including the following:		
Print fabrics of continuous man-made fibers except crepe fabrics; Other print fabrics containing 85% or more cotton by weight Print goods of man-made fibers except: fabrics mixed chiefly or entirely with wool or fine animal hair, and crepe fabrics	$51,060	
Other print fabrics	$ 62,100	
Unprinted fabrics	$289,800	
including the following:		
Fabrics of continuous man-made fibers, except print fabrics, unfinished fabrics, crepe fabrics and fabrics for manufacture of tires Other fabrics containing 85% or more cotton by weight, except print fabrics and unbleached, non-mercerized fabrics; Fabrics of man-made fiber yarn, except fabrics mixed chiefly or entirely with wool or fine animal hair; print fabrics, unfinished fabrics and crepe fabrics	$220,800	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION		
		Item	Partial value	Total value
The Netherlands	Democratic Republic of Germany	Fabrics of wool or fine animal hair, except fabrics for woolen blankets; fabrics of man-made fiber yarn, mixed chiefly or entirely with wool, except unfinished fabrics; velvet, plush, pile fabrics and chenille fabrics of wool	$ 69,000	
		Gloves, mittens, and similar articles of man-made fibers (not rubberized or elasticized)	$118,680	
		Rugs including: Floor covering, hanging carpets, and table spreads	$552,000	
		Tulle and netting (filet), rayon fabrics, cottons, cotton lace and punchwork, incl. burnt-out lace	$317,400	
		Miscellaneous notions, ribbons and piping	$ 96,600	
		including:		
		Ladies' hosiery of rayon yarns	48,000 dz. pairs	
		Hosiery and half-hose of full man-made fiber yarns	18,000 dz. pairs	
		Crocheted men's half-hose with knit-on selvage edge not having inserted pattern, weighing 80 to 120 g, of man-made fiber yarns or wool	p.m. 1/	
		Tricot goods	p.m. 1/	
		Knit goods	p.m. 1/	
		Ready-to wear apparel	p.m. 1/	

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Belgo-Luxembourg Economic Union (BLEU)	Democratic Republic of Germany	Trade agreement of 1966 between the Belgian Economic Office and the East German Chamber of Commerce remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to BLEU imports of textile/apparel products from East Germany.

Item	Quota
Sporting, camping and gymnastic equipment	$600,000
Including the following:	
Air mattresses	15,500 units
Tents	50 metric tons
Various fabrics	$120,000
Including the following:	
Printed fabrics, fiber not specified	$20,000
Fabrics, other than printed or unbleached, fiber not specified	$40,000
Woven fabrics of wool, pure or mixed	$30,000
Unbleached fabrics, fiber not specified	$20,000
Made-up articles, including terry cloth and shirts	$20,000
Table linen, bed linen, and toilet linen, including pocket handkerchiefs	$20,000
Man-made fibers (discontinuous) not carded, combed, or otherwise prepared for spinning (850 metric tons)	$400,000
Travelling rugs and blankets, felt, and the like	$20,000
Knitted and crocheted goods, corsets, and undergarments	$320,000
Including the following:	
Undergarments and outergarments, including training clothes, fiber not specified	$50,000
Corsets, fiber not specified	$20,000
Gloves of man-made fibers	15,750 dozen pairs
Ladies' stockings wholly made of man-made fibers	6,500 dozen pairs
Socks of man-made fibers or of wool	$14,000
Other stockings and socks, fiber not specified	$100,000
Undergarments, fiber not specified	$74,000
Carpets, fiber not specified	$100,000
Tulle, lace, net, trimmings, and the like, fiber not specified	$60,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Romania	Benelux-Romanian trade agreement renewed November 21, 1969, for a period of five years beginning January 1, 1970, includes the following ceilings on Benelux imports of certain man-made fiber products from Romania.

Item	Quota
Undergarments, knit, of man-made fibers, cotton or other vegetable fiber	$110,000
Gloves, mittens and similar woven items of man-made fibers	1,500 dozen pairs
Women's hosiery of non-cellulosic fibers	8,500 dozen pairs
Men's heavy knitted hosiery of wool or cellulosic fibers	4,000 dozen pairs
Man-made fiber fabrics, fabrics containing at least 85% by weight of cotton (excluding unbleached or printed fabric and crepe)	$116,000
Printed fabric of continuous man-made fiber (excluding crepe) printed fabric containing at least 85% by weight of cotton, printed fabric of discontinuous man-made fibers (other than those mixed principally or only with wool, excluding crepes)	$ 60,000
Wool fabric, man-made fiber fabric containing at least 85% by weight of man-made fibers mixed principally or only of wool or other fine animal hair	$ 22,000
Cellulosic man-made fibers	p. m. 1/

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

CANADA/WOOL

CANADA

The Republic of Korea agreed on November 26, 1969, to apply ceilings on Korean exports of certain wool products to Canada for CY 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	The Korean Government agreed to apply the following ceilings on Korean exports of certain wool products in 1969.

Items	Quota
Broadwoven worsted fabric	166,625 sq. yds.
Narrow fabric of all fibers	50,794 lbs.
Gloves, of all fibers (including non-textiles)	22,145 dozen

Explanatory Notes

For the purposes of the Canadian-Korean Agreement the following definitions of wool products will apply to products of mixed and blended fibers.

Defined as	Fiber Composition	Percentage of Fiber Content (by weight)
Wool	Wool and silk	Over 65% wool
	Wool and cotton	33% and over wool
	Wool and man-made fiber	40% and over wool

CANADA/MAN-MADES

CANADA

Canadian-Hong Kong Memorandum of Understanding of September 9, 1969, provides for ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses and trousers to Canada for one year beginning October 1, 1969.

Canadian-Malaysian Memorandum of Understanding of October 16, 1968, amended December 10, 1969, provides ceilings on Malaysian exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

Canadian-Singapore Memorandum of Understanding of August 14, 1968, provides ceilings on Singapore's exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

Canadian-Taiwan bilateral textile agreement provides for ceilings on Taiwan's exports of polyester/cotton garments for two 12-month periods beginning October 10, 1969.

Canadian-Japanese agreement includes provision for ceilings on Japanese exports of certain man-made fiber products.

Peoples Republic of China agreed to limit exports of certain man-made fiber textiles to Canada for the year beginning August 1, 1968.

The Republic of Korea on November 26, 1969, agreed to apply ceilings on Korean exports of man-made fiber fabric and apparel products to Canada for CY 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Hong Kong	Canadian-Hong Kong Memorandum of Understanding of September 9, 1969, provides the following ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses and trousers to Canada for one year beginning October 1, 1969.

Item	Quota in Dozens
Shirts made from woven fabrics of 100% polyester, of blended polyester/cotton of major weight polyester, and of blended polyester/polynosic fibres.	100,000
Blouses made from woven fabrics of 100% polyester, and of blended polyester/cotton of major weight polyester fibres.	41,600
Trousers made from woven fabrics of 100% polyester, and of blended polyester/cotton of major weight polyester fibres.	56,375

During the period of restraint it is the intention of the Hong Kong Government to allow any of the category limits to be exceeded by not more than 10 percent, but the aggregate of the three category limits will not be exceeded.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	The Korean Government agreed to apply the following ceilings on Korean exports of man-made fiber fabric and apparel in 1969.

Item	Quota
Broadwoven fabrics wholly or substantially of nylon	247,500 sq. yds.
Garments, cotton and/or man-made fiber	
Woven shirts	60,419 dozen
Blouses	40,670 "
Sleepwear	41,839 "
Trousers, slacks and shorts	76,385 "
Knitted man-made fiber shirts	20,806 "

Also included is a provision for ceilings on exports of worsted fabrics, narrow fabrics and gloves.

Item	Quota
Narrow fabrics of all fibers (not more than half to be elastic	50,794 lbs.
Gloves, of all fibers (including non-textiles)	22,145 dozen

Explanatory Notes

For the purposes of the Canadian-Korean Agreement the following definitions of man-made fibre products will apply to products of mixed and blended fibers.

Defined as	Fiber Composition	Percentage of Fiber Content (by weight)
Cotton	Cotton and silk	over 88% cotton
	Cotton and wool	over 67% cotton
	Cotton and man-made fiber	over 55% cotton

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	

Defined as	Fiber Composition	Percentage of Fiber Content
Man-made fiber	Man-made fiber and cotton	45% and over man-made fiber
	Man-made fiber and silk	75% and over man-made fiber
	Man-made fiber and wool	over 60% man-made fiber

The following schedule of deductions for overshipments will be applied in determining the relevant effective voluntary quotas for 1969, 1970 and 1971:

Item	Unit	Schedule of Deductions 1969	1970	1971
Garments of cotton and/or man-made fibers				
Woven shirts	dozen	20,000	35,000	35,000
Blouses	dozen	10,911	10,911	10,911
Trousers, slacks and shorts	dozen	8,963	8,963	8,964
Broadwoven fabrics substantially of nylon	sq. yds.	34,666		

In those cases where overshipments have occurred the relevant effective voluntary quotas for 1969 have been calculated as follows:

Item	Unit	Basic level	Less deduction for overshipment	Effective level
Garments of cotton and/or man-made fiber				
Woven shirts	dozen	60,419	20,000	40,419
Blouses	dozen	40,670	10,911	29,759
Trousers, slacks, and shorts	dozen	76,385	8,963	67,422
Broadwoven fabrics substantially of nylon	sq. yds.	247,500	34,666	212,834

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Malaysia	Canadian-Malaysian Memorandum of Understanding of October 16, 1968, amended December 10, 1969, provides the following ceilings on Malaysian exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

	Year Beginning		
	Sept. 1, 1968	Sept. 1, 1969	Sept. 1, 1970
	(dozens)		
Shirts			
Gross export quota	32,853	44,636	45,498
Less overshipments	11,986	19,660	19,660
Net export quota	20,867	24,976	25,838
Trousers			
Gross export quota	28,900	29,468	30,053
Less overshipments	9,974	9,974	9,974
Net export quota	18,926	19,494	20,079

IMPORT COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Singapore	Canada-Singapore Memorandum of Understanding of August 14, 1968, provides the following ceilings of Singapore's exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

	Year Beginning Jan. 1, 1968	Jan. 1, 1969	Jan. 1, 1970
		(dozens)	
Shirts			
Gross export quota	22,000	22,000	22,000
Less overshipments	4,000	4,000	4,000
Net export quota	18,000	18,000	18,000
Trousers			
Gross export quota	60,000	60,000	60,000
Less overshipments	32,000	32,000	32,000
Net export quota	28,000	28,000	28,000

	Republic of China	Bilateral textile agreement provides for ceilings on Taiwan's exports of polyester/cotton garments for two 12-month periods beginning October 10, 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of China	

Item	Year Beginning October 10, 1969 (Quota in dozens)	Year Beginning October 10, 1970 (Quota in dozens)
Category A:		
Woven Polyester/Cotton Shirts and/or Polyester/Polynosic Shirts		
Basic level	60,181	60,181
Deductions related to previous shipments	14,145	13,215
Effective level	46,036	46,966
Category B:		
Woven Polyester/Cotton Trousers, Slacks and Outer Shorts		
Basic level	21,078	21,078
Deductions related to previous shipments	8,082	7,692
Effective level	12,996	13,386

These restraint levels will apply to (1) those shirts, trousers, slacks and outer shorts that are made of polyester and cotton fiber blends in which the percentage of polyester fiber by weight is 50 percent or more, and (2) shirts of polyester and polynosic fiber blends.

November 9, 1969, the Chinese agreed to restrain exports to Canada of inter alia cotton or rayon trousers as specified below:

Item	Year beginning July 1, 1969	Year beginning July 1, 1970
Cotton or Rayon Trousers	71,050 dozen	72,116 dozen

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Japan	Canadian-Japanese Agreement includes provision for ceilings on Japanese exports of certain man-made fiber products. 1969 levels given below.

Item	Quota in Dozens
Blouses, polyester/cotton blends (1)	42,863
Shirts, polyester/cotton blends	80,997
Trousers and outershorts, synthetic	59,410
Knitted wear, spun rayon and synthetic (2)	401,082

Item	Quota
Elastic braid of all fibers	605,000 lbs.
Fabrics of nylon (includes only fabric for use in the manufacture of apparel	3,8111,500 sq. yds.

(see next page for footnotes (1) and (2)

Shipments under the preceding quotas and sub-quotas may be increased by not more than 5 percent in 1969 with equivalent reductions in shipments under the corresponding quotas and sub-quotas for 1970.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Japan	(1) The Canadian-Japanese bilateral includes quotas for cotton products as well as man-made fiber. The subgroups for shirts and blouses may each be increased up to 10% by transfers of quotas, but the total must remain stable. Transfers to the man-made fiber subgroup for trousers and shorts may increase the amount by up to 20%. The Japanese Government will urge Japanese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories. (2) Includes knitted wear of spun rayon and synthetic fiber as defined in the Explanatory Notes and also knitted wear of synthetic fibers blended with wool, containing more than 50% by weight of synthetic fiber.

Explanatory Notes

In the above table "Synthetic" includes rayon filament and all other man-made fibers except spun rayon, except in the case of synthetic shirt and blouses, as noted.

The following is a table of criteria used by the Government of Japan to distinguish between the quota categories of made-up textiles which are a mixture of various fiber components. The basic principle for the criteria is chief value, converted into percentage of fiber content by weight, so that the percentages vary extensively.

Defined	Fiber Composition	Percentage of Fiber Content (by weight)
Cotton	Cotton and silk	88% and over Cotton
	Cotton and wool	67% and over Cotton
	Cotton and rayon filament	40% and over Cotton
	Cotton and spun rayon	30% and over Cotton
	Cotton and synthetic fiber	51% and over Cotton
Spun rayon	Spun rayon and wool	91% and over Spun Rayon
	Spun rayon and silk	91% and over Spun Rayon
	Spun rayon and jute or flax	71% and over Spun Rayon
	Spun rayon and synthetic fiber	71% and over Spun Rayon
	Spun rayon and cotton	71% and over Spun Rayon
	Spun rayon and rayon filament	Regardless of percent fiber content

IMPOR. NG COUNTRY	COUNTRY OF ORIGIN	RESTRICTION		
Canada	Japan	Defined	Fiber Composition	Percentage of Fiber Content (by weight)
		Rayon filament	Rayon filament and cotton	61% and over Rayon Filament
			Rayon filament and synthetic fiber	51% and over Rayon Filament
		Synthetic fiber	Synthetic fiber and rayon filament	50% and over Synthetic Fiber
			Synthetic fiber and jute or flax	50% and over Synthetic Fiber
			Synthetic fiber and cotton	50% and over Synthetic Fiber
			Synthetic fiber and spun rayon	30% and over Synthetic Fiber

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	People's Republic of China	Canada has requested the People's Republic of China to limit exports of certain man-made fibre textiles to Canada during the period August 1, 1968 to July 31, 1969 as follows:

Item	Quota
Textile items (not including those wholly or substantially of silk, linen, ramie) other than cotton	
(a) ladies dress gloves	75,600 dozen
(b) work gloves (not containing leather)	60,500 dozen
(c) kitchen and dish towels, crash	250,000 pounds
(d) all other towels, excluding terry	212,000 pounds
(e) terry towels and bath mats	304,750 pounds
(f) fabrics, wholly or substantially of man-made fibres	276,000 pounds
(g) narrow fabrics	72,000 pounds
(h) garments of man-made fibres or mixed fibres	
1) knitted	43,750 dozen
2) other	60,500 dozen

Canada has requested the People's Republic of China to limit exports of worsted type woven fabrics to Canada during the period August 1, 1968 to July 31, 1969 as follows:

Item	Quota
Worsted type woven fabrics	200,000 pounds

NOTE: Where not expressly excluded by the description and/or the nature of the product, all nomenclature used in this list shall be taken to include semi-finished as well as finished products.

DENMARK/WOOL

DENMARK

Import licenses are required for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.

Danish-Eastern European Trade Agreements. Denmark maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Peoples Republic of China, Poland, Romania, and U.S.S.R. which provide ceilings on Danish imports of certain wool and man-made fiber textile and apparel products.

Denmark-Democratic Republic of Germany (private) trade arrangement provided for a ceiling of $5.6 million to E. German exports of textile/apparel products to Denmark during CY '68.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Czechoslovakia	Danish-Czechoslovak Long-Term Trade Agreement for the period June 1, 1966 - May 31, 1971, amended by May 1969 trade protocol, includes the following ceilings on Danish imports of textile/apparel products from Czechoslovakia effective June 1, 1969 to May 31, 1970.

Item	Tariff No.	Quota in U.S. Dollars 1/
Gloves, hosiery	60.02 61.10	6,666
Carpets, n.e.s.; fiber not specified	58.02	(333,333)
Miscellaneous textile articles, n.e.s.		600,000

1/ Dollar value in parentheses only indicative level.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Hungary	Danish-Hungarian Long-Term Agreement valid for CY 1970-74 includes the following ceilings on Danish imports of textile/apparel goods from Hungary; 1970 ceilings follow:

Item	Quota in U.S. Dollars
Yarn, fiber not specified	p.m. 1/
Textile fabric, fiber not specified	646,666
Ready-made textile products (hosiery; undergarments; men's, women's and children's clothing; scarves; knit goods; gloves; white linen and cotton goods)	306,666
Twine, cordage of hemp, flax, nylon, etc.	15,333

Bulgaria	Danish-Bulgarian trade protocol of November 6, 1969, provides the following ceilings on Danish imports of textile/apparel products from Bulgaria during CY 1970.	

Item	Tariff No.	Quota in U.S. Dollars
Other yarn goods, including table napery, bed sheeting, hand towels, knit goods, apparel apparel accessories and yarn goods, n.e.s., fiber not specified	ex chapters 50-62	293,333
Hosiery, socks, fiber not specified	ex 60.03	53,333

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Romania	Danish-Romanian Long-Term Trade Agreement of April 14, 1966, amended by trade protocol of December 4, 1969, established the following ceilings on Danish imports of wool textile products from Romania by CY 1970.

Item	Tariff No.	Quota in $1,000
Piece goods of cotton (except grey), wool and man-made fiber	51.04 53.11 55.07-09 56.07	253
Knitted goods and made-up textile articles	Chapters 60-62	253

	Poland	Danish-Polish trade agreement of September 3, 1965, amended periodically. The 1970 protocol provides the following ceilings on Danish imports of Polish wool textile, apparel products for CY 1970.

Item	Tariff No.	Quota in $1,000
Textiles for the textile export industry	ex 53 (wool) ex 55 (cotton) ex 56 (man-made fiber, discontinuous)	473
Textile articles, not less than 17% piece goods		1,373

	Peoples Republic of China	Danish-Chinese trade agreement of December 1, 1957, automatically extended each year, includes a ceiling of $2 million for all textiles exported from Communist China to Denmark.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark		
	Free List (see attachment)	Import licenses are required for all exports from non-'Free List' countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.
	Yugoslavia	Danish-Yugoslav trade officials are considering imposition of ceilings on Yugoslav exports to Denmark of men's coats particularly men's blazers of man-made fibers. This action is a result of increased imports from Yugoslavia which equalled 74% of Denmark's imports of blazers during the first nine months of 1968.
	Democratic Republic of Germany	Since 1956 four Danish trade associations (the Agricultural Council, the Federation of Danish Industries, the Copenhagen Chamber of Commerce, and the Provincial Chamber of Commerce) have been parties to an unofficial trade agreement with the East German Chamber of Commerce. Although this is a "private" rather than intergovernmental agreement, a ceiling of $2.6 million was applied to Danish imports of textile/apparel items from Germany during CY 1968.

ATTACHMENT

The Danish Free List Area
Specification of Countries

EUROPE

104	Finland
106	Iceland
110	Norway (including Svalbard)
120	Sweden
124	Andorra
126	Belgium, Luxemburg
130	France, Monaco
132	Gibraltar
134	Greece
140	Netherlands
142	Eire
150	Italy, the Vatican State, San Marino
152	Yugoslavia
153	Malta
156	Portugal, (with the Azores and Madeira)
160	Switzerland, Liechtenstein
164	Spain
165	Canary Islands
170	Great Britain and Northern Ireland (UK)
172	Turkey
180	Western Germany (the Federal Republic of Germany)
182	Austria

AFRICA

202	Algeria
207	Botswana
213	Burundi
214	Ethiopia
218	French Somaliland
222	Gambia
228	Ghana
232	Guinea
234	Kenya
235	Lesotho
236	Liberia
238	Libya

ATTACHMENT

242	Madagascar
243	Mali
244	Morocco
245	Mauritius, Seychelles a.o. (British)
246	Nigeria
248	Portuguese West Africa (with Portuguese Guinea, Angola, the Capo Verdi Islands, Sao Thomé and Principe)
252	Portuguese East Africa (Mozambique)
253	St. Helena a.o. (British)
255	Sierra Leone
256	Spanish possessions in Africa (except Canary Islands)
258	Sudan
259	Swaziland (British)
262	The South African Republic
264	South West Africa
266	Tanzania, the United Republic of
268	Tunisia
269	Uganda
276	Central African Republic
277	Cameroon
278	Congo (Kinshasa)
279	Congo (Brazzaville)
281	Dahomey
282	Ivory Coast
283	Gabon
284	Mauritania
285	Niger
286	Reunion, Comore Islands, Kerguelen Islands a.o. (French)
287	Rwanda
288	Senegal
289	Somalia
292	Chad
293	Togo
294	Upper Volta
296	Zambia
297	Malawi

AMERICA

302	Argentina
303	Bahama Islands
304	Bolivia
305	Barbados
	Paraguay
307	Bermudas
308	Guyana
312	British Honduras
314	Canada
316	Chile
322	Costa Rica
324	Cuba
326	The Dominican Republic
328	Ecuador
332	Falkland Islands, South Georgia a.o. (British)
334	French Guiana
336	French West Indies (including Guadeloupe and Martinique) Saint-Pierre and Miquelon
338	Guatemala
342	Haiti
344	Dutch Guiana (Surinam)
346	Dutch West Indies (Aruba and Curacao)
348	Honduras
352	Jamaica
354	Mexico
356	Nicaragua
358	Panama, except the Canal Zone
362	The Panama Canal Zone and other United States possessions in the West Indies, except Puerto Rico

366 Peru
368 Puerto Rico
372 Salvador
374 Trinidad and Tobago
376 Uruguay
390 United States
392 Venezuela
394 Other British possessions in the West Indies (including Turks, Caicos and Cayman Islands, and other British possessions in the Windward and Leeward islands)

ASIA

402 The South Arabian Federation (including Aden), Hadhramaut a.o. and the islands of Kamaran, Perim, Soqotra, Kuria Muria
404 Afghanistan
406 The Bahrein Islands, Qatar
412 Brunei
414 Burma
416 Cambodia
418 Ceylon
422 Cyprus
428 Hong Kong
432 India (with the Andaman, Nicobar and Laccadive Islands a.o.), Bhutan, Sikkim
434 Indonesia (including the former Dutch New Guinea)
436 Iraq
438 Iran (Persia)
442 Israel
446 Jordan
452 Kuwait
454 Laos
456 Lebanon
457 Maldive Islands
458 Malaysia (including Sarawak and Sabah (formerly British North Borneo))
462 Muscat and Oman, Trucial States
464 Nepal
472 Pakistan
474 The Philippines
476 Portuguese possessions in Asia (Portuguese Timor and Macao)
478 Saudi Arabia
482 Singapore
488 South Viet-Nam (the Republic of Viet-Nam)
492 Thailand (Siam)
494 Yemen

ATTACHMENT

OCEANIA

502	Australia (with possessions)
504	British possessions in the Pacific
506	French possessions in the Pacific
512	Nauru
514	New Zealand (with possessions)
515	New Guinea
516	New Hebrides
518	United States possessions in the Pacific and Pacific Islands under the joint administration of the United Kingdom and the United States: Canton and Enderbury
522	Western Samoa

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IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	U. S. S. R.	Danish-Soviet trade agreement CY 1964-69 includes provision for ceilings on Danish imports from the U. S. S. R. of various products given in List I. The agreement states that this list is not definitive; however, the importation of products for which no quotas have been established is subject to the approval of the Danish authorities. The only two categories on the permitted list which may include wool textile products are given below with 1969 ceilings.

Item	Quota in $1,000
Miscellaneous goods	2,700
Goods traditionally imported into Denmark from U. S. S. R. and other countries	6,210

DENMARK/MAN-MADES

DENMARK

Import licenses are required for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.

Danish-Eastern European Trade Agreements. Denmark maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Peoples Republic of China, Poland, Romania, and U.S.S.R. which provide ceilings on Danish imports of certain wool and man-made fiber textile and apparel products.

Denmark-Democratic Republic of Germany (private) trade arrangement provided for a ceiling of $5.6 million to E. German exports of textile/apparel products to Denmark during CY '68.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Bulgaria	Danish-Bulgarian trade protocol of November 6, 1969, provides the following ceilings on Danish imports of textile/apparel products from Bulgaria during CY 1970.

Item	Tariff No.	Quota in U.S. Dollars
Other yarn goods, including table napery, bed sheeting, hand towels, knit goods, apparel, apparel accessories and yarn goods, n.e.s., fiber not specified	ex chapters 50-62	293,333
Hosiery, socks, fiber not specified	ex 60.03	53,333

Hungary

Danish-Hungarian Long-Term Agreement valid for CY 1970-74 includes the following ceilings on Danish imports of textile/apparel goods from Hungary; 1970 ceilings follow:

Item	Quota in U.S. Dollars
Yarn, fiber not specified	p.m. 1/
Oilcloth and synthetic leather, fiber not specified	46,666
Textile fabric, fiber not specified	646,666
Ready-made textile products (hosiery; undergarments; men's, women's and children's clothing; scarves; knit goods; gloves; white linen and cotton goods)	306,666
Twine, cordage of hemp, flax, nylon, etc.	15,333

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Romania	Danish-Romanian Long-Term Trade Agreement of April 14, 1966, amended by trade protocol of December 4, 1969, established the following ceilings on Danish imports of man-made fiber textile products from Romania by CY 1970.

Item	Tariff No.	Quota in $1,000
Piece goods of cotton (except grey), wool and man-made fiber	51.04 53.11 55.07-09 56.07	253
Knitted goods and made-up textile articles	Chapters 60-62	253

	Poland	Danish-Polish trade agreement of September 3, 1965, amended periodically. The 1970 protocol provides the following ceilings on Danish imports of man-made fiber textiles from Poland for CY 1970.

Item	Tariff No.	Quota in $1,000
Textiles for the textile export industry	ex 53 (wool) ex 55 (cotton) ex 56 (man-made fiber, discontinuous)	473
Textile articles, not less than 17% piece goods		1,373

	Peoples Republic of China	Danish-Chinese trade agreement of December 1, 1957, automatically extended each year, includes a ceiling of $2 million for all textiles exported from Communist China to Denmark.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	U. S. S. R.	Danish-Soviet trade agreement CY 1964-69 includes provision for ceilings on Danish imports from the U. S. S. R. of various products given in List I. The agreement states that this list is not definitive; however, the importation of products for which no quotas have been established is subject to the approval of the Danish authorities. The only two categories on the permitted list which may include man-made fiber textile products are given below with 1969 ceilings.

Item	Quota in $1,000
Miscellaneous goods	2,700
Goods traditionally imported into Denmark from U. S. S. R. and other countries	6,210

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Czechoslovakia	Danish-Czechoslovak. Long-Term Trade Agreement for the period June 1, 1966 - May 31, 1971, amended by May 1969 trade protocol, includes the following ceilings on Danish imports of textile/apparel products from Czechoslovakia effective June 1, 1969 to May 31, 1970.

Item	Tariff No.	Quota in U.S. Dollars
Artificial leather and oilcloth	59.08, .09, .11	(7,333)
Gloves, hosiery	60.02, 61.10	6,666
Carpets, n.e.s.; fiber not specified	58.02	(333,333)
Miscellaneous textile articles, n.e.s.		600,000
Tents	ex 62.04	6,666
Air mattresses		5,333

1/ Dollar value in parentheses only indicative level

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark		
	Free List (see attachment)	Import licenses are required for all exports from non- Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.
	Yugoslavia	Danish-Yugoslav trade officials are considering imposition of ceilings on Yugoslav exports to Denmark of men's coats particularly men's blazers of man-made fibers. This action is a result of increased imports from Yugoslavia which equalled 74% of Denmark's imports of blazers during the first nine months of 1968.
	Democratic Republic of Germany	Since 1956 four Danish trade associations (the Agricultural Council, The Federation of Danish Industries, the Copenhagen Chamber of Commerce, and the Provincial Chamber of Commerce) have been parties to an unofficial trade agreement with the East German Chamber of Commerce. Although this is a "private" rather than intergovernmental agreement, a ceiling of $2.6 million was applied to Danish imports of textile/apparel items from Germany during CY 1968.

ATTACHMENT

The Danish Free List Area
Specification of Countries

EUROPE

104	Finland
106	Iceland
110	Norway (including Svalbard)
120	Sweden
124	Andorra
126	Belgium, Luxemburg
130	France, Monaco
132	Gibraltar
134	Greece
140	Netherlands
142	Eire
150	Italy, the Vatican State, San Marino
152	Yugoslavia
153	Malta
156	Portugal, (with the Azores and Madeira)
160	Switzerland, Liechtenstein
164	Spain
165	Canary Islands
170	Great Britain and Northern Ireland (UK)
172	Turkey
180	Western Germany (the Federal Republic of Germany)
182	Austria

AFRICA

202	Algeria
207	Botswana
213	Burundi
214	Ethiopia
218	French Somaliland
222	Gambia
228	Ghana
232	Guinea
234	Kenya
235	Lesotho
236	Liberia
238	Libya

ATTACHMENT

242	Madagascar
243	Mali
244	Morocco
245	Mauritius, Seychelles a.o. (British)
246	Nigeria
248	Portuguese West Africa (with Portuguese Guinea, Angola, the Capo Verdi Islands, Sao Thomé and Principe)
252	Portuguese East Africa (Mozambique)
253	St. Helena a.o. (British)
255	Sierra Leone
256	Spanish possessions in Africa (except Canary Islands)
258	Sudan
259	Swaziland (British)
262	The South African Republic
264	South West Africa
266	Tanzania, the United Republic of
268	Tunisia
269	Uganda
276	Central African Republic
277	Cameroon
278	Congo (Kinshasa)
279	Congo (Brazzaville)
281	Dahomey
282	Ivory Coast
283	Gabon
284	Mauritania
285	Niger
286	Reunion, Comore Islands, Kerguelen Islands a.o. (French)
287	Rwanda
288	Senegal
289	Somalia
292	Chad
293	Togo
294	Upper Volta
296	Zambia
297	Malawi

AMERICA

302	Argentina
303	Bahama Islands
304	Bolivia
305	Barbados
	Paraguay
307	Bermudas
308	Guyana
312	British Honduras
314	Canada
316	Chile
322	Costa Rica
324	Cuba
326	The Dominican Republic
328	Ecuador
332	Falkland Islands, South Georgia a.o. (British)
334	French Guiana
336	French West Indies (including Guadeloupe and Martinique) Saint-Pierre and Miquelon
338	Guatemala
342	Haiti
344	Dutch Guiana (Surinam)
346	Dutch West Indies (Aruba and Curacao)
348	Honduras
352	Jamaica
354	Mexico
356	Nicaragua
358	Panama, except the Canal Zone
362	The Panama Canal Zone and other United States possessions in the West Indies, except Puerto Rico

366 Peru
368 Puerto Rico
372 Salvador
374 Trinidad and Tobago
376 Uruguay
390 United States
392 Venezuela
394 Other British possessions in the West Indies (including Turks, Caicos and Cayman Islands, and other British possessions in the Windward and Leeward islands)

ASIA

402 The South Arabian Federation (including Aden), Hadhramaut a.o. and the islands of Kamaran, Perim, Soqotra, Kuria Muria
404 Afghanistan
406 The Bahrein Islands, Qatar
412 Brunei
414 Burma
416 Cambodia
418 Ceylon
422 Cyprus
428 Hong Kong
432 India (with the Andaman, Nicobar and Laccadive Islands a.o.), Bhutan, Sikkim
434 Indonesia (including the former Dutch New Guinea)
436 Iraq
438 Iran (Persia)
442 Israel
446 Jordan
452 Kuwait
454 Laos
456 Lebanon
457 Maldive Islands
458 Malaysia (including Sarawak and Sabah (formerly British North Borneo))
462 Muscat and Oman, Trucial States
464 Nepal
472 Pakistan
474 The Philippines
476 Portuguese possessions in Asia (Portuguese Timor and Macao)
478 Saudi Arabia
482 Singapore
488 South Viet-Nam (the Republic of Viet-Nam)
492 Thailand (Siam)
494 Yemen

ATTACHMENT

OCEANIA

502	Australia (with possessions)
504	British possessions in the Pacific
506	French possessions in the Pacific
512	Nauru
514	New Zealand (with possessions)
515	New Guinea
516	New Hebrides
518	United States possessions in the Pacific and Pacific Islands under the joint administration of the United Kingdom and the United States: Canton and Enderbury
522	Western Samoa

FEDERAL REPUBLIC OF GERMANY/WOOL

FEDERAL REPUBLIC OF GERMANY

Quotas are maintained by the FRG for imports of textiles, including wool and man-made fiber products, from Yugoslavia, Japan, India, Pakistan, Republic of China, Republic of Korea and the United Arab Republic in addition to those maintained by Eastern European countries.

A. German-Eastern European Trade Agreements: FRG maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Polan, Romania and Yugoslavia which provide ceilings on German imports of wool yarns and certain wool and man-made fiber fabrics and apparel products.

B. FRG requires licenses for the importation of certain wool yarns, fabrics and apparel and all man-made fiber products when the country of origin is on Country List B. Although the U.S. is included on this list, licenses for these products are granted freely for imports from the U.S.

C. A certificate of origin is required for all wool products, man-made fibers and yarn when imported from Hong Kong or Macao.

D. German-Japanese Trade Agreement of December 1967 provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to announce 1969/70 ceilings.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Hungary	German-Hungarian trade protocol for 1969 includes the following ceilings on German imports of textile/apparel products from Hungary: Item — Quota in U.S. Dollars Various textiles, fiber not specified — 575,000 Men's, women's and children's apparel, fiber not specified — 600,000 Knit and woven goods, fiber not specified — 450,000 (These quotas might be subject to a one-third increase)
	Poland	German-Polish trade agreement of March 7, 1963, amended by protocol of March 21, 1968, includes the following ceilings on German imports of wool products from Poland for CY 1968. Item — Quota in U.S. Dollars Fabrics of wool and synthetic fibers — 75,000 Various woven and knitted goods, fiber not specified — 375,000 Women's outergarments, fiber not specified — 275,000 Men's and women's undergarments, fiber not specified — 225,000 Fabric shoes, fiber not specified — 75,000 Textile handicrafts — 37,500
	Czechoslovakia	German-Czechoslovak trade protocol of 1969 includes the following ceilings on German imports of textile/apparel products from Czechoslovakia. Item — Quota in U.S. Dollars Woolen fabric and shawls — 550,000 Felt hats and head coverings, fiber not specified — 250,000 Textile products for industrial use, fiber not specified — 400,000 Carpets, fiber not specified — 87,500 Miscellaneous fabric, fiber not specified — 425,000 Knit and woven goods, fiber not specified — 1,725,000 Men's and women's apparel and underwear, fiber not specified — 1,500,000 German goods processed in Czechoslovakia — 250,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Japan	German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of wool textile products. The quotas below are for the two-year period 1967/68, with half the quota for each year. FRG unwilling to release 1969/70 ceilings. Item — Quota Worsted yarn, not for retail sale — 470,000 kg. Yarn of wool or of fine animal hair, for retail sale — 110,000 kg. Wool fabric — $2,475,000 Outergarments, woven, of wool or man-made fibers — $3,575,000
	Country List B (see attachment)	Germany requires licenses for the importation of the wool textile products listed below. Import tenders are published annually without revealing, however, the import quotas allocated to the individual countries. Although the U.S. is included on Country List B, licenses for these products are granted freely for imports from the U.S. Item — Tariff No. Worsted yarn of wool, not put up for retail sale: containing at least 85 percent by weight of wool: uncabled: unbleached, other than hard worsted yarn — ex 5307.31 bleached, dyed or printed — 5307.35

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Federal Republic of Germany	Country List B (see attachment)	cabled:	
		unbleached, other than hard worsted yarn	ex 5307.41
		bleached, dyed or printed	5307.45
		containing less than 85 percent by weight of wool:	
		uncabled:	
		unbleached, other than hard worsted yarn	ex 5307.71
		bleached, dyed or printed	4307.75
		cabled:	
		unbleached, other than hard worsted yarn	ex 5307.81
		bleached, dyed or printed	5307.85
		Yarns of wool, put up for retail sale:	
		containing at least 85 percent by weight of wool:	
		hand-knitting and similar yarns of wool	5310.31
		other	5310.39
		containing less than 85 percent by weight of wool:	
		hand-knitting and similar yarns of wool	5310.41
		other	5310.49
		Wool fabrics:	
		containing at least 85 percent by weight of woolen textiles:	
		fabrics for blankets	5311.11
		other (except those for furniture and interior decoration exceeding 250 grams per square meter, felt cloth):	
		fabrics of woolen carded yarn	5311.31, 32, 33
		fabrics of woolen worsted yarn	5311.41, 42, 43, 45, 46, 47
		containing less than 85 percent by weight of woolen textiles:	
		fabrics for blankets	5311.61
		fabrics with warp wholly of continuous non-cellulosic textile fibers	5311.67

Continued . . .

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Federal Republic of Germany	Country List B (see attachment)	fabrics with warp wholly of continuous cellulosic textile fibers	5311.08
		other (except those for furniture and interior decoration exceeding 250 grams per square meter; linings for outerwear)	
		fabrics of woolen carded yarn	5311.71, 72, 73
		fabrics of woolen worsted yarn	5311.81, 82, 83, 85, 86, 87
		Outer garments knitted or crocheted of wool:	
		pullover, twinsets, vests, blouses and the like 1/	6005.43
		dresses and costumes, complete	6005.63
		other outer garments (e.g., skirts, trousers)	6005.73
		Outer garments of woven textiles, for women and girls, of wool: except those consisting wholly or partly of tulle, laces, embroidery, or with drawn-thread work, applique work or similar decorative effects:	
		coats and jackets	6102.33
		costumes, complete	6102.43
		dresses	6102.53
		skirts	6102.63
		blouses	6102.73
		other outer garments (e.g., trousers, bath, beach and house robes, and jackets, except kimonos)	ex 6102.93

1/ Also subject to restrictions vis-a-vis imports from Hong Kong (Country List A) if country of origin and country of sale are not identical.

ATTACHMENT

Länderliste B (Country List B)

Andorra
Finnland
Jugoslawien
Vatikanstadt

Ägypten
(Vereinigte Arabische Republik)
Äthiopien
Ghana
Guinea
Liberia
Libyen
Malawi
Marokko
Rhodesien, Süd-
Sambia
Sudan
Südafrika, Republik, einschl.
Südwestafrika, Basuto, Betschuana-,
Swaziland
Tunesien

Kanada
Vereinigte Staaten und zugehörige
Gebiete:
Panamakanal-Zone
Puerto Rico, Amerikanische
Jungferninseln
Riukiu-Inseln
(ohne nördliche Gruppe)
Ozeanien, Amerikanisch-
(Amerikanisch-Samoa, Guam,
Karolinen, Marianen,
Marschallinseln)

Costa Rica
Dominikanische Republik
El Salvador
Guatemala
Haiti
Honduras
Kuba
Mexiko
Nicaragua
Panama (ohne Kanalzone)
Argentinien
Bolivien
Brasilien
Chile
Ecuador
Kolumbien
Paraguay
Peru
Uruguay
Venezuela

Afghanistan
Bahrein
Bhutan
Birma
Ceylon
Indien
Indonesien
Irak
Iran
Israel
Japan

Jemen
Jordanien
Kambodscha
Katar
Korea, Süd-
Kuwait
Laos
Libanon
Malaysia
Maskat und Oman, Befriedetes Oman
Nepal
Pakistan
Philippinen
Saudi-Arabien
Sikkim — Bhutan
Syrien
Taiwan (Formosa)
Thailand (Siam)
Vietnam, Süd-

Australischer Bund,
Nauru (Trhgb.), Papua,
Neuguinea (Trhgb.), Norfolkinsel,
Weihnachtsinsel, Kokosinseln
Neuseeland,
Cookinseln,
Niue-Insel, Tokelau-Inseln
Westsamoa

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Bulgaria	German-Bulgarian trade agreement of March 6, 1964, amended by trade protocol of June 12, 1969, with retroactive effect as from January 1, 1969, provides the following ceilings on German imports of wool fiber textile/apparel products from Bulgaria.

Item	Quota in U.S. Dollars
Men's, women's and children's undergarments and outergarments, fiber not specified	765,306
Foundation garments, fiber not specified	255,102
Carpets, handknotted and kalims	765,306
Household linen, fiber not specified	178,571
Knitwear and hosiery, fiber not specified	1,020,408

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Romania	German-Romanian trade agreement of August 1965 renegotiated December 1969. The 1967 ceilings on German imports of wool products from Romania are the latest levels available. These quotas might be subject to a one-third increase.

Item	Quota in U.S. Dollars
Woven wool	100,000
Knitted and woven goods, fiber not specified	375,000
Men's outergarments, fiber not specified	375,000
Women's outergarments, fiber not specified	175,000
Men's undergarments, fiber not specified	325,000
Women's undergarments, fiber not specified	100,000
Handkerchiefs, scarves, ties, collars, foundation garments, gloves, fiber not specified	75,000
Handicrafts (including blouses), fiber not specified	125,000

	Hong Kong Macao	A certificate of origin is required for all wool products when imported from Hong Kong or Macao.

FEDERAL REPUBLIC OF GERMANY/MAN-MADES

FEDERAL REPUBLIC OF GERMANY

Quotas are maintained by the FRG for imports of textiles, including wool and man-made fiber products, from Yugoslavia, Japan, India, Pakistan, Republic of China, Republic of Korea and the United Arab Republic in addition to those maintained by Eastern European countries.

A. German-Eastern European Trade Agreements: FRG maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Polan, Romania and Yugoslavia which provide ceilings on German imports of wool yarns and certain wool and man-made fiber fabrics and apparel products.

B. FRG requires licenses for the importation of certain wool yarns, fabrics and apparel and all man-made fiber products when the country of origin is on Country List B. Although the U.S. is included on this list, licenses for these products are granted freely for imports from the U.S.

C. A certificate of origin is required for all wool products, man-made fibers and yarn when imported from Hong Kong or Macao.

D. German-Japanese Trade Agreement of December 1967 provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to announce 1969/70 ceilings.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Bulgaria	German-Bulgarian trade agreement of March 6, 1964, amended by trade protocol of June 12, 1969, with retroactive effect as from January 1, 1969, provides the following ceilings on German imports of man-made fiber textile/apparel products from Bulgaria.

Item	Quota in U. S. Dollars
Men's, women's and children's undergarments and outergarments, fiber not specified	765,306
Foundation garments, fiber not specified	255,102
Polyester fibers, wadding and scrap	510,204
Carpets, handknotted and kalims	765,306
Household linen, fiber not specified	178,571
Knitwear and hosiery, fiber not specified	1,020,408

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Romania	German-Romanian trade agreement of August 1965 re-negotiated December 1969. The 1967 ceilings on German imports of man-made fiber products from Romania are the latest levels available. These quotas might be subject to a one-third increase.

Item	Quota in U. S. Dollars
Man-made fibers and threads	750,000
Fabric of artificial fibers for re-export	100,000
Knitted and woven goods, fiber not specified	875,000
Fabric of man-made fibers	250,000
Men's outergarments, fiber not specified	375,000
Women's outergarments, fiber not specified	175,000
Men's undergarments, fiber not specified	325,000
Women's undergarments, fiber not specified	100,000
Handkerchiefs, scarves, ties, collars, foundation garments, gloves, fiber not specified	75,000
Handicrafts (including blouses), fiber not specified	125,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Japan	German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of man-made fiber textile products. The quotas below are for the two-year period 1967-68, with half the quota for each year. FRG unwilling to release 1969/70 ceilings.

Item	Quota
Man-made fiber fabric	$1,650,000
Fabric of cellulosic fibers, dyed, 135-145 meters wide	$1,250,000
Fabric of cellulosic fibers, unprocessed and bleached	27.2 million sq. meter
Outergarments, woven, of wool or man-made fibers	$3,575,000
Fabric of cellulosic fibers except unprocessed and bleached	$1,650,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Hungary	German-Hungarian trade protocol for 1969 includes the following ceilings on German imports of textile/apparel products from Hungary:

Item	Quota in U.S. Dollars
Various textiles, fiber not specified	575,000
Men's, women's and children's apparel, fiber not specified	600,000
Knit and woven goods, fiber not specified	450,000

(These quotas might be subject to a one-third increase)

COUNTRY OF ORIGIN	RESTRICTION
Poland	German-Polish trade agreement of March 7, 1963, amended by protocol of March 21, 1968, includes the following ceilings on German imports of man-made fiber products from Poland for CY 1968.

Item	Quota in U.S. Dollars
Synthetic fibers and threads	125,000
Synthetic silk fabrics	175,000
Fabrics of wool and synthetic fibers	75,000
Caseine fibers	250,000
Cellulose, raw and processed	125,000
Various woven and knitted goods, fiber not specified	375,000
Women's outergarments, fiber not specified	275,000
Men's and women's undergarments, fiber not specified	225,000
Fabric shoes, fiber not specified	75,000
Textile handicrafts	37,500

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Czechoslovakia	German-Czechoslovak trade protocol of 1969 includes the following ceilings on German imports of textile/apparel products from Czechoslovakia.

Item	Quota in U. S. Dollars
Felt hats and head coverings, fiber not specified	250,000
Textile products for industrial use, fiber not specified	400,000
Carpets, fiber not specified	87,500
Miscellaneous fabric, fiber not specified	425,000
Knit and woven goods, fiber not specified	1,725,000
Men's and women's apparel and underwear, fiber not specified	1,500,000
German goods processed in Czechoslovakia	250,000
Semi-finished textiles, especially yarns, fiber not specified	300,000
Linen and semi-linen fabrics	200,000

	Country List B (see attachment)	Germany requires licenses for the importation of man-made fiber products when the country of origin is on Country List B. Although the U. S. is included on this list, licenses for these products are granted freely for imports from the U. S.
	Hong Kong Macao	A certificate of origin is required for man-made fibers and yarn when imported from Hong Kong or Macao.

ATTACHMENT

Länderliste B (Country List B)

Andorra
Finnland
Jugoslawien
Vatikanstadt

Ägypten
(Vereinigte Arabische Republik)
Äthiopien
Ghana
Guinea
Liberia
Libyen
Malawi
Marokko
~~[illegible]~~
Sambia
Sudan
Südafrika, Republik, einschl.
Südwestafrika, Basuto-, Betschuana-,
Swasiland
Tunesien

Kanada
Vereinigte Staaten und zugehörige
Gebiete:
Panamakanal-Zone
Puerto Rico, Amerikanische
Jungferninseln
Riukiu-Inseln
(ohne nördliche Gruppe)
Ozeanien, Amerikanisch-
(Amerikanisch-Samoa, Guam,
Karolinen, Marianen,
Marschallinseln)

Costa Rica
Dominikanische Republik
El Salvador
Guatemala
Haiti
Honduras
~~Jamaica~~
Mexiko
Nicaragua
Panama (ohne Kanalzone)
Argentinien
Bolivien
Brasilien
Chile
Ecuador
Kolumbien
Paraguay
Peru
Uruguay
Venezuela

Afghanistan
Bahrein
Bhutan
Birma
Ceylon
Indien
[illegible]nesien
Irak
Iran
Israel
Japan

Jemen
Jordanien
Kambodscha
Katar
Korea, Süd-
Kuwait
Laos
Libanon
Malaysia
Maskat und Oman, Befriedetes Oman
Nepal
Pakistan
Philippinen
Saudi-Arabien
Sikkim — Singapore
Syrien
Taiwan (Formosa)
Thailand (Siam)
Vietnam, Süd-

Australischer Bund,
Nauru (Trhgb.), Papua,
Neuguinea (Trhgb.), Norfolkinsel,
Weihnachtsinsel, Kokosinseln
Neuseeland,
Cookinseln,
Niue-Insel, Tokelau-Inseln
Westsamoa

FRANCE/WOOL

FRANCE

A. Emergency trade measures imposed by GOF effective July 1, 1968 - December 31, 1968, included import ceilings on knit outerwear of all fibers and certain wool fiber fabrics, made-up goods and apparel from all countries.

B. Franco-Japanese Bilateral Trade Agreement: This agreement scheduled to expire March 1969 contains a provision for ceilings on French imports of certain wool and man-made fiber yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

C. Franco-Indian Bilateral Trade Agreement: The bilateral agreement with India includes ceilings on French imports of wool knitwear, man-made fiber fabric and apparel other than cotton from India.

D. France requires licenses for the importation of certain wool yarns, fabrics, carpets and apparel and certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). These licensing arrangements are not administered in conjunction with any established quotas.

E. France makes use of licenses to restrict imports of certain wool and man-made fiber fabrics, carpets and apparel from Hong Kong.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	India	Franco-Indian bilateral trade arrangement includes a ceiling on French imports of certain wool fiber products from India. 1969 quotas are given below.

Tariff No.	Item	Quota in U. S. Dollars
60.04 ExB, 60.05 ExA	Wool knitwear	39,600
ex 61.01, ex 61.02, ex 61.03	Apparel other than cotton 1/	129,600
ex 61.06	Various textile articles: shawls, scarves, saris... other than cotton	p. m. 2/

1/ For these products importers must have their invoices countersigned by the Indian commercial office in Paris.

2/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Japan	Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of wool textile products for the period April 1, 1968 to March 31, 1969.

Item	Quota: Quantity in Metric Tons	Quota: Value in U.S. Dollars
Combed wool yarn for retail sale		305,000
Wool fabric	84	304,000 (indicative level)
Other textile articles except of cotton:		
Woven clothing		424,000
Knitted goods		118,000
Other articles		63,000

In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some wool textile items may be included but it is not yet known which ones.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Hong Kong	France requires licenses for the importation of various wool products listed below. Licenses are not granted freely.

Item	Tariff No.
Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15% by weight of discontinuous cellulosic fibers	ex 58.02
Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60.02
Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60.05
Men's and boys' outergarments	ex 61.01
Women's, girls', and infants' outergarments	ex 61.02
Men's and boys' undergarments including collars, shirtfronts and cuffs	61.03
Women's, girls', and infants' undergarments	61.04
Shawls, scarves, mufflers, veils, etc.	61.06

France	GATT Countries (except OECD countries other than Japan)	France requires licenses for the importation of various wool products listed below. Licenses are used to restrict imports although specific ceilings are not in force.

Item	Tariff No.
Yarn of combed sheep's or lambs' wool, not put up for retail sale	53.07
Woven fabric of sheep's or lambs' wool or of fine animal hair	53.11
Carpets, rugs, etc.	58.02
Gloves, mittens and mitts, knitted or crocheted, not elastic nor rubberized	60.02
Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	60.05
Men's and boys' outergarments, work clothes and other, except for judo garments	ex 61.01
Women's, girls' and infants' outergarments	ex 61.02
Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
Women's, girls' and infants' garments, knitted or crocheted, not elastic nor rubberized	61.04
Shawls, scarves, mufflers, mantillas, veils, etc.	61.06

IMPORTING COUNTRY	COUNTRY OF ORIGIN	( ) RESTRICTION)
France	Poland	Franco-Polish Long-Term Trade Agreement of October 22, 1965, amended by trade protocol of February 13, 1969, includes the following ceilings on Polish exports of wool products to France for CY 1969.

BTN No.	Item		Quota U.S. Dollars 1/
53.11	Wool fabric, wool/polyester blends		28,828
58.02	Carpets, fiber not specified		45,045
ex 58.04 Bex II	Velvet	(35 MT)	(72,072)
60.01, 60.04, 60.06	Knitwear, except gloves		(99,099)
61.01A	Work clothing		(18,018)
Chapter 61	Men's and women's undergarments and outergarments, of which not more than 320 are men's shirts		(198,198)
61.05-.11	Clothing accessories, including handkerchiefs		(27,027)
62.01	Blankets		18,018
	Miscellaneous textiles		(90,090)

1/ Dollar value in parentheses only indicative level

FRANCE/MAN-MADES

FRANCE

A. Emergency trade measures imposed by GOF effective July 1, 1968 - December 31, 1968, included import ceilings on knit outerwear of all fibers and certain man-made fiber fabrics, made-up goods and apparel from all countries.

B. Franco-Japanese Bilateral Trade Agreement: This agreement scheduled to expire March 1969 contains a provision for ceilings on French imports of certain wool and man-made fiber yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

C. Franco-Indian Bilateral Trade Agreement: The bilateral agreement with India includes ceilings on French imports of wool knitwear, man-made fiber fabric and apparel other than cotton from India.

D. France requires licenses for the importation of certain wool yarns, fabrics, carpets and apparel and certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). These licensing arrangements are not administered in conjunction with any established quotas.

E. France makes use of licenses to restrict imports of certain wool and man-made fiber fabrics, carpets and apparel from Hong Kong.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Japan	Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of man-made fiber products for the period April 1, 1968 to March 31, 1969.

Item	Quota: Quantity in Metric Tons	Quota: Value in U.S. Dollars 1/
Non-cellulosic filament yarn (of which 33 tons of yarn is more than 400 turns per meter)	92	(277,000)
Cellulosic filament yarn	219	(253,000)
Non-cellulosic woven filament fabric	91	(458,000)
Cellulosic woven filament fabric, printed	32	(80,000)
Cellulosic woven filament fabric, unprinted	48	(160,000)
Non-cellulosic spun yarn fabrics	61	(365,000)
Cellulosic spun yarn fabrics, printed	137	(250,000)
Cellulosic spun yarn fabrics, unprinted	63	(250,000)
Other textile articles, except cotton:		
Woven clothing		(424,000)
Knitted goods		(118,000)
Other articles		(63,000)

1/ Dollar value in parentheses only indicative level

In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some man-made fiber textile items may be included but it is not yet known which ones.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Hong Kong	France requires licenses for the importation of various man-made fiber products listed below. Licenses are not granted freely.

Item	Tariff No.
Woven fabrics of sheep's or lambs' wool or of fine animal hair or of a blend containing more than 15% by weight of cellulosic fibers and discontinuous non-cellulosic fibers	ex 53.11
Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15% by weight of discontinuous cellulosic fibers	ex 58.02
Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60.02
Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60.05
Men's and boys' outergarments	ex 61.01
Women's, girls', and infants' outergarments	ex 61.02
Men's and boys' undergarments including collars, shirtfronts and cuffs	61.03
Women's, girls', and infants' undergarments	61.04
Shawls, scarves, mufflers, veils, etc.	61.06

	GATT Countries (except OECD countries other than Japan)	France requires licenses for the importation of various man-made fiber products listed as follows. Licenses are used to restrict imports although specific ceilings are not in force.

Item	Tariff No.
Carpets, rugs, etc.	58.02
Gloves, mittens and mitts, knitted or crocheted, not elastic nor rubberized	60.02
Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	60.05
Men's and boys' outergarments, work clothes and other, except for judo garments	ex 61.01
Women's, girls' and infants' outergarments	ex 61.02
Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
Women's, girls' and infants' garments, knitted or crocheted, not elastic nor rubberized	61.04
Shawls, scarves, mufflers, mantillas, veils, etc.	61.06

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	India	Franco-Indian bilateral trade arrangement includes a ceiling on French imports of certain man-made fiber products from India. 1969 quotas are given below.

Tariff No.	Item	Quotas in U.S. Dolla:
51.04 56.07	Man-made fiber woven fabrics (of which not more than $27,000 for staple fiber fabrics) 1/	162,000
ex 61.01, ex 61.02, ex 61.03	Apparel other than cotton 1/	129,600
ex 61.06	Various textile articles: shawls, scarves, saris... other than cotton	p.m. 2/

1/ For these products importers must have their invoices countersigned by the Indian commercial office in Paris.

2/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Poland	Franco-Polish Long-Term Trade Agreement of October 22, 1965, amended by trade protocol of February 13, 1969, includes the following ceilings on Polish exports of man-made fiber products to France for CY 1969.

BTN No.	Item	Quota Metric Tons	Quota U.S. Dollars 1/
51.04A	Non-cellulosic fiber fabric	8	(41,441)
56.07A			
51.04 ex B	Rayon fabric	50	(90,090)
56.07	Fibranne fabric	45	(50,450)
ex 54.05	Table, bed and bath linens	100	(288,288)
62.02			
ex 58.04	Plush fabric		(14,414)
58.04B ex II	Velvet	35	(72,072)
58.02	Carpets		(45,045)
60.04	Knitwear, except gloves		(99,099)
61.01A	Work clothing		(18,018)
Chapter 61	Men's and women's undergarments and outergarments, of which not more than 320 are men's shirts		(198,198)
61.05-.11	Clothing accessories, including handkerchiefs		(27,027)
	Miscellaneous textiles		(90,090)

1/ Dollar value in parentheses only indicative level

ITALY/WOOL

ITALY

A. Italian-Japanese Trade Protocol of October 15, 1955: The 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

B. Italy applies quota restrictions on certain fabrics, carpets and apparel items of all fibers imported from the following Eastern European countries: Democratic Republic of Germany, Czechoslovakia, Hungary, Poland, Romania and the Peoples Republic of China.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Japan	Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969-September 30, 1970, provides for the following ceilings on Italian imports of wool textile products from Japan.

Tariff No.	Item	Quota in U.S. Dollars
53.07	Worsted yarn	160,000
53.11	Woven fabrics of sheep's or lambs' wool or of fine animal hair	360,000 1/
ex 58.04	Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05	Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
Apparel and Clothing Accessories (except of cotton)		
	Knitted and crocheted goods	
ex 60.05	Outergarments, not elastic or rubberized	70,000
	Other than knitted or crocheted	
61.02	Women's, girls', and infants' outergarments	70,000
Other Made-up Articles, except of Cotton		
ex 62.02	Bed linen, table line, kitchen linen, curtains	70,000

1/ Italy will consider the issuance of import licenses beyond the established amounts, whenever the Italian market situation may permit.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Eastern Europe	The following ceilings apply to textile products imported from Eastern Europe into Italy in CY 1970.

Country of Origin	Item	Quota in U.S. Dollars
Democratic Republic of Germany	Tulle, drapery fabrics, of all fibers	$100,000
	Carpets, tapestries, of all fibers	$100,000
	Apparel, of all fibers	$100,000
Czechoslovakia	Drapery fabrics, of all fibers	$150,000
	Wool fabrics	$240,000
Poland	Socks and stockings, of all fibers	$ 32,000
	Wool fabrics	$112,000
	Hosiery and apparel	$640,000
Romania	Apparel, of all fibers	$480,000
	Hosiery	$ 47,695
Hungary	Apparel, of all fibers	$256,000
Albania	Carpets, of all fibers	$200,000
	Wool knits	$ 32,000
Peoples Republic of China	Felt and velvet	$208,000
	Tulle	$208,000
	White goods	$1,920,000

ITALY/MAN-MADES

ITALY

A. Italian-Japanese Trade Protocol of October 15, 1955: The 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

B. Italy applies quota restrictions on certain fabrics, carpets and apparel items of all fibers imported from the following Eastern European countries: Democratic Republic of Germany, Czechoslovakia, Hungary, Poland, Romania and the Peoples Republic of China.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Japan	Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for the following ceilings on Italian imports of man-made fiber textile products from Japan.

Tariff No.	Item	Quota in U.S. Dollars
51.04	Woven fabrics of continuous man-made fiber	440,000
56.07	Woven fabrics of discontinuous man-made fiber or waste	600,000 1/2/
ex 58.04	Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05	Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
	Apparel and Clothing Accessories (except of Cotton)	
	Knitted and crocheted goods	
ex 60.05	Outer garments, not elastic or rubberized	70,000
	Other than knitted or crocheted	
ex 61.02	Women's, girls', and infants' outer-garments	70,000
ex 61.05	Handkerchiefs	70,000
	Other made-up articles, except of cotton	
ex 62.02	Bed linen, table linen, kitchen linen, curtains	70,000

1/ Italy will consider the issuance of import licenses beyond the established amounts, whenever the Italian market situation may permit.
2/ Temporary imports.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Eastern Europe	The following ceilings apply to textile products imported from Eastern Europe into Italy in CY 1970.

Country of Origin	Item	Quota in U.S. Dollars
Democratic Republic of Germany	Tulle, drapery fabrics, of all fibers	$100,000
	Carpets, tapestries, of all fibers	$100,000
	Apparel, of all fibers	$100,000
Czechoslovakia	Drapery fabrics, of all fibers	$150,000
	Man-made fiber fabrics	$240,000
	Blankets of man-made fibers	$200,000
Poland	Hosiery and apparel	$640,000
	Socks and stockings, of all fibers	$ 32,000
	Man-made fiber fabrics	$350,000
Romania	Man-made fiber fabrics	$120,000
	Apparel of all fabrics	$480,000
	Hosiery	$ 47,695
Hungary	Apparel of all fibers	$256,000
	Man-made fiber fabrics	$192,000
Albania	Carpets of all fibers	$200,000
Peoples Republic of China	Felt and velvet	$208,000
	Tulle	$208,000
	White goods	$1,920,000
	Yarns of man-made fibers	$ 96,000

NORWAY/WOOL

NORWAY

A. Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

B. Norway requires licenses for the importation of all textile and apparel products from the Republic of Korea. Specific ceilings are not in force.

C. Norwegian-Eastern European Trade Agreements: Norway maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania which provide ceilings on Norwegian imports of certain textiles. Separate ceilings on wool products are not in force.

D. In December 1968 Norwegian-Yugoslav trade officials were considering the imposition of ceilings on Yugoslav exports of men's and boys' wool outerwear.

E. Norwegian-Hong Kong trade agreement renewed September 1969 includes ceilings on Hong Kong exports of various wool apparel products to Norway for 12 months beginning October 1, 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hong Kong	Norwegian-Hong Kong trade agreement renewed September 1969 provides for ceilings on Hong Kong exports of the following wool apparel items for the year beginning October 1, 1969. Tariff No. — Item — Quota ex 841.462, 465 — Men's, boys', women's and girls' jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool including lambs' wool — 90,000 dozen
	Japan	Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hungary	Norwegian-Hungarian bilateral trade agreement includes a provision for a ceiling of $14,100 on Hungary's exports of hosiery and socks to Norway during the year 1968-1969. In addition, licenses are required for the importation of hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.
	Poland Bulgaria Romania	Bilateral trade agreements include a licensing requirement for the imporation of hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force. Total textile quota for Bulgaria is $80,000, the smallest for any Eastern European Country.
	Czechoslovakia	Norwegian-Czechoslovak trade agreement under negotiation. Expected to contain quotas on textile items.
	Republic of Korea	Licenses are required for the importation of all textile/apparel products. The Ministry of Commerce and Shipping "regulates" the importation of yarn and fabric of all fibers (except cotton, hemp and jute) and made-ups and apparel of all fibers. However, specific ceilings are not in force.
	Yugoslavia	Norwegian-Yugoslav trade officials were considering during December 1968 the imposition of ceilings on Yugoslav exports of men's and boys' wool outerwear to Norway during CY 1969.

NORWAY/MAN-MADES

NORWAY

A. Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain man-made fiber yarns, fabrics, knit goods and apparel.

B. Norway requires licenses for the importation of all textile and apparel products from the Republic of Korea. Specific ceilings are not in force.

C. Norwegian-Eastern European Trade Agreements: Norway maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania which provide ceilings on Norwegian imports of certain textiles. Separate ceilings on man-made fiber products are not in force.

D. In December 1968 Norwegian-Yugoslav trade officials were considering the imposition of ceilings on Yugoslav exports of men's and boys' man-made fiber outerwear.

E. Norwegian-Hong Kong trade agreement renewed September 1969 provides for a system of export authorization for 12 months beginning October 1, 1969, whereby the Norwegian Government will receive advance information on the development of Hong Kong exports of certain man-made fiber apparel products.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Japan	Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. For items on list I, licenses are issued automatically up to specified levels, at which point the two countries consult "with a view to finding appropriate measures for the development of trade between the two countries." The agreement includes ceilings on Norwegian imports of certain man-made fiber yarns, fabrics, knit goods and apparel. Details LOU.
	Poland	Norwegian-Polish bilateral trade agreement 1968-1970 includes a provision on Poland's exports of various man-made fiber products to Norway during 1969.

Item	Quota in U.S. Dollars
Ladies' nylon stockings	84,600
Woven cotton piece goods, bleached, multi-colored, not printed; woven piece goods of cotton and/or spun rayon or other discontinuous man-made fiber	98,700

In addition licenses are required for the importation of man-made fiber fabrics as well as hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hungary	Norwegian-Hungarian bilateral trade agreement includes a provision for the following annual ceilings on Hungary's exports to Norway during 1968-1969. Item — Quota Hosiery and socks of all textile fibers — $14,100 Handkerchiefs of all textile fibers — 10 tons Piece goods, not printed, of cotton and/or rayon staple fiber — $70,500 In addition, licenses are required for the importation of man-made fiber fabrics as well as hosiery, under-garments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.
	Czechoslovakia	Norwegian-Czechoslovak trade agreement under negotiation. Expected to contain quotas on textile items.
	Hong Kong	Norwegian-Hong Kong trade agreement provides for a system of export authorization for the year beginning October 1, 1969, whereby the Norwegian Government will receive advance information on Hong Kong exports of the following man-made fiber products. No export license for these items will be issued unless an Export Authorization has previously been obtained.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Norway	Hong Kong	Tariff No.	Item
		841.739	Women's and girls' blouses and jumpers, not knitted or crocheted, wholly or mainly of polyester, nylon (polyamide) or rayon, not embroidered
		ex 841.863	Men's and boys' sweaters, jackets, jumpers, cardigans, pullovers, knitted or crocheted, wholly or mainly of acrylic fiber
		841.844	Women's and girls' undergarments, knitted or crocheted, not elastic or rubberized, wholly or mainly of synthetic fiber
	Bulgaria Romania	Bilateral trade agreements include a licensing requirement for the importation of man-made fiber fabrics, as well as hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force. Total textile quota for Bulgaria is $80,000, the smallest for any Eastern European country.	
	Republic of Korea	Licenses are required for the importation of all textile/apparel products. The Ministry of Commerce and Shipping "regulates" the importation of yarn and fabric of all fibers (except cotton, hemp and jute) and made-ups and apparel of all fibers. However, specific ceilings are not in force.	
	Yugoslavia	Norwegian-Yugoslav trade officials were considering during December 1968 the imposition of ceilings on Yugoslav exports of men's and boys' man-made fiber outerwear to Norway during CY 1969.	

SWEDEN/WOOL

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Japan	Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following wool products.

Tariff No.	Item
53.10	Yarn of sheep's or lambs' wool, of horsehair or of other animal hair (fine or coarse), put up for retail sale
53.11-.13	Woven fabrics of wool and other animal hair
58.04	Woven pile fabrics and chenille fabrics
58.05	Narrow woven fabrics, and narrow fabrics (bolduc) consisting of warp without weft assembled by means of an adhesive
58.06	Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size
59.03	Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated
59.13	Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads
60.01-.06	Knitted or crocheted fabric, not elastic nor rubberized
ex 61.01, 61.02-.04	Men's, boys', women's and girls' outergarments and undergarments, not knitted or crocheted.
ex 61.06	Shawls, scarves, mufflers, mantillas, veils and the like
61.10	Gloves, mittens, mitts, stockings, socks and sockettes, not knitted or crocheted goods
62.01	Travelling rugs and blankets
62.02	Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles
62.05	Other made up textile articles (including dress patterns)
ex 65.05	Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece (but not from strips), whether or not lined or trimmed

SWEDEN

Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969, provides ceilings on Hong Kong exports of wool apparel products to Sweden for one-year beginning July 1, 1969.

July 1968 Sweden reintroduced a licensing requirement on certain wool yarn, fabric, knit goods and apparel from Taiwan.

Swedish-Eastern European trade agreements. Sweden has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years. Separate ceilings for wool products are not available.

Swedish-Yugoslav agreement of June 1968 which applied restraints on Yugoslav exports to Sweden of certain wool house furnishing fabrics, knitwear and apparel remains in force.

Swedish-Korea trade agreement renewed March 1970 for one year includes ceilings on certain wool apparel items.

Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Hong Kong	Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of wool apparel products to Sweden for a 12-month period commencing July 1, 1969. Item — Quota in Pieces Women's and Girls' Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool) or of man-made fiber — 1,675,000 Any items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint, provided that exporters submit samples to the Hong Kong Government Department of Commerce and Industry when applying for export licenses outside quota. Export Authorization System: During the period July 6, 1968 - June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations. Item Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool), men's and boys' wear.
	Republic of China	Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following wool products. Specific ceilings are not in force. Item — BTN Chapter No. Wool yarn and fabric — 53 Carpets, carpeting and rugs, "Kelems," etc. — 58 Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics — 58

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	BTN Chapter No.
Sweden	Republic of China	Articles of wadding	59
		Felt and articles of felt	59
		Bonded fiber fabrics and articles thereof	59
		Textile fabrics coated with gum or amylaceous substances	59
		Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
		Textile fabrics coated with gum or amylaceous substances	59
		Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
		Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
		Knitted goods and knitwear	60
		Outergarments and underwear, including foundation garments, stockings, gloves, mitten, etc.	61
		Miscellaneous manufactured textile products	62
		(Above regulations adopted partly to control Hong Kong products shipped from the Republic of China)	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Peoples Democratic Republic of Korea, Albania, Democratic Republic of Vietnam, Mongolia	All textile/apparel products are subject to licensing. Specific ceilings are not in force.
	USSR, Poland, Hungary, Romania, Bulgaria, Czechoslovakia, Democratic Republic of Germany	Sweden has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years with annual reviews of commodity lists. When a quota for textiles of all kinds is established in the annual reviews of bilateral trade agreements between Sweden and these countries, the Swedish Board of Trade issues import licenses to the agents/importers of such textile products. At its own discretion, the Board of Trade may break down the total textile quota for each country into different categories (cotton, wool, synthetics, etc.), this being a purely internal matter within the Board. A board official informed the Embassy that in breaking down the total quotas, it may consider what kinds of textiles are available from domestic sources and the particular situation prevailing in different sectors of the domestic textile industry.
	Peoples Republic of China	Swedish Board of Trade determines ceilings on goods imported from Communist China. Ceiling levels are not made public.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Yugoslavia	Swedish-Yugoslav agreement, effective June 27, 1968, remains valid. Yugoslavia agreed to restrain exports to Sweden of the following commodities. Specific ceilings are not in force.

Item	Tariff No.
Stockings, understockings, socks, ankle socks, sockettes, etc., knitted or crocheted, not elastic or rubberized	60.03
Outergarments and other articles, knitted or crocheted, not elastic or rubberized	60.05
Men's and boys' outergarments, excluding rubberized raingear, gym shorts, beach clothing and swim trunks	ex 61.01
Women's, girls', and infants' outergarments excluding rubberized rainwear, beach clothing and bathing suits, and blouses	ex 61.02
Travelling rugs and blankets	62.01
Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles	62.02

At the same time, the above items were placed under Swedish import licensing requirement, if manufactured in Yugoslavia and purchased or imported from a third country.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of Korea	Swedish-Korean trade agreement in effect March 1, 1969-February 29, 1970, provided the following ceilings on Korean exports of apparel. Item — Quota in U.S. Dollars Jackets — 80,000 Shirts — 210,000 As a result of negotiations concluded March 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

SWEDEN/MAN-MADES

SWEDEN

Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969, provides ceilings on Hong Kong exports of man-made fiber apparel products to Sweden for one year beginning July 1, 1969.

July 1968 Sweden reintroduced a licensing requirement on certain man-made fiber fabric, knit goods and apparel from Taiwan.

Swedish-Eastern European trade agreements. Sweden has bilateral trade agreements with all Eastern European coutries which are usually renewed every 5 years. Separate ceiling for man-made fiber products are not available.

Swedish-Yugoslav agreement of June 1968 which applied restraints on Yugoslav exports to Sweden of certain man-made fiber house furnishing fabrics, knitwear and apparel remains in force.

Swedish-Korea trade agreement renewed March 1970 for one year includes ceilings on certain man-made fiber apparel items.

Swedish-Japanese bilateral trade agreement for the period April 1, 1970 to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Hong Kong	Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of man-made fiber products to Sweden for a 12-month period commencing July 1, 1969.

Item	Quota in Pieces
Women's & Girls'	
Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of man-made fiber or of wool	1,675,000
Men's & Boys'	
Anoraks and similar jackets, not knitted or crocheted, wholly or mainly of man-made fiber	180,000

Any of the items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint provided that exporters submit samples to the Hong Kong Government Department of Commerce and industry when applying for export licenses outside quota.

Export Authorization System: During the period July 6, 1968 - June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations.

Item
Women's & Girls'
Undergarments (excluding nightwear), knitted or crocheted, not elastic or rubberized, wholly or mainly of continuous man-made fibers
Anoraks and similar jackets, not knitted or crocheted, wholly or mainly of continuous non-cellulosic fiber
Blouses, not knitted or crocheted, wholly or mainly of continuous or discontinuous non-cellulosic fibers, not embroidered, (excluding blouses wholly or mainly of cellulosic fiber)
Dress shirts, not knitted or crocheted, wholly or mainly of discontinuous non-cellulosic fiber (excluding dress shirts wholly or mainly of cellulosic fiber)

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of China	Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following man-made fiber products. Specific ceilings are not in force.

Item	BTN Chapter No.
Man-made fiber yarn and fabric	51, 56
Discontinuous man-made fibers and waste	56
Carpets, carpeting rugs, "Kelems," etc.	58
Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics	58
Articles of wadding	59
Felt and articles of felt	59
Bonded fiber fabrics and articles therefore	59
Twine, cordage, ropes and cables; nets and netting thereof	59
Made-up fishing nets of yarn, twine, cordage and rope	59
Textile fabrics coated with gum or amylaceous substances	59
Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
Elastic fabrics consisting of textile materials combined with rubber threads	59
Textile hosepiping and similar tubing	59
Textile transmission, conveyor or elevator belts or belting	59
Textile fabrics and articles of a kind commonly used in machinery or for related technical purposes	59
Knitted goods and knitwear	60

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Sweden		Item	BTN Chapter No.
	Republic of China	Outergarments and underwear, including foundation garments, stockings, gloves, mittens, etc.	61
		Miscellaneous manufactured textile products	62
		(Above regulations adopted partly to control Hong Kong products shipped from the Republic of China)	
	Albania, Democratic Republic of Vietnam, Peoples Democratic Republic of Korea, Mongolia	Most textile/apparel products are subject to licensing. Specific ceilings are not in force.	
	USSR, Poland, Hungary, Romania, Bulgaria, Czechoslovakia, Democratic Republic of Germany	Swedish has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years with annual reviews of commodity lists. When a quota for textiles of all kinds is established in the annual reviews of bilateral trade agreements between Sweden and the above countries, the Swedish Board of Trade issues import licenses to the agents/importers of such textile products. At its own discretion, the Board of Trade may break down the total textile quota for each country into different categories (cotton, wool, synthetics, etc.), this being a purely internal matter within the Board. A board official informed the Embassy that in breaking down the total quotas, it may consider what kinds of textiles are available from domestic sources and the particular situation prevailing in different sectors of the domestic textile industry.	
	Peoples Republic of China	Swedish Board of Trade determines ceilings on goods imported from Communist China. Ceiling levels are not made public.	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of Korea	Swedish-Korean trade agreement in effect March 1, 1969-February 29, 1970, provided the following ceilings on Korean exports of apparel.

Item	Quota in U.S. Dollars
Ankle socks and men's stockings other than wool	213,000 dozen pairs
Jackets	80,000
Shirts	210,000

As a result of negotiations concluded March 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Yugoslavia	Swedish-Yugoslav agreement, effective June 27, 1968, remains valid. Yugoslavia agreed to restrain exports to Sweden of the following commodities. Specific ceilings are not in force.

Item	Tariff No.
Stockings, understockings, socks, ankle socks, sockettes, etc., knitted or crocheted, not elastic or rubberized	60.03
Undergarments, knitted or crocheted, not elastic or rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic or rubberized	60.05
Men's and boys' outergarments, excluding rubberized raingear, gym shorts, beach clothing and swim trunks	ex 61.01
Women's, girls', and infants' outergarments, excluding rubberized rain-wear, beach clothing and bathing suits, and blouses	ex 61.02
Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
Travelling rugs and blankets	62.01
Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles	62.02

At the same time, the above items were placed under Swedish import licensing requirement, if manufactured in Yugoslavia and purchased or imported from a third country.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Japan	Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following man-made fiber products.

Tariff No.	Item
51.04	Woven fabric of continuous man-made fibers
56.06	Yarn of man-made fibers (discontinuous or waste), put up for retail sale
ex 56.07	Woven fabrics of man-made fibers (discontinuous or waste)
58.04	Woven pile fabrics and chenille fabrics
58.05	Narrow woven fabrics, and narrow fabrics (bolduc) consisting of warp without weft assembled by means of an adhesive
58.06	Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size
59.03	Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated
59.04	Twine, cordage, ropes and cables
ex 59.05	Nets and netting made of twine, cordage or rope, and made up fishing nets of yarn, twine, cordage or rope
59.07-.09, 12	Textile fabrics coated or impregnated with oil or preparations with a basis of drying oil
59.11	Rubberized textile fabrics, other than rubberized knitted or crocheted goods
59.13	Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads
59.15	Textile hosepiping and similar tubing
59.16	Transmission, conveyor or elevator belts or belting, of textile material
59.17	Textile fabrics and textile articles, of a kind commonly used in machinery or plant

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Sweden	Japan	Tariff No.	Item
		60.01 - .06	Knitted or crocheted textile/apparel products
		ex 61.01, 61.02-.04	Men's, boys', women's and girls' outergarments and undergarments, not knitted or crocheted
		ex 61.06	Shawls, scarves, mufflers, mantillas, veils and the like
		61.10	Gloves, mittens, mitts, stockings, socks and sockettes, not knitted or crocheted goods
		62.01	Travelling rugs and blankets
		62.02	Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles
		62.03	Sacks and bags, of a kind used for the packing of goods
		62.05	Other made up textile articles
		ex 65.05	Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece)but not from strips), whether or not lined or trimmed

UNITED KINGDOM/WOOL

UNITED KINGDOM

A. Anglo-Japanese Commercial Treaty of November 1962: This agreement, reviewed annually, includes a provision for ceilings on Japanese exports of certain man-made fiber yarn, and some wool and man-made fiber fabric and apparel items.

B. Anglo-Eastern European Trade Agreements: The U.K. maintains bilateral trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania which provide ceilings on U.K. imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from these Eastern European countries.

C. Anglo-Communist Chinese Trade Agreement: The U.K. established a trade agreement with the Peoples Republic of China which stipulates that imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. In addition, licenses are to be issued only to previous license holders.

The arrangement also includes a provision for ceilings on U.K. imports of certain wool fabric and knitwear, certain man-made fiber yarns and fabrics, and some apparel accessories of all fibers from Communist China.

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EXPORTING COUNTRY	COUNTRY OF DESTINATION	RESTRICTION
Japan	United Kingdom	The Anglo-Japanese commercial treaty of November 1962, reviewed anually includes a provision for ceilings on Japan's exports of the following wool products for 1968 and 1969.

Item	Quota 1968	Quota 1969
Woven wool fabrics	1,000,000 sq.yds.	1,200,000 sq.yd
Knitted fabrics of man-made fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or man-made fibers (including stockings and socks)	$2,560,800	$2,944,800
Outergarments (excluding gloves) of woven man-made fiber fabric; outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	$6,596,400 of which not more than $ 942,000 for cotton	
Knitted gloves, other than gloves knitted to shape	$ 552,000	Liberalized
Lace and lace net and embroidery of all types	$ 192,000	Liberalized
Narrow fabrics of all types and articles made therefrom	$ 307,200	$ 352,800

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Czechoslovakia	The Anglo-Czechoslovak bilateral trade agreement of 1968, to be reviewed annually for five years, contains a provision for ceilings on UK imports of certain textile/apparel products from Czechoslovakia.

Item	Quota in US Dollars
Woollen and worsted piece-goods, plushes, astrakhans and imitation fur	216,000
Furnishing fabrics of which not more than $72,720 for cotton and $48,000 for linen	312,000
Furnishing tapestries	120,000
Household goods (blankets, tablecloths, sheets, towels, etc.), and handkerchiefs, of which not more than $169,680 for cotton, $216,000 for linen goods (excluding linen tea towels) and $24,000 for embroidered handkerchiefs	648,000
Felts of all kinds	48,000
Stockings and socks	216,000
Braids and ribbons, woven labels, sparteries and laces of all kinds	528,000
Outerwear and underwear, the following:	
(a) Knitted underwear and overwear of all kinds of materials excluding lace or lace net	600,000
(b) Apparel including underwear other than apparel covered by (a) and excluding garments containing lace or lace net, or which not more than $756,000 for shirts	624,000
Hats, caps, berets and hoods (excluding silk or lace trimmed) of which not more than $168,000 for hats and hoods of wool or fur felt	312,000
Wool and wool blended yarns	48,000
Non-woven textiles of various materials	96,000
Gloves of which not more than $120,000 for leather gloves	192,000
Carpet slippers, with rubber soles and textile uppers	48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Romania	A five year Anglo-Romanian bilateral trade agreement (1968-1973) contains a provision for annual ceilings on UK imports of certain textile/apparel products from Romania. Quotas given below are for the period October 1968-September 1969.

Item	Quota in US Dollars
Hosiery and knitwear (other than gloves)	960,000
Other clothing, excluding clothing of natural fur or containing lace or lace net (of which not more than $168,000 for cotton clothing)	1,080,000
Carpets and rugs (of which not more than $240,000 for carpets of a c.i.f. value of less than $12.00 per square yard)	600,000

Bulgaria

The United Kingdom maintains a bilateral trade agreement with Bulgaria for the 12 month period ending March 31, 1969. Annex A lists goods which cannot be freely imported from Bulgaria and require specific license. For some of these goods quotas appear on Annex B which enables them to be imported under specific license up to the level of the quota.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa)

Annex B	Quota in U.S. Dollars
Woollen textiles and woollen ready-made clothes	48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Hungary	The UK maintains a bilateral trade agreement with Hungary for the period 1968-1972. Annex A lists goods which cannot be freely imported from Hungary and require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968. Annex A Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa). Annex B

Item	Quota in US Dollars
Worsted and woollen piece-goods and made-up articles of wool, excluding apparel	48,000
Stockings and socks	204,000
Knitwear, including knitted shirts, but excluding stockings and socks	1,320,000
Textile garments, not elsewhere specified, excluding garments wholly or mainly of lace, of which: (a) Other than cotton	1,080,000
Petit point handbags, panels and motifs and embroidered manufactures, including folkwork, handicraft products and hand-painted canvas, but excluding items wholly or mainly of lace	84,000
Miscellaneous textile manufactures not included elsewhere including blankets but excluding narrow fabrics of all types and articles wholly or mainly of lace: (a) other than cotton, of which not more than $24,000 for hat hoods	720,000
Gloves (of which not more than $480,000 for leather and fabric gloves)	648,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Poland	The UK maintains a bilateral trade agreement with Poland. Annex A lists goods which cannot be freely imported from Poland and which require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Handicraft textile articles (subject to type) including hand-painted table covers	48,000
Textile haberdashery (subject to type)	120,000
Fabrics and made-up goods (other than clothing) of wool	48,000
Plush fabrics (of which not more than $96,000 for fabrics made wholly or mainly of cotton)	288,000
Ready-made clothes of textile materials (of which not more than $168,000 for clothes wholly or mainly of cotton)	1,476,000
Stockings and socks	240,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Peoples Republic of China	Under an Anglo-Chinese trade arrangement imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. Licenses are issued only to previous license holders. This arrangement includes a provision for ceilings on U.K. imports of certain wool products.

Item	Quota in U.S. Dollars
Gloves of all kinds, fiber not specified	360,000
Woolen knitwear other than gloves, stockings and socks	84,000
Woolen fabrics	48,000

UNITED KINGDOM/MAN-MADES

UNITED KINGDOM

A. Anglo-Japanese Commercial Treaty of November 1962: This agreement, reviewed annually, includes a provision for ceilings on Japanese exports of certain man-made fiber yarn, and some wool and man-made fiber fabric and apparel items.

B. Anglo-Eastern European Trade Agreements: The U.K. maintains bilateral trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania which provide ceilings on U.K. imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from these Eastern European countries.

C. Anglo-Communist Chinese Trade Agreement: The U.K. established a trade agreement with the Peoples Republic of China which stipulates that imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. In addition, licenses are to be issued only to previous license holders.

The arrangement also includes a provision for ceilings on U.K. imports of certain wool fabric and knitwear, certain man-made fiber yarns and fabrics, and some apparel accessories of all fibers from Communist China.

EXPORTING COUNTRY	COUNTRY OF DESTINATION	RESTRICTION
Japan	United Kingdom	The Anglo-Japanese commercial treaty of November 1962, reviewed annually includes a provision for ceilings on Japan's exports of the following man-made fiber products for 1968 and 1969.

Item	Quota 1968	Quota 1969
Spun yarn of man-made fibers	$106,428	215,000 lbs
Woven man-made fiber fabrics, except re-export	6,000,000 sq. yds.	7,000,000 sq.
Knitted fabrics of man-made fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or man-made fibers (including stockings and socks)	$2,560,800	$2,944,800
Outergarments (excluding gloves) of woven man-made fiber fabric; outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	$6,596,400 of which not more than $ 942,000 for cotton	
Knitted gloves, other than gloves knitted to shape	$552,000	Liberalized
Lace and lace net and embroidery of all types	$192,000	Liberalized
Narrow fabrics of all types and articles made therefrom	$307,200	$352,800

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Peoples Republic of China	Under an Anglo-Chinese trade arrangement imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. Licenses are issued only to previous license holders. This arrangement also includes a provision for ceilings on U.K. imports of certain man-made fiber products. Item — Quota in U.S. Dollars Yarn, thread and woven fabrics, wholly or mainly of cotton or rayon; or of mixtures of cotton and rayon, for home consumption — 363,000 Manufactures of cotton, linen, and man-made fibers (excluding yarns, threads, fabrics, footwear, carpets, lace, gloves, and linen handkerchiefs) — 533,280 Gloves of all kinds, fiber not specified — 360,000 Headgear (including hat bodies, hoods and shapes) not made wholly or partly of wool or felt — 1,572,000 Licenses for loom-state woven fabrics wholly or mainly of cotton or rayon for processing and subsequent re-export will be issued on application to full value requested.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Czechoslovakia	The Anglo-Czechoslovak bilateral trade agreement of 1968, to be reviewed annually for five years, contains a provision for ceilings on UK imports of certain textile/apparel products from Czechoslovakia.

Item	Quota in US Dollars
Grey cloth of cotton, man-made fibers, and mixtures thereof (excluding sailcloth or canvas of cotton not under 12 ounces per square yard) of which not more than $144,000 for cotton	180,000
Piece-goods of cotton and man-made fibers and mixtures thereof (excluding sailcloth of canvas of cotton not under 12 ounces per square yard) of which not more than $436,320 for cotton	792,000
Furnishing fabrics of which not more than $72,720 for cotton and $48,000 for linen	312,000
Furnishing tapestries	120,000
Book-binding cloth	4,800
Household goods (blankets, tablecloths, sheets, towels, etc.), and handkerchiefs, of which not more than $169,680 for cotton, $216,000 for linen goods (excluding linen tea towels) and $24,000 for embroidered handkerchiefs	648,000
Sailcloth or canvas of man-made fibers impregnated with PVC	48,000
Stockings and socks	216,000
Braids and ribbons, woven labels, sparteries and laces of all kinds	528,000
Outerwear and underwear, the following:	
(a) Knitted underwear and overwear of all kinds of materials excluding lace or lace net	600,000
(b) Apparel including underwear other than apparel covered by (a) and excluding garments containing lace or lace net, of which not more than $756,000 for shirts	624,000
Hats, caps, berets and hoods (excluding silk or lace trimmed) of which not more than $168,000 for hats and hoods of wool or fur felt	312,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Quota in US Dollars
United Kingdom	Czechoslovakia	Non-woven textiles of various materials	96,000
		Man-made filament and fibers	240,000
		Nylon cord	36,000
		Gloves of which not more than $120,000 for leather gloves	192,000
		Carpet slippers, with rubber soles and textile uppers	48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Hungary	The UK maintains a bilateral trade agreement with Hungary for the period 1968-1972. Annex A lists goods which cannot be freely imported from Hungary and require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Piece-goods wholly or mainly of man-made fibers (including those woven on woollen or worsted machinery)	432,000
Stockings and socks	204,000
Knitwear, including knitted shirts, but excluding stockings and socks	1,320,000
Textile garments, not elsewhere specified, excluding garments wholly or mainly of lace, of which:	
(a) Other than cotton	1,080,000
Petit point handbags, panels and motifs and embroidered manufactures, including folkwork, handicraft products and hand-painted canvas, but excluding items wholly or mainly of lace	84,000
Miscellaneous textile manufactures not included elsewhere including blankets but excluding narrow fabrics of all types and articles wholly or mainly of lace:	
(a) other than cotton, of which not more than $24,000 for hat hoods	720,000
Gloves (of which not more than $480,000 for leather and fabric gloves).	648,000
Man-made staple fiber and continuous filament	540,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Poland	The UK maintains a bilateral trade agreement with Poland. Annex A lists goods which cannot be freely imported from Poland and which require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Handicraft textile articles (subject to type) including hand-painted table covers	48,000
Textile haberdashery (subject to type)	120,000
Fabrics and made-up goods (other than clothing, lace or net) of man-made fibers	480,000
Plush fabrics (of which not more than $96,000 for fabrics made wholly or mainly of cotton)	288,000
Ready-made clothes of textile materials (of which not more than $168,000 for clothes wholly or mainly of cotton)	1,476,000
Stockings and socks	240,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Romania	A five year Anglo-Romanian bilateral trade agreement (1968-1973) contains a provision for annual ceilings on UK imports of certain textile/apparel products from Romania. Quotas given below are for the period October 1968-September 1969.

Item	Quota in US Dollars
Man-made fibers, subject to type	432,000
Cotton and man-made fiber fabrics (of which not more than $72,000 for cotton)	480,000
Hosiery and knitwear (other than gloves)	960,000
Other clothing, excluding clothing of natural fur or containing lace or lace net (of which not more than $168,000 for cotton clothing)	1,080,000
Carpets and rugs (of which not more than $240,000 for carpets of a c.i.f. value of less than $12.00 per square yard)	600,000

	Bulgaria	The United Kingdom maintains a bilateral trade agreement with Bulgaria for the 12 month period ending March 31, 1969. Annex A lists goods which cannot be freely imported from Bulgaria and require specific license.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa)

Secretary STANS. United Nations figures, in addition to our own import figures, bear this out. Data now available show that in 1968 while the United States took 20 percent of Japan's textile mill products exports, the EEC imported only 3 percent. We imported 51 percent of Japan's apparel exports and the EEC took only 5 percent.

A large portion of Japan's textile mill product exports goes to Hong Kong where it is made into apparel. We imported 38 percent of Hong Kong's apparel exports in 1968 (first half only) while the EEC took 14 percent. In the mill products sector, we imported 32 percent of Hong Kong's exports as against 2 percent for the EEC. We think the reason for this is that the European Community is deliberately keeping these goods out of their market. The disparity was equally pronounced for our other major suppliers.

In short, our market has been open while others have been closed and the impact has been considerable.

(5) Textile and apparel manufacturing, while becoming increasingly subject to automation, remains a relatively labor intensive industry. Our industry has spent billions of dollars to make it modern but virtually all countries have access to the latest technological innovations. They can buy the same equipment that we can buy in the United States.

In most cases, the wage differential between United States and foreign manufacturers provides the crucial margin of advantage which enables foreign goods to move heavily into the U.S. market.

One example will suffice to show the nature of the problem. Apparel workers in the United States receive on the average of $2.38 per hour. The same work done in Japan, the highest paying of the Far Eastern countries, receives $0.57 per hour. In Korea, $0.13 is the hourly wage for this work when done by man, and $0.07 when it is done by women. These figures exclude the variety of fringe benefits and indirect costs which vary from country to country and among firms.

The problem for our industry is not uniform.

Within the domestic industry as a whole, imports have had a range of effects varying in intensity. Some sectors have seen their own production decline while imports grow, others have managed to hold steady, even while yielding all growth in the market to imports. I am sure that industry witnesses before this committee will give case studies and examples, and I shall refrain from doing so at this point.

A principal concern of ours, however, has been to establish a mechanism that permits us to move quickly to prevent disruption from spreading rapidly through large numbers of closely related product lines.

We need a mechanism that can move as the patterns change and not one that comes into play after the damage has been done. This has been the key goal of our negotiating effort, an effort I want to discuss briefly with you at this point.

NEGOTIATIONS

I went to Europe and the Far East in May 1968 in the first instance not to negotiate but to discuss the problem and look for solutions.

The textile issue was among the first major issues in the trade field that we faced in January 1969. Recognizing the need for prompt action, we reviewed the situation, developed a plan and promptly presented it to the major countries involved.

The first full presentation of the issues to the countries concerned was made during the course of my trips to Europe and the Far East in April and May 1969, both undertaken at the request of the President. These trips were not intended to be negotiating trips on the textile problem. As you well know, the trade problems we face in both of these areas range beyond textiles. What I hoped to accomplish on the textile question was to lay out the situation as we saw it, to emphasize the importance we ascribed to its solution, and to indicate the kind of solution we believed would be most appropriate.

In view of the number of countries concerned, the fast moving nature of the textile trade, the existence of a multilateral agreement on cotton textiles, and of many agreements among third countries, we felt that a multilateral agreement would be best for wool and man-mades. Under it, individual importing and exporting countries could negotiate bilateral agreements taking account of particular aspects of their textile relations. A multilateral framework also would offer an opportunity for full and open discussion of all textile restraint agreements, and would establish a mechanism whereby countries not participating in the arrangement could be enjoined from taking unfair advantage of those entering into agreements.

But this suggestion was not favorably received. Some indicated that we should solve our own problems without involving either them or the GATT organization. Other factors no doubt played an important role in the development of opposition to the multilateral agreement idea.

Followed by trips to Europe and the Far East, we took stock of the situation and the arguments that had been raised. We decided that our preference for a multilateral solution should not be a bar to any progress at all, and, therefore, determined to move promptly from urging immediate multilateral negotiations to opening bilateral talks. It was our view that any agreements thus worked out could form a basis for later multilateral discussions. In essence, we wanted to be sure that every reasonable avenue was explored. If a multilateral solution was unacceptable, we would talk bilaterally.

Accordingly, last July, we took the opportunity of the annual Cabinet-level meeting with Japan to suggest that bilateral talks be opened promptly on the textile question, putting aside the multilateral idea at that time.

The Japanese agreed to send a team to Washington to review the facts of the situation and to probe U.S. proposals for a solution. These talks were held in Washington during the week of September 16, 1969. Immediately following these talks—which, as it turned out, did not do any probing of our proposals for a solution—we formally proposed a comprehensive bilateral agreed to Japan covering all wool and manmade fiber textile products.

Our idea was to set separate annual overall levels on trade in wool and manmade fiber textiles, within which there would be group levels and individual levels for various individual product categories in which import problems were already severe or where substantial damage was clearly threatened. Categories of goods not under these ceilings would be subject to a consultation provision pursuant to which restraints would be developed in the event the import and market situation in other areas began to deteriorate and specific

action seemed necessary. Adjustments in the ceilings would parallel conditions in the domestic market.

In short, the proposed agreement was comprehensive in that its provisions applied to all imports of wool and manmade fiber textile products, and yet, it did not impose rigid ceiling on every product across the spectrum of textile and apparel imports. It was and is a flexible approach. This is the same approach which has worked well in cotton textiles; it would do so in wool and manmades.

Obviously, we left room for negotiation. We did not present rigid proposals on a take-it-or-leave-it basis. We were willing to listen, to revise, to make new suggestions. We were prepared to negotiate in good faith.

Following another series of exchanges through diplomatic channels in Washington and Tokyo, we agreed to meet in Geneva in mid-November, for further discussion. Japan had indicated its very strong objections to any comprehensive agreement, and at these meetings, the United States presented a framework for an agreement which would not involve comprehensive overall ceilings.

Our November ideas would have provided full coverage through a series of specific levels on identified products and a consultation mechanism to assure our right to prevent an excessive trade buildup in new categories or areas. We attempted thereby to deal specifically with the position against comprehensive restraints. This approach was rejected.

Again in December, we met briefly with the Japanese Government's representatives in Geneva and presented a formal proposal for agreement. In light of the reaction to our November proposal, this proposal was based on overall and group ceilings for wool and manmades in the general pattern of our bilateral cotton textile agreements. Subsequently, on January 2, we formally proposed an agreement based on the trigger mechanism approach first explored with Japan in the November meetings in Geneva.

During this period, proposals for agreement were also put forward to a number of other governments concerned.

We have held many meetings with delegations from these countries and there have been innumerable smaller sessions with individual representatives both here and in foreign capitals. We have presented voluminous data on request, and we have explained the elements of our proposals at great length so as to leave no chance of misunderstanding.

We are at a key point in the textile and apparel import situation. We will know soon whether an agreement can be concluded.

TEXTILE PROVISIONS OF H.R. 16920

This, Mr. Chairman, brings me to the textile portions of H.R. 16920. Several aspects of these provisions should be modified before the committee takes its final action on them. I refer in particular to the definition of "textile articles" which we feel is too broad, and to the quota provisions which do not distinguish between disruptive and nondisruptive imports.

We would revise the definition principally to exclude manmade staple fiber and filament, and silk products. We do not believe that

these manmade fiber materials should be included within the framework of a textile articles program, as, in reality, they are products of the chemical industry rather than of the textile industry.

We do not believe that import restraints in this area are required, and have not included these products in our negotiations with foreign governments. I should add, however, that we would include filament yarns that have been processed. These are textile industry products which can reasonably be included in this bill.

Silk products are imported in relatively specialized areas and in small quantities. As a general proposition they do not substantially compete with American manufacturing and in our view they need not be included in an import restraint program at this time.

As presently drafted, H.R. 16920 would require the imposition of quotas on imports which we feel are not disruptive to the U.S. market, unless agreements were negotiated. We do not believe that the countries exporting such goods to the United States—and this includes many of the European countries—should be confronted with a situation in which the trade in such nondisruptive articles must be reduced or subject to negotiation.

In some cases, we feel certain that such a confrontation could lead to retaliation against U.S. trade. We do not feel that this situation is warranted or necessary to a solution of the textile import problem. The Long-Term Cotton Textile Agreement, which authorizes a flexible approach based on the GATT concept of market disruption has provided a reasonable mechanism.

If adequately enforced, this concept gives the protection required without, at the same time, compelling avoidable trade conflict. Accordingly, we would propose the addition of language authorizing the waiver of quotas in situations where a finding is made that the imported articles are not causing or threatening disruption of the domestic market.

I would like to conclude, Mr. Chairman and members of the committee, with a further statement dealing specifically on the question of the necessity of textile legislation.

The President is well aware of, and is concerned with, the problems of the textile industry. He has expressed that concern and his determination to do something about it, both before and after his election.

The greatly preferred method of solving this problem is through voluntary arrangements. The recent actions which I cannot detail here today for obvious reasons, lead us to believe more strongly than ever that such agreements can be successfully concluded in the next several weeks. Therefore, the administration requests the Congress to defer consideration of the textile portion of the Mills bill for several more weeks.

If by the end of that time our expectations prove to be wrong, and we are unsuccessful in negotiating voluntary agreements, we will at that time consider the matter with the Congress again.

The President also recognizes the pressure on Congress for action. The Congress may well feel it must move ahead with legislation on this matter at this time, but I would urge the committee to withhold specific action until I can come back at a later date with a further report just before the hearings are closed.

I ask the committee's permission to do so.

The CHAIRMAN. You may have that permission, Mr. Secretary. We want to be kept fully abreast of all of these developments to which you refer.

Mr. LANDRUM. Mr. Chairman?

The CHAIRMAN. Does that conclude your statement, Mr. Secretary?

Secretary STANS. Except for a brief statement on shoes, which is really a reiteration of what Ambassador Gilbert reported yesterday. There is little that I can add to his report other than to emphasize the fact that the administration program to which he has referred is now in the process of being developed.

The report of the interagency task force is on the President's desk. Our objective is to have a program which will remedy the situation, but if our program proves to be ineffective after it has had a fair trial, we will consult with the Congress again on that problem.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we appreciate very much your coming to the committee and we appreciate your very fine statement.

Let me just suggest that in all probability it will be necessary for us to continue the present hearings in order to hear everyone desiring to testify on trade matters, at least through the first 2 weeks of June. That would mean that you would want to come back to the committee toward the end of the second week of June.

Do you mean to tell me that the matter has moved to the point where you think by then you would know whether or not you may be successful or unsuccessful in developing a voluntary arrangement with respect to imports of textiles and clothing made from textiles?

Secretary STANS. Yes; I mean exactly that, that is, such an arrangement with at least one or more of the key countries involved. These discussions are underway and we have reason to hope, reason beyond that to expect, that there may be such agreements by that time.

The CHAIRMAN. Mr. Secretary, that is what all of us have been seeking for quite some time. You have been working very diligently in that direction since you have been in office. Why is it that we have been unable to get agreements up to now and all of a sudden it appears that we can obtain some agreements with some of these countries?

I have been as frank as I knew how to be with every one of them that have been to see me, telling them what was going to happen here, in my opinion, in the Congress, if they didn't cooperate to a greater extent than they had in the past. Apparently, no one believed us.

Secretary STANS. Mr. Chairman, the process of negotiation is always difficult and especially so, I have learned, in international negotiations. We started out a year ago on my trips to Europe and the Far East when none of the countries wanted to even discuss the subject with me.

In fact, as you may recall, the Japanese Diet passed a resolution to that effect 3 days before I arrived in Japan.

Now, since sometime last fall, they have been willing to discuss the subject. We have been in negotiations with several of the countries. They have not been easy. They have been up and down. We have withdrawn from the negotiations from time to time. We have resumed them. We are now in the process of another resumption of the negotiations which we have reason to believe gives us the hope that I have expressed that there can be a settlement.

We should know within a matter of the time that you have indicated, and if I have any good news to report to the committee before that date I would be very happy to come back and say so.

The CHAIRMAN. Mr. Secretary, textiles are not the only matter of imports, however, that are causing concern throughout the manufacturing sector of our economy.

What is the situation with respect to the possibility of obtaining any type of voluntary arrangement with Italy, Portugal, Spain, and some of the other countries with respect to their exports of shoes to the United States?

Secretary STANS. We have not probed that possibility very specifically, Mr. Chairman. In the last several months there has been a task force studying the entire shoe question, the trend of imports, the relationship to the industry, the character of the industry in the United States, its status insofar as modernization is concerned, the general competitive situation, and this report has just been completed.

As I said earlier, it is on the President's desk. Because of the intensity of that study, we have not undertaken negotiations or discussions with the other producing countries, and have concentrated our efforts on the matter of textiles, primarily because the textile industry data was more evident, had been developed over a longer period of time, was, in a sense, highly critical.

We, therefore, endeavored to see what we could do on that problem on a voluntary basis.

The CHAIRMAN. I realize that that was your initial assignment, but I want to call your attention to some percentage figures that I have on some other products and see whether or not they are in accord with the figures your Department has with respect to imports.

I am told that imports of steel mill products between the years 1962 and 1968 increased 329 percent.

Secretary STANS. Mr. Chairman, as you know, steel imports into the United States are presently under restraint as a result of voluntary agreements.

The CHAIRMAN. I understand. Is it working?

Secretary STANS. So far as I know, it worked during 1969 and is working up to now. There was a small overshipment by the Japanese and undershipment by the European companies in 1969 with the result that the total was within the agreed limit.

I believe the Japanese have agreed to apply their overshipment last year against their agreed quota for 1970. So far as I know, the agreement is working satisfactorily and, as you know, it continues for another 18 months from now.

The CHAIRMAN. Mr. Secretary, let me call another situation to your attention. Transport equipment in total, I am told, between 1962 and 1968, increased, importwise, about 485 percent.

We have no agreements with respect to transport equipment. That is made up of automobiles, trucks, and things of that sort. New automobiles increased during that period from 1962 to 1968, that is the imports of them, many of them with motors apparently about the size that we put in a lawnmower, by 659 percent. Trucks, on the other hand, during the same period of time, increased by 1,850 percent.

We are faced with layoffs of workers now, apparently, in Detroit and other producing areas. I don't know whether this has made any contribution to that or not.

Secretary STANS. Mr. Chairman, I can analyze that only in two respects that are significant. One is that I believe the figures are somewhat distorted by reason of the automotive agreement we have with Canada.

The CHAIRMAN. I think that is primarily the cause of it; yes.

Secretary STANS. In effect, it has resulted in both exports to Canada and imports from Canada, although it is true that the imports from Canada exceed by some degree the exports to Canada.

However, it is not a situation as significant as would be implied by the gross percentages on each side. The most troublesome part of the automotive picture is the substantial increase in imports particularly from Europe and Japan. The exports from both of these areas to the United States have been increasing, particularly Japanese automobiles.

The American automobile companies are taking steps to try to meet this competition. As you may recall, they did it once before when they brought out the compact cars. The compacts apparently tended to become larger and, as they did, the opening again existed for importations of the smaller European and Japanese cars.

Each of the major American manufacturers is now producing or about to produce a new small car, and I think we need to await the results of those efforts to determine whether or not we are confronted with a permanent situation, or whether it is one that is reducible by or own efforts in the industry.

The CHAIRMAN. Mr. Secretary, I am not necessarily concerned just by the percentage increase in imports. What concerns me is the great growth in the percent of imports compared to the rather small growth in exports of the same article.

While trucks have increased by this big percentage of 1,850 on the import side, on the export side during the same period of time, our increase was 52 percent, for example.

In our automobiles, they have gone up on the export side perhaps to offset a lot of the imports, by 267 percent. I don't quarrel with that.

On the matter of machinery of all kinds, it is rather startling when you compare imports and exports. The dollar value of machinery exported is very high and has been high. That may be the reason why exports of machinery of all types, electrical and nonelectrical, increased by 62 percent between 1962 and 1968, whereas, the imports of the same item, machinery, in total during the same period of time, our imports increased by 296 percent.

In 1968, our imports were approaching $4 billion; our exports have been in excess of $8 billion for some time.

(The following was received by the committee:)

All of the figures quoted for increases in U.S. trade from 1962 to 1968 are correct, except the following:

Commodity	Reads	Should read
Imports (percent):		
New automobiles	659	559
Trucks	1,850	1,729
Exports of electrical and nonelectrical machinery	(1)	(2)

[1] In excess of $8,000,000,000.
[2] Nearly $9,000,000,000.

Secretary STANS. But I am thinking about the relationship. I am thinking about whether or not in the 36 years that we have labored with this problem we have actually accomplished reciprocity in trade.

I have been told by people in the automobile industry that countries will adopt safety standards of some sort with respect to length of automobiles. They just come within 1 inch of excluding any type of car produced in the United States from being used on the highways of that country. That doesn't seem to me like the trading partner who really wants reciprocity in trade.

I have been one of the strongest believers that ever was in the Congress, I guess, in this idea of reciprocity. I want to look into it, though, during these hearings, to find out whether there is such a thing as reciprocity, or whether or not we are the only one in the world that engages in reciprocity.

We can't let the United States become the only open market in the world and all the others use devices to prevent theirs from becoming an open market, and have the United States, in my opinion, survive as an industrial power.

You can't give the steel industry away. You can't give other industries away in the United States on the basis of a program is reciprocal in its operation when actually it is not.

I am not picking on any country. I just want all of the countries to recognize that we believe strongly in freer trade, but it must be, if it is going to continue into the future, on a reciprocal basis. We cannot be the only open market lest we become the dumping ground for the rest of the world.

I would hope that as we look at this whole thing we don't just center our attention on one commodity, as much as that particular commodity may need some support here. But I think we have to look at the overall of it. I think we have to make a determination in the next several months as to whether or not trade in the present situation in the world can be carried on on the basis of what we have today or whether or not there must be some fundamental changes accepted by the countries of the world in return for us continuing to be an open market for their products. It is only fair.

Secretary STANS. Mr. Chairman, I would like to comment on that at some length, if I might, because you raise really a very major question that goes beyond any of the legislation that is before you.

The CHAIRMAN. Yes. I am thinking in terms of the major problem.

Secretary STANS. The major problem is one that disturbs us a great deal in the Department of Commerce to the point, for example, that tomorrow we are having a meeting in the Department of 500 of the Nation's top businessmen to discuss just some of the things that you have mentioned here this morning.

The fact of the matter is that we have lost our trade balance only partially because of inflation, but because of a great many other circumstances that exist in the world business community.

I mentioned some in my opening statement. But I would like to tell you about an analysis that we made recently within the Department of just exactly where the problem is. We divided all of our exports into four categories. The first one was agricultural products; the second one being minerals, oil, and matters of that type; the third being manufactured goods of relatively low technology, like textiles, shoes, and so forth; and the fourth being items of relatively high technology.

If you go back over 10 years, 15 years, and so forth, it is quite evident that there is a pattern with respect to each of these four categories insofar as our import and export trade is concerned.

In agriculture, we have been slowly losing our trade balance. This is perhaps a natural phenomenon of the fact that many of the developing countries are not only becoming self-sufficient but are becoming exporters of agricultural products.

In the field of minerals and oil, we have become an increasing net importer. Our natural resources to a degree have been depleted and we have had to depend more and more on minerals, oil, and similar items coming from other countries, so that our trade balance in this respect is becoming increasingly negative.

In the case of manufactured items of relatively low technology, there has been a very substantial loss of position by the United States over the last 10 and 15 years, and we now have a very large negative balance. We import much more in this category than we export. This is a trend that may well continue. It is probably very simply based on the fact that the developing countries move into textiles and simple manufactures in their first effort to earn foreign exchange.

Secondly, technology in those items is easily transferred. The equipment is available in the world markets. We have had increasing competition not only from Europe but also from the Far East in these fields. It is hard to believe that there is any way in which we can recover an export trade balance in ordinary consumer products.

The only place in which the United States has been able to maintain and improve its position is in items of high technology. That includes everything from airplanes, aircraft, nuclear powerplants, advanced chemicals, materials handling equipment, automated machine tools, and things of that type, where we have innovated ahead of the rest of the world.

It is easy enough to assume that the only solution, then, is the fact that we have to continue to innovate, and that is very important. But it leads me to the second part of your statement, which is the one of whether we are getting an even break in the markets of the world.

At the present time, I don't think we are. I think because of the fact that for many years we had a substantial trade balance, we were very relaxed on keeping our markets open while the other countries gradually and slowly closed theirs in many respects.

This is what led us as long as a year ago—last April, on my trip to Europe and in May on my trip to Japan—to stress very strongly our insistence that the time had come for reciprocity insofar as trade barriers are concerned. By that I mean the trade barriers other than tariffs.

This has had results in the sense, at least, that the international organizations have organized to deal with the subject, and I think there is only one way to deal with the question of nontariff barriers, and that is to insist on total reciprocity.

A perfect example is the question of our "Buy America" policy versus the policies of other governments on buying foreign goods, on buying American goods for use by their government institutions and organizations.

We have a fixed rule in this respect. It specifies in the law precisely that there is a 6-percent spread that is allowable in considering foreign products. It becomes 12 percent under certain conditions.

In the other countries of the world, very few of them have any specific indication of the circumstances under which their governments or their government institutions will buy American goods. Much of it is done by administrative action.

We have urged very strongly, in fact, we have insisted, that the time has come for the rules of the game to be on the table. If they want to adopt something like "Buy America" that is fine, because at least it would match our terms and make it possible for American businesses to have a fair break in competing for that type of sale in the foreign countries.

We have to press this issue of nontariff barriers and total reciprocity. This is one of reasons we ask the Congress to give us its assurances of support, general assurances of support, in these negotiations. We want to be able to say to the other countries that we are united in our belief that these barriers must be reduced.

We will come back to the Congress, of course, with the results of any negotiations so that they can be ratified here. But the other countries tend to question, principally, I guess, as a result of the ASP, but perhaps on a general basis, whether or not we really mean business and whether if the administration negotiates an arrangement with other countries it can be effective. This is the reason we are asking for those terms.

Mr. Chairman, that is a long answer. I share your concern on every point. We are losing our competitive position in world markets, and that is bad enough if it results from the transfer of technology, or if it results from American investment in plants in other countries.

But it is not fair if it results from the fact that other countries have trade barriers that restrict our goods. In that respect, I think we are much more the victim than we are the culprit.

The CHAIRMAN. Mr. Secretary, I apologize for having to leave the committee. I have to go to a meeting downtown. I will ask Mr. Ullman to continue the hearing.

Mr. ULLMAN (presiding). Mr. Byrnes.

Mr. BYRNES. Mr. Secretary, I want to compliment you on your statement.

I think it is refreshing to have a recognition that we aren't the culprit in regard to restraints on trade. In the past this seemed to be the posture that we put ourselves in, as we talked about freeing up trade.

There is one subject I would like to discuss a little bit with you. I think we all acknowledge and recognize, as you do and as the executive branch has for some time, the very difficult problem that has been posed by textiles in the disruption of the market here.

I wonder if we can't use that situation, to some degree, as a model in looking to see what opportunities we have to make corrections in the future.

Here, there was a determination to pursue the course of trying to get agreements with other countries trading in textiles. But the question of whether or not we pursued that course was simply an executive determination, wasn't it?

Secretary STANS. Up to now it has been an executive determination.

Mr. BYRNES. That was true in the steel case where we also did get a voluntary agreement. That was negotiated by the executive branch, wasn't it?

Secretary STANS. I wasn't here when it happened, but it is my understanding that this is not a Government agreement but one undertaken by the steel industries of Japan and the European Economic Community.

Mr. BYRNES. I keep worrying about a situation in which an industry that gets into serious difficulty simply becomes dependent on an executive branch determination.

This would be government by men rather than government by law. I am inclined to think that at times the determination is based upon the political clout of the industry involved, and that there may be other industries in equally unfavorable circumstances, but because they are small, or because they may be concentrated in a relatively small area, they do not have the clout and, therefore, can be ignored.

I wonder whether there shouldn't be some triggering mechanism developed, or standards developed that would, at least, indicate under law when the executive should move in the direction of attempting to get agreements.

What I am trying to do is assure that all segments of our economic society are treated equally. I am not suggesting here that you don't have a problem, that we have to focus on, in textiles. I am suggesting, as I think the chairman suggested in a sense, that this is not necessarily the only area of our economic activity that should concern us. We all know, however, that it is a big segment. We all know that it has political clout. This was evidenced when President Kennedy took action.

The industry has complained that he just didn't fulfill all of the agreement that he made with them, and that there is a need for an additional step.

Be that as it may, the main point remains: What would be wrong with establishing certain standards which would trigger executive action and call for a report back to the country and to the Congress, on the scope and findings of the action?

If an agreement could not be reached, that is.

Secretary STANS. I would like to say this, Mr. Byrnes: I think we are in the circumstances we are in because the change of pace is so rapid. It is forcing decisions on a lot of matters that normally would have much more time for decision. This has been true not only of the flood of textile imports into the United States, but of a great many other products as well.

There have been tremendous waves of imports that have moved into our market. It brings into question the applicability of all of our beliefs in free trade. It seems to me that one of fundamental presumptions in a belief in free trade is that there be a rate of change which allows time for adjustment. That certainly was the case when the carriage went out of business and was superseded by the automobile, and, of course, in earlier days it was true with any substitution of products.

Now we have the kind of society in the world that is moving so fast and industrial developments are so rapid that a product one day can be in a very short period of months almost completely removed from the marketplace.

When that happens in the case of imports, it is a matter of very great concern to the capital that is involved, to the ownership of the enterprise, to the employees that are involved, and to the economy of the United States.

I think we don't have the mechanism today to cope with that kind of a situation. I think you are entirely right in saying that we have to look for new ways and new means of copying with the kind of situation that is forced on us by rapid changes.

The executive branch has been trying, through one means or another, to deal with this, such as we are in textiles, and as has occurred in the case of steel. But, as you say, there are only a few of those categories. They have had attention because their size is extremely important. I am told that one out of every eight persons employed in manufacturing in the United States is directly in textiles and apparels, so it is a very vital industry.

Sudden damage to it of immense dimensions is very harmful to the entire economy and affects not only those who won the plants but those who work in them, and those who benefit by the spending power created by the wages of those who work in them, and so on.

I think over the next few years the executive branch and the legislative branch have to find ways to improve the mechanism to deal with this problem that is being insistently thrust upon us.

There are steps in the proposed bill that go in that direction. There is not much sense in having an escape-clause provision or an adjustment assistance provision that is so tight that no one can qualify for it, while industries are very seriously injured.

It may be that in quite a few of the cases that you describe and that may occur in the future that adjustment assistance and the escape-clause mechanism can operate. The escape-clause mechanism buys time, by tariff or other adjustments, to permit a slowing down of the invasion, and the adjustment assistance provision grants relief and funds to the industry, the company, and the employees to permit either meeting the competition or diverting it to some other kind of activity.

That is very important, and I hope that this committee and the Congress will enact a liberalization of those provisions. I don't mean at all to say that that will do the job, because I am afraid that there will be major industries and other rapidly developing situations that will be so imposing that we will have to deal with them in other terms.

It certainly is a responsibility of American industry to be able to compete. But, as I said earlier, we have to be able to compete on even terms, and when we can't compete we should be given the support and assistance of the Government in whatever adjustment process is necessary.

Mr. BYRNES. Let me focus again on a principal point I am trying to make. That is, whether there shouldn't be something in the law that triggers the action of the executive in seeking an agreement so that the industry involved is not simply dependent upon the degree of political pressure that it can exert. Congress can't negotiate. It has to be done by the executive department.

As it is now, there is nothing in the law that says to the executive, "OK, you do this." There is nothing that prevents the executive from doing it, either, thank goodness, so they have done it.

It has certainly been better than no action at all, as was shown in the case of the steel industry, for instance. But should we have a situation where it is too vague as to whether or not the executive should act, regardless of what the factual situation may be in regard to the damage done and the problem of the industry?

What I am saying is, can't we develop certain rules that would leave no question as to when the executive should move toward developing or trying to develop an agreement?

I think that in most of these cases, the problem arises as a result of actions or exports by a few countries rather than a large number.

Secretary STANS. I would think that we certainly ought to take a look at a mechanism like that and other possible mechanisms.

My first caution, however, would be that we would have to have a great deal of flexibility in the trigger mechanism because there are so many diverse kinds of situations that business can get into, and there is a great deal of difference between the ability of some industries to absorb competition than others.

There would also have to be a great deal of flexibility in the kinds of remedies that were applied. I think you would really have to modify any trigger mechanism by a great deal of discretion in the executive branch.

Mr. BYRNES. It is not so much a matter of discretion. They only act if the industry involved, or the area involved, has a good political clout. I don't think that is the way our laws should function.

Secretary STANS. I agree that the political clout should not be of important significance, except as it results from the size of the industry and its importance to the American economy.

That is an important feature that has to be considered, it seems to me. I don't mean by that that we shouldn't also find ways for helping the smaller industries, but we may be able to do more for the smaller industries by domestic means than by the necessity of restricting imports or increasing tariffs, and so forth.

Mr. BYRNES. Now let us proceed to the second step as far as voluntary agreements are concerned.

I think textiles give us a model to look at. Historically, as you indicated, there has been frustration in even getting anybody to recognize that it was a subject which ought to be talked about.

I gather that, at least, there is an indication that the talks only got into the discussion stage when there appeared to be a threat as to what Congress might do on its own.

I am talking about the response of the other countries, of course. Now, if I understand you correctly, with a bill before this committee that would impose quotas on textiles, with these hearings beginning and with specific attention being paid by the committee to this subject, that now it is beginning to appear that maybe within a couple of weeks you may get an agreement.

I can't help but draw some connection here.

Doesn't all of this indicate that, if you are going to have a voluntary agreement, then you must have some backup authority that can be used in the event the voluntary agreement doesn't work?

Secretary STANS. Mr. Byrnes, there is a connection between the willingness of other countries to negotiate and actions by the Congress. I think it is quite clear that, when I made my first visits to other countries, they didn't really believe that we were serious about it, and when I said that if voluntary agreements were not negotiated I felt the Congress would act, that wasn't believed either.

The actions of the Congress in introducing this bill and holding hearings on it certainly have changed the atmosphere in some of the

other countries. They do believe now that it is a serious issue in this country, as we say it is.

As to whether or not it is desirable to have legislation that would back up our negotiating authority in future situations, I can only say this: If we could devise the kind of legislation that would provide the executive branch with the weight and authority to negotiate fair agreements with other countries, to permit adjustment periods and other measures to be applied to avoid undue injury to American industry, I certainly think that that ought to be done.

I am not quite sure of, and I have not yet been able to devise in my own mind, the kind of thing that would be effective without doing some harm at the same time.

The one thing that is overriding in favor of voluntary agreements is that they are permitted under our international agreemnts, such as GATT, without any penalties applied. At any time that we use legislative force or other unilateral type of action to impair trade, there is a right, under those agreements, for the other countries to take equivalent action against our goods.

So it is always much more advantageous to find a voluntary solution. I certainly share with you the belief that voluntary solutions would be much easier to find if there were an existing alternative that might be applied in the absence of the voluntary solution.

Mr. BYRNES. If I recall correctly, there was an effort to develop voluntary agreements in connection with the importation of meats, prior to the time that the Congress did impose a quota system. That action was taken rather speedily through a different process than the normal process of going through the Ways and Means Committee, the House, the Senate, and so forth.

I am now wondering whether that action of the Congress in imposing quotas didn't come as a surprise.

I think there was a judgment by importers that Congress wasn't going to act, and, therefore, they constantly turned down the proposals for voluntary agreements.

That brings me to the point of asking how effective your voluntary agreement process, your negotiation process, can be if there isn't a pretty clear feeling on the other side that other action will be taken in the event there is no progress toward any kind of an understanding.

I wonder aloud what the situation is going to be in regard to negotiating any kind of agreement for industries with problems similar to those in textiles if the Congress does not act in a certain way in 1970 on trade legislation.

I say that in recognition of the fact that we have not acted, fundamentally, in this field for 8 years. The last Trade Act was in 1962.

Does this lapse give the other countries assurance that, "We don't have to enter into an agreement. We have a lull for at least another 5 or 6 years before the Congress is going to address itself to this again"?

What I am trying to do is see what might be necessary in order to beef up the potential for getting voluntary agreements, which I am inclined to think hold the most satisfactory answers for all concerned.

Secretary STANS. As you know, under the GATT arrangement if we can demonstrate trade impairment, injury to our markets, disruption and so forth, we have the right to ask for adjustments under GATT.

Unfortunately, these are difficult terms of definition and proof, and so on, and in many cases a tremendous amount of damage can be done while the discussions are taking place.

I would agree with you that if this were an ideal world we could go to another country and say, "We have a problem. We would like your understanding. Let us work it out voluntarily."

But we are yet in that ideal world. The other countries have their interests, their pressures, and their internal problems as well.

We have to recognize that it is very difficult, sometimes, for them to come to terms on a negotiation that is politically difficult for them.

Under the circumstances, I am willing to join you in the search for some kind of a solution that would give us additional weight in voluntary negotiations when unusual problems do develop. I think such a situation must have a considerable degree of flexibility both as to application and as to the remedies involved.

Mr. BYRNES. I have the idea that these other countries—and we recognize that they also have trading problems from time to time—do seem to have a mechanism for pretty prompt action.

I can recall an illustrative case from early last year, I believe. An item manufactured in my district had been shipped for some time into Australia, duty free. Then an American concern started operating in Australia, making an item that was somewhat similar.

So all of a sudden, the item that had been going in duty free from the Eighth District of Wisconsin, has a duty on it of something like 40 or 50 percent. And the reason given by Australia: "When we don't manufacture it in this country, it can come in free. But once we have anybody manufacturing anything like it, then, bingo, on goes the duty." This is a pretty fancy mechanism, it seems to me, as far as protection is concerned, when there wasn't even any question of a great economic change taking place.

It simply happened that an American producer went over there and started to offer a similar item.

So again we come, it seems to me, to what you talked about before, reciprocity. If other countries have a mechanism that will work fast in shutting us out, I don't know why we can't have a mechanism to do the same thing, just as promptly and just as effectively.

I also wonder whether, by putting ourselves on a par in some of these cases, we might not improve our position in negotiating with other countries for the removal of nontariff barriers.

I mentioned to the Ambassador yesterday that I wonder how good our bargaining position is on nontariff barriers, because they have been growing in numbers and application over the years in other countries, while ours have remained relatively few, and certainly not of broad application.

I worry if what the Ambassador says is right, and what you say is right, that the only way we will ever get rid of these nontariff barriers, is to negotiate them away on a reciprocal basis, even though we as traders have very little to give up while the other side has a good deal.

At least, my impression is they have a good many more barriers than we have. I wonder whether it might not be desirable to put ourselves in a little better bargaining position in this category?

Secretary STANS. The whole field of nontariff barriers is especially troublesome, and even though I am very concerned over the nontariff

barriers that exist in laws in other countries I am even more concerned over the ones that exist by reason of administrative flexibility.

It is a very easy thing in another country, just by administrative action, to deny entrance to goods or to withhold action so long that the opportunity has gone by.

We have to get at the attitudes of the other government as well as at their laws and regulations. This is an extremely difficult thing. It is true that some countries have, by statute, greater flexibility in fixing tariffs than we have in the United States.

The request we have made here to give the President leeway to reduce our tariffs 20 percent is only a minor mechanism, and that would be used primarily when it is the result of escape-clause action in which we have raised some tariffs.

I can't disagree with you that we have been the rich uncle for a long time; when we had very large trade balances, it was possible for us to be extremely generous and to overlook actions on the part of the other countries that were detrimental to our trade interests.

It is a matter of great concern to me that with our position changed we do not have all the mechanisms we need to bring about equilibrium, to bring about equality or reciprocity.

I certainly welcome your suggestion that it would be good if we had additional weight behind the negotiations that we are undertaking.

As I said earlier, I don't know just exactly how that would come, but endorsements by the Congress of the principle of negotiated agreements would be a start.

Mr. BYRNES. Thank you, Mr. Secretary.

Mr. ULLMAN. Mr. Burke.

Mr. BURKE. On your recommendations for the escape clause and adjustment provisions, I seem to sense just a general recommendation of liberalizing these slightly. What specific adjustments would you make for the industries that are destroyed or pushed out of business?

Let us take one firm that is closed out as a result of imports. What would you do for the owner of that firm?

Secretary STANS. Well, if it is closed out of business, there is only one thing we could do, and that would be to provide financial assistance. But the escape-clause action would give us the opportunity of doing things before it is closed out.

Mr. BURKE. What kind of financial assistance would you give them?

Secretary STANS. This would be a matter of dealing with the application of that company as to how it felt it could stay in business by reason of the assistance.

It might mean a new manufacturing process, and machinery and equipment to go with it. It might mean loans.

Mr. BURKE. Would you give them an outright cash grant? How would it be handled? I would like to know the procedures.

Secretary STANS. There is no provision for an outright cash grant. There are three kinds of assistance they could get. One would be tax relief which would give them the right to carry forward losses for a longer period of time. Another is loans to modernize or to shift the character of the business, and the third——

Mr. BURKE. What rate of interest would be on the loans?

Secretary STANS. They are variable. They would be determined under the circumstances of each case.

Mr. BURKE. What would be the maximum interest that they would be charged?

Secretary STANS. The fact, Mr. Congressman, is that the law has been so tight up to now that no loans have been granted and we have no experience. We have to set up the mechanism now and we would hope that a loosening of the law would make it possible for us to do so.

Mr. BURKE. Suppose we loosen the law. What do you think the interest rate would be for that industry or that firm? Would it be the prevailing rate today? Would it be higher than 8 percent? Would it be lower than 6 percent?

Secretary STANS. I would think that if the law is liberalized and we can make these loans, it ought to be either the cost of money to the Government at the time or perhaps the prime rate in the marketplace. I don't have any fixed idea.

Mr. BURKE. What is the Government paying today?

Secretary STANS. That varies, too, depending on the length of the obligation; it is anywhere from 7 percent for short-term bills to various amounts for longer maturities.

The prime rate today is 8 percent. I would assume loans would be in the 7- to 8-percent rate.

Mr. BURKE. What other specific help would you give?

Secretary STANS. Mr. Congressman, I am told here that the law that is now on the books provides for a rate fixed by the Secretary of Commerce which shall be the greater of 4 percent per annum or the rate which he determines as appropriate at the time.

Mr. BURKE. Where would they get the money at 4 percent?

Secretary STANS. Only when money——

Mr. BURKE. Where would we get the money to loan it to them at 4 percent? What rate would we pay for it?

Secretary STANS. That would apply only in circumstances in which the rate for money was 4 percent. The law requires that the Secretary of the Treasury shall use that rate or a rate which he determines to be proper if it is higher.

Mr. BURKE. If the Government is paying from 7 to 8 percent, it doesn't seem reasonable to expect that they will loan it out to these firms at 4 percent.

Secretary STANS. Of course not.

Mr. BURKE. In other words, this industry that is hurt would expect to pay right now, with the conditions existing right now, from 7 to 8 percent interest?

Secretary STANS. I would think so.

Mr. BURKE. Would you go ahead with your other specific recommendations on what other ways you would help?

Secretary STANS. The third provision to help a company that is seriously injured by imports would be technical assistance, which would be funds to provide anything from engineering advice to modernization programs, and things of that type.

Mr. BURKE. They would give them advice? We had a shoe firm in Massachusetts that had all the engineering and technical advice possible. They built one of the most modern shoe plants in the world. And they closed down about 3 months ago because they couldn't compete with foreign imports.

That firm had all the technical and engineering advice possible but they couldn't meet the problem. I don't think they are looking for advice.

I am not being critical of you.

And I don't believe these industries are looking for funeral expenses, either. I think they are looking for something more substantial on the part of the Government, particularly some of these industries we have been talking about.

What are you going to do for the employee who loses his job?

Secretary STANS. The employee has the right to apply for adjustment assistance which is administered by the Department of Labor and it protects his income for a specific period of time.

Mr. BURKE. Let us spell it out. What would be done for that worker who loses his job?

Secretary STANS. Secretary Shultz is going to be here, Mr. Burke, and will testify on that. I am sure he has the details of that provision more in mind than I do.

It is the responsibility of the Department of Labor to provide adjustment assistance to employees.

Mr. BURKE. The reason I am asking these questions of you is I asked almost the same questions of one of your predecessors during the trade bill testimony and we had all kinds of assurances that industry would be completely protected, that the employee would get all kinds of assistance.

Now 5 years have gone by and nothing has happened. I think there was a little help given to the steelworkers, to some of the steelworkers, but not all of them.

We went down that road during those trade hearings then and we didn't get too many assurances from the Ambassador who negotiated, Ambassador Gilbert, yesterday, and we don't seem to be getting much from you.

I am hopeful that the Secretary of Labor, Secretary Shultz, can come in and give us some assurance that something else is going to be done.

I think that in this proposal there should be written right into the law specifically what can be done for industry that is injured, and written into the law specifically what can be done for the employee.

The mere fact he is given a few extra weeks of unemployment compensation, or he is offered training, which, of course, in my opinion, is assinine because most of these workers in the textile industry, most of them in the shoe industry, most of them in the steel industry and the rest of these industries who are losing their jobs, are up over 45 or 50 years of age.

It would be almost impossible to retrain them for another job. If you retrained them for another job, what other job is going to be available?

Secretary STANS. I am sure I don't disagree with you on the difficulties of this problem. It stems back to the fact that the legislation that is on the books is so tight that it isn't possible for anyone to get significant relief.

The Tariff Commission, which has the responsibility of finding the occasions in which relief should be granted, has not until recently found any occasions for relief. All of that is wrong.

The law needs to be liberalized. It has to be enforced in a liberal way. This can be accomplished, we believe, under the adjustments that we have recommended.

You are absolutely right, the law has not been working.

Mr. BURKE. We are laboring under promises, promises, promises.

I want to compliment you, as I think you have done an outstanding job and you have made a real effort to correct some of the problems. Up in New England, we find out the market is being glutted with shoes and textiles and this administration, and past administrations, have been able to hold all kinds of restrictions on the importations of oil.

While our prices for heating oil in one of the coldest parts of America, in the northeast section of our country, are skyrocketing, we find that this administration, and past administrations, can act very quickly and control how many barrels will be imported in a day.

We find that the public up there are being gouged on high fuel rates on oil, and we find that the shoe industry and the textile industry is being knocked out of business and thousands of jobs are being lost.

But somehow or other, we are faced with answers that they are faced with complex problems. It doesn't seem to be so complex for them to deal with the oil problem as it is so complex to deal with shoes, textiles, sporting goods, and many other items that formerly were produced in our area of the country, and some of those companies are now out of existence.

I hope you will come in with something more than a promise for a study about the shoes. Last year, we had 307 Members of Congress sign a petition and we sent it down to President Nixon. It asked for the establishment of voluntary quotas. The President was kind enough to see us on September 23, I believe.

At that time, he expressed his concern for the shoe industry. In fact, he indicated that he felt that the shoe industry was in a worse plight than the textile industry, and we know how bad the plight of the textile industry is.

As Mr. Byrnes has pointed out, there are many other products in this country that have been wiped out of business as a result of our negotiators over at GATT.

We have taken a decline in our trade surplus from about $7 billion in 1964 to $1.3 billion in 1969. That is a drop of almost $1 billion a year. If this drop continues, in 1975, we will have a trade deficit of over $5 billion.

What do you think that will do to the country?

Secretary STANS. I think that would be tragic, and I think we must do everything we can to see that we restore our trade balance overall.

Mr. BURKE. Do you think that a review of the history of what our trade negotiators did over there should cause us to give blanket approval of the negotiators to go ahead with a fourth dropping of tariffs without at least an itemizing of those products that they expect to drop the tariffs on?

Do you believe Congress should be informed before these negotiators go in with a list of those items that they expect to drop tariffs on, and at least give industry a chance to express themselves? Or do you want them to wake up as they did after the GATT agreements when every-

body had packed their bags and were supposedly on their way home, 24 hours before the agreements were signed?

All of a sudden, they met again and within 2 hours they acted on 6,000 items. Some of those items today are no longer being produced in America. I think it is quite a shock to an industry to wake up and find out that their negotiators were over there negotiating them out of business.

Secretary STANS. Mr. Congressman, I was not part of those negotiations, so I can't speak for them.

Mr. BURKE. I am not being critical of you. Don't misunderstand me. I am merely talking about what this Congress has done. We gave a blank check to those negotiators and somehow or other we have lost the old Yankee trader that we used to have in this Nation.

Today, we seem to have a lot of softheaded fellows who sit in there. As you testified, we have to give something to get something. But we gave something and got nothing back in return. In fact, we had a drop of $1 billion a year in our trade surplus.

Now we have given away $6 billion in our trade surplus. How much more do we have to give to get something back?

Secretary STANS. All I wanted to say, Mr. Congressman, is that there is nothing in our plans at this time, or in the legislation, that asks for the right to renegotiate on tariffs.

All we want to try to negotiate now is to reduce the barriers other than tariffs, the standards requirements, the government procurement regulations, the subsidies that other countries give to their exporters and things like that where, as I say, they have many more ways of blocking our trade than we have of blocking theirs.

That is the kind of thing that we want to negotiate now.

Mr. BURKE. I don't see anything in here that makes it contingent that we won't drop our tariffs on further items in case they don't remove their barriers. I see here carte blanche approval of continuing to drop the tariffs but no requirement to ask them to remove their trade barriers.

For instance, I had a group in my office about 2 weeks ago who manufacture automobile parts. We don't have any of these people in my area, but these people dropped into my office. They explained the problem they were having with Japan. They said Japan ships auto parts and automobiles over here but they can't ship auto parts into Japan because they need an import license over there and they can't get the license. The only parts they can ship over there are to our own military people who happen to be in Japan. But we are restricted from shipping automobile parts into Japan.

I don't think that is a fair situation. I think the whole problem today is that our negotiators—and I am not criticizing you—and our trade people have failed to impress upon these countries who are taking advantage of the American market that if they continue to accelerate their imports the way they are accelerating them now, one of these days when the unemployment figures go up, a law will be passed in this Congress stricter than the Smoot-Hawley bill.

I don't think that story has been brought across to those people. I wouldn't want to see that type of legislation.

I would hope that the other members of the administration would listen a little bit more to you, because I think you are acquainted and oriented in on the problem. But, unfortunately, some of them are not listening.

I read their speeches going around the country and they are just for complete glutting of the American market with everything.

In our area of New England, I represent one of the oldest sections of the country, and I am a little bit apprehensive about what is going to happen once this defense work stops.

My district has lost over 10,000 jobs in the shoe industry in the last 12 years. In the other areas of the State, cities like Lawrence, Lowell, those areas, they have all suffered down through the years. We saw what happened in the textile industry.

During the Depression, the city of Fall River went bankrupt. The State had to put a commission in there. There were empty mills from one end of the city to the other. These were the textile mills that moved out.

Other cities, like Lawrence, Lowell, Nashua, N.H., where the mills went into bankruptcy, the whole community was destroyed.

Even to this day, and that happened over 25 years ago, the marks are still there. Somebody on this group of negotiators has to be a little bit realistic and recognize some of the problems that the communities of this Nation are facing.

I don't believe the textile industry, the shoe industry, the steel industry, or any one of those industries are expendable. I would hope that you could bring that story across to the rest of the members of the present administration.

I want to commend you for the work you have tried to do up until this point.

Secretary STANS. Thank you, sir.

Mr. ULLMAN. Mr. Betts.

Mr. BETTS. Mr. Secretary, I am happy to see you here this morning for a couple of reasons. In the first place, while there might be some disagreement as to some the details of this program, I want to join the other members of the committee who have complimented you on your overall thinking in this very difficult problem.

I think it is refreshing, as has been said before, to have someone come in here who is interested really in the basic problem, which is injury to American industry.

In the second place, my own opinion is that trade is basically a commercial actvity. I think the major role, so far as the different departments of Government are concerned, should lie with the Commerce Department. I mention that because I have a suspicion, and it might be only a suspicion, but you can correct me if I am wrong, that while an American industry who needs relief has to file applications and go through long periods of delay to have decisions at different levels, while that is going on some of the foreign interests resort to diplomatic channels so that by the time the issue got out of the realm of injury, diplomatic considerations enter into it and have maybe a major part in arriving at a final decision.

Am I right or wrong on that?

Secretary STANS. I think that does occur, and I think I would have to say that many times it properly occurs. While I recognize that the fundamental responsibility for trade development is in the Department of Commerce, I don't believe it would be appropriate for us as a department to have the sole responsibility to deal in international trade matters without recognizing the diplomatic consequences, the political consequences, in our relationships with other countries of actions that we might take in good faith.

I think the Government is so large that the only way we can move in matters of this type is by understanding between the departments as to what is in the overall best interest of the country.

As much as I want to see American industry protected and defended, I must also recognize that the international political and diplomatic relationships have to be taken into account. This is what makes matters so difficult, because there can be very much of a difference of opinion as to the weights to be accorded to the economic versus the diplomatic factors.

We do work these things out fairly well. I think our basic problem is not with respect to our desire to help American industry as with respect to the fact that, as I said earlier, we are in an era in which change occurs so rapidly that our laws and our mechanisms are not adequate to deal with the change in due time.

We need to be able to move faster than we have been in the past when problems develop. This is why we need some of the amendments that are proposed in this legislation.

Mr. BETTS. I appreciate the fact that what you say is true. But at the same time, that means that, as I see it, the test of major cause or primary cause actually isn't the reason for the decision at all in the final analysis, or at least only plays a part of the reason for it. After we compile the statutory test that you propose, then it is subject to a further test of whether or not it fits in with our diplomatic considerations.

Secretary STANS. If it is something that is fixed by statute, then I believe both the State Department and ourselves would work uniformly to adhere to the statute.

It is on matters in which there is no statutory guidance that we have to be careful of balancing the economic and the diplomatic considerations.

Mr. BETTS. I was directing myself to the statutory end of it. I felt in many instances, where relief has been asked for, after you go through all of these statutory tests, then you are subject further to diplomatic considerations. That was my concern.

When you mention the fact that so far as the law is concerned, the State Department and the Commerce Department would try to adhere to that, you also mentioned the need for speedy relief.

I am wondering what would be wrong with leaving the final decision to the Tariff Commission without further appeal. Congress has created a Tariff Commission as experts in the field. They render findings which I assume are the last word as to whether or nor there is injury and what would be necessary to relieve the industry that is suffering that injury.

If the Departments recognize that, why not, just in the interest of speeding up the process and confining our relief solely to the statute, why not leave it with the organization or agency that Congress has set up as the experts?

Secretary STANS. The Tariff Commission now has a considerable responsibility in determining findings with respect to trade matters.

Mr. BETTS. That is the point I make.

Secretary STANS. But it reports to the President. The President, as the head of the executive branch, gets advice from the Tariff Commission, from all the other departments of the Government, on trade matters, domestic matters, foreign relations, and so forth, and he, in the final analysis, is the one that has to determine how to balance our international economic interests with our international diplomatic, political interests, and so on.

I think that is probably as it should be. I think we have to leave the responsibility to someone who is in the center of things, as the President is, and with the authority to make the final decision on the weight of the evidence and the weight of the factors.

Mr. BETTS. How many times in the last 10 years has the President acted on recommendations of the Tariff Commission and has he followed them?

Secretary STANS. Whenever the Tariff Commission has found injury, the President has acted in one way or another to provide relief to the industry, sometimes by raising tariffs, sometimes by other measures.

The difficulty has been not that the Tariff Commission hasn't done its job or that the President hasn't made the decisions.

The difficulty has been that the relief provisions in the law as it now stands are written so tightly that no one can get in the door.

Mr. BETTS. I don't quite understand what you mean by that.

Secretary STANS. I mean by that that in order for a company to prove that it is being injured as a result of imports, it not only has to prove the degree of the injury that it is sustaining to its markets, but it has to prove that that is the main consequence of tariff concessions that the United States has granted.

We are proposing here that the second part of the requirement be eliminated, that if a company is suffering from imports, it is adequate to presume that that is the result of tariff concessions, or to ignore the matter of tariff concessions and grant relief.

If we do that, it will be possible for many, many more companies and industries to qualify for relief through the Tariff Commission process.

Mr. BETTS. I only express my concern because, as I said, I have a suspicion that after all the statutory tests have been met—Mr. Byrnes mentioned the political clout—maybe the diplomatic angle overshadows some of the findings as to the bare facts. That is why I was interested in knowing whether you have any figures as to how many times the President has overruled the Tariff Commission, or gone along with it.

I think it would be helpful for the record.

Secretary STANS. I would be happy to put that into the record, the list of all the Tariff Commission actions and presidential actions.

(The information requested follows:)

Investigations in Which the Tariff Commission Decided in Favor of Escape Action

(Action by the President on Escape Clause Investigations[1])

INVOKED ESCAPE CLAUSE (17) CASES AND DATE	DECLINED TO INVOKE ESCAPE CLAUSE (26) CASE AND DATE
1. Women's fur felt hats and hat bodies (Oct. 30, 1950).	1. Garlic (1st investigation) (July 21, 1952).
2. Hatters' fur (1st investigation) (Jan. 5, 1952).	2. Watches (1st investigation) (Aug. 14, 1952).
3. Dried figs (Aug. 16, 1952).	3. Tobacco pipes and bowls (Nov. 10, 1953).
4. Alsike clover seed (1st investigation) (June 30, 1954).	4. Scissors and shears (1st investigation) (May 11, 1954).
5. Watch movements (2d investigation) (July 27, 1954).	5. Groundfish fillets (2d investigation) (July 2, 1954).
6. Bicycles (2d investigation) (Aug. 18, 1955).	6. Lead and zinc (1st investigation) (Aug. 20, 1954).
7. Toweling of flax, hemp, or ramie (June 25, 1956).	7. Screen-printed silk scarves (Dec. 23, 1954).
8. Spring clothespins (4th investigation) (Nov. 9, 1957).	8. Ferrocerium (lighter flints) (Nov. 13, 1956).
9. Safety pins (2d investigation) (Nov. 29, 1957).	9. Groundfish fillets (3d investigation) (Dec. 10, 1956).
10. Clinical thermometers (Apr. 21, 1958).	10. Velveteen fabrics (Jan. 22, 1957).
11. Lead and zinc (2d investigation) (Sept. 22, 1958).	11. Straight pins (2d investigation) (Mar. 29, 1957).
12. Stainless-steel table flatware (Oct. 20, 1959).	12. Violins and violas (Mar. 30, 1957).
13. Cotton typewriter-ribbon cloth (Aug. 23, 1960).	13. Umbrella frames (1st investigation) (Sept. 30, 1958).
14. Sheet glass (Mar. 19, 1962).	14. Tartaric acid (Mar. 14. 1959).
15. Certain carpets and rugs (2d investigation) (Mar. 19, 1962).	15. Cream of tartar (Mar. 14, 1959).
16. Pianos (Feb. 21, 1970).*	16. Baseball and softball gloves (Mar. 19, 1962).
	17. Ceramic mosaic tile (Mar. 19, 1962).
	18. Straight pins (3d investigation) (Apr. 28, 1962).

Investigations in Which the Vote of the Commission Was Evenly Divided

1. Sheet glass (Feb. 27, 1970).*	1. Handmade blown glassware (1st investigation) (Sept. 9, 1954).
	2. Spring clothespins (3d investigation) (Nov. 20, 1954).
	3. Wood screws (3d investigation) (Dec. 23, 1954).
	4. Fluorspar (2d investigation) (Mar. 20, 1956).
	5. Para-aminosalicylic acid (Aug. 10, 1956.)
	6. Binding twines (Feb. 7, 1961).
	7. Hard-fiber cords and twines (Feb. 7, 1961).
	8. Alsike clover seed (2d investigation) (Oct. 1, 1961).

*Action taken under Trade Expansion Act of 1962.

[1] This list does not include 103 investigations in which no action was required of the President (9 investigations terminated by the Commission at the applicant's request; 9 investigations terminated by the Commission without formal findings; 14 investigations in which the Commission dismissed the applications after preliminary inquiry under procedure provided for in Executive orders (no reports issued); 71 investigations in which the Commission decided against escape action (no reports sent to the President); one investigation still in progress; and one investigation completed by the Commission with evenly-divided vote, awaiting Presidential action).

Mr. BETTS. I think there is a recent decision on flat glass. Wasn't that up at the White House for a long time? I am not criticizing anybody, but in the interest of speeding up the process, as you mentioned, it seems to me that languished in the executive department for quite a long time.

Secretary STANS. There were a number of months between the findings of the Tariff Commission that the injury existed and the action by the President simply because it was necessary to reach agreement in the administration as to the kind of relief that ought to be granted.

But the relief has now been granted by the President, and we are in the process in the Department of Commerce and in the Department of Labor of receiving applications for adjustment assistance.

I think we can move quite expeditiously on these.

Mr. BETTS. Assuming, then, that there was considerable delay, and assuming there were valid reasons for it, a smaller industry just couldn't withstand the delay, I don't think, and survive. That is one of the other reasons why I am pressing this question of whether or not the final decision shouldn't be with the Tariff Commission, not only because they are the experts but because it does hasten the day of decision so that a smaller industry maybe would have a better chance of survival.

Secretary STANS. I can only go back to the answer I gave you earlier, which is that if the Tariff Commission makes final decisions, it is in the same character as the Department of Commerce making final decisions without anyone being in a position to take into account the overall international circumstances.

I think you have a valid point, that we ought to do everything we can to see that once the Tariff Commission makes a finding of injury, that the President's conclusion as to what ought to be done comes as quickly as possible.

Mr. BETTS. Personally, I think that the advice he gets or the assistance he gets should come mainly from your Department and none of these other Departments, with the possible exception of the Department of Labor, because I think trade is basically a commercial problem.

Well, that is my concern about that area.

In your comments on the escape-clause changes that you would make, you mention the fact that you feel it is liberalizing the present law. I listened to the Ambassador yesterday, and I must confess that I find some difficulty in trying to determine how changing the test from "major cause" to "primary cause" really is of much consequence.

It is like some of the legal requirements—beyond a reasonable doubt and things like that—that gives a lot of latitude, and when the chips are down the end is the same.

Secretary STANS. I would hope that would not be the case.

Mr. BETTS. I know you would hope so, but I am very concerned about it.

Secretary STANS. And these are legal terms. I think there is quite a difference between the major cause and a substantial cause.

Mr. BETTS. I am interested right now in the difference between major cause and primary cause. That is where you are making the change.

Secretary STANS. The way the word "major" is interpreted is to mean that it must be 51 percent of all the causes that could be applied, whereas, primary——

Mr. BETTS. What percent do you attribute to primary? If major is 51 percent, how much is primary?

Secretary STANS. Primary would mean any percentage, so long as it is more important than any other cause.

Mr. BETTS. In other words, if injury from imports could only be attributed to 10 percent of the injury to the company, how do you rationalize that with other causes to determine if it is a primary cause, if it is only 10 percent?

Secretary STANS. There may be no other cause as important.

Mr. BETTS. Then the major cause test would apply the same, would not it?

Secretary STANS. It would not be the same. There may be matters other than import competition, failure to modernize, poor management, and so forth. The question is, to what extent has import competition affected the plight of the company. It is up to the Tariff Commission to make that finding.

Mr. BETTS. Yes, but you have retained the term "major cause," as I understand, so far as the test of injury to labor is concerned; is that correct?

Secretary STANS. No, we have dropped the term "major cause."

Mr. BETTS. I understood from the Ambassador yesterday, and he went into great length, the term "major cause" was retained in one place and it was changed to primary cause in another place.

Secretary STANS. If that is the case, I will have to check the language in the bill and try to understand myself. I thought we were shifting from major factor to primary cause in the case of industry.

Mr. BETTS. I will tell you what the Ambassador told me. They retained the term "major cause" because it had to do with restricted organizations, such as a plant labor union, whereas, they changed to primary cause so far as injury to industry is concerned because it applied nationally.

I couldn't quite rationalize that. If you want to check into that further, I would appreciate having further information. To me, this change in one place, words which you have assigned percentages to, causes difficulty to me in seeing how that liberalizes the law.

Secretary STANS. The real test is if it doesn't liberalize the law, we will have to liberalize it some more. There is no question about that.

Mr. BETTS. I want to compliment you, because I think that is your whole attitude in trying to help us out in solving some of these problems.

Secretary STANS. Thank you very much.

Mr. BETTS. There are already on the books some laws which were intended to afford some relief from imports such as the countervailing tariff provision.

Secretary STANS. Yes; that is in the case of subsidized exports.

Mr. BETTS. To what extent has that been enforced?

Secretary STANS. That has been enforced to the extent that the Treasury Department is able to find cases or has cases brought to its attention.

Mr. BETTS. Isn't there some difference between the antidumping law and countervailing duty?

Secretary STANS. Countervailing duty applies in the case of foreign government subsidies.

Mr. BETTS. Has there been any substantial activity under this statute? That is, as far as granting relief is concerned.

Secretary STANS. There has been much less in the case of countervailing duties than there has been in dumping actions. The usual procedure in Treasury is to deal with actions that are initiated as complaints. They do deal with every complaint that is filed and most of them are in the dumping category rather than in countervailing duties.

Mr. BETTS. Is there any way we could have in the record, which I think would be helpful, statistics as to the number of applications and the amount of relief granted under both the countervailing duty and the antidumping laws?

Secretary STANS. Yes, I am sure we could get that. I will get it, but Secretary Kennedy will also be testifying. You may want to pursue this with him.

Mr. BETTS. Just on an aside, going back to what I commented on before, that I think the Commerce Department is really the Department that is more closely associated and in contact with trade, it seems to me the member of the Commerce Department should be the one to make these decisions, rather than Treasury. I am not casting any shadows on Treasury. Your Department is closer to all of this, it seems to me.

Secretary STANS. This is a matter of the statute.

Mr. BETTS. I know, but would you care to comment on whether or not that should be changed?

Secretary STANS. I will comment on that. I presume it was given to the Treasury because it relates in one way or another to the collection of customs aand tariffs.

Mr. BETTS. When you mentioned the American selling price, do we have anything else you could classify as nontariff barriers?

Secretary STANS. Yes, we do. We have quite a number of nontariff barriers, though not as many, in my opinion, as other countries do.

There is quite a list that has been cited against the United States by other countries.

Mr. BETTS. Give me an example of some of them. Is "Buy America" one of them?

Secretary STANS. "Buy America" is one. There are the standards on pressure vessels. Well, there is the fact that we have import restrictions on oil, and we have some limitations and provisions in the laws for limitations on agricultural products.

Mr. BETTS. And the importation of firearms, I guess, and cotton textiles.

Secretary STANS. The Cotton Textile Agreement is alleged to be, but this is an international relationship under GATT. We don't acknowledge that as a nontariff barrier anymore than we do the Sugar Act, which is a matter of allocation of our sugar markets, or of many of the other things that are cited against us. But we do have some.

Mr. BETTS. What would be the disposition on our part to negotiate those away in your negotiations with other countries on their nontariff barriers?

Are they in jeopardy?

Secretary STANS. I would say that to a very large extent we would be influenced considerably by expressions of the Congress on those matters. I certainly do not believe there is any solution to be found in, for example, modifying by negotiation the Sugar Act or our oil import quotas, which are a matter of national security, or many of those things.

I think there may be some of the things that are cited against us that would be subject to negotiation.

Mr. BETTS. Without congressional consideration?

Secretary STANS. No, they would have to come back to the Congress for ratification as part of the final process.

Mr. BETTS. Why wouldn't the ASP be in the same category? Why can't we hold all of these as levers for negotiation rather than single out ASP and say we will repeal it? I think somebody used the expression that there was a reasonable hope that the other countries would comply with their agreements.

Secretary STANS. The ASP is a different matter for the one reason that it is already part of an agreement under the Kennedy round that was negotiated and in return for the elimination of the ASP there are negotiated considerations on the part of the other countries in the reductions of tariffs.

Mr. BETTS. In other words, we negotiated?

Secretary STANS. We negotiated this, but the Congress has never ratified it. That is in a separate status from the other items which still require negotiation before we can do anything.

Mr. BETTS. What percentage of American imports does the ASP affect?

Secretary STANS. It is a very small percentage. It affects certain benzenoid chemicals and rubber footwear and a few things like that. In actual percentage, I would guess less than 1 percent.

Mr. BETTS. What would be the result, so far as imports are concerned, if it were repealed?

Secretary STANS. If we repealed the ASP?

I am not sure. I would expect that it might either increase the level of imports or decrease the customs collections to some degree.

Ambassador Gilbert is going to testify on the ASP specifically on Thursday. I would defer to him on the data in that respect.

Mr. BETTS. Mr. Byrnes mentioned the triggering process. I sort of felt that maybe the mechanism which would trigger in relief through change in quotas or tariff relief might be more realistic than the adjustment relief which, of course, places a burden on the taxpayers, if it really works. I wonder how much satisfaction it gives an industry suffering from injury to know it has a possibility of getting a small business loan, or if an employee knows that he might get workmen's compensation?

Those seem to be so far away when you think of the idea of relief.

I was happy to hear you say you would look into it, that you will explore that further from the standpoint of triggering quotas or tariff relief. Am I correct on that?

Secretary STANS. I think the question of relief here depends upon the time when it is applied. If the action waits until, as in the case Mr. Burke mentioned, when the company has already gone broke, that is too late to do much good.

The time relief should be applied is when the injury is evident, and more injury is prospective. Then it is possible to go in and be of real help to the company, either in modernizing its processes or in varying the character of its business, and at the same time, helping its employees who are in surplus to be trained and to find other jobs, and to give them the benefits of additional compensation while they are out of work.

I think what is really necessary there is to see that we have a mechanism that moves along promptly and efficiently before there is total catastrophe.

As far as burden on the taxpayers is concerned, sure, this costs money, but if the consequence of it is to save a viable business or a viable industry, then it is offset by benefits obviously that come from that.

Mr. BETTS. The adjustment assistance provision recognizes or provides for relief in case of threatened injury, doesn't it, before they go out of business?

Secretary STANS. Yes, sir.

Mr. BETTS. It seems to me that the triggering in of quotas or tariff relief would be much more helpful there than the adjustment relief, so far as threatened injury is concerned.

Secretary STANS. That is a possibility under the escape-clause provision, yes; but it needs to be liberalized in the manner we have recommended.

Mr. BETTS. Now, assume you have liberalized it under your escape-clause provision. Is there an automatic triggering-in of quota and tariff relief?

Secretary STANS. No; it is not automatic. It requires a determination by the President on the basis of the advice he gets from the Tariff Commission.

Mr. BETTS. In going back to long delay and all this process, the industry that is threatened with injury could actually go out of business in that period of time. It seems to me if it was triggered in it might present the possibility of earlier relief and take the burden off the taxpayers.

Secretary STANS. The difficulty is knowing at what point a trigger mechanism should work.

Mr. BETTS. The Tariff Commission would find that, I would think. Provision could be made for that. They are the experts.

Secretary STANS. The Tariff Commission can find that in any given case presented to it. But the first action that is necessary is for the company or the industry to petition for relief under the escape clause.

Mr. BETTS. I understand. But from the time it leaves the Tariff Commission until it goes through all the delays and final decisions that are determined by other factors, such as diplomatic pressures, political pressures, it seems to me that the threatened industry could really suffer more.

Secretary STANS. Actually, the time that it requires for the President to act after the Tariff Commission report is usually 60 days. Occasionally that is extended, but most decisions are made within 60 days.

Mr. BETTS. Thank you very much, Mr. Secretary.

The CHAIRMAN. Mr. Secretary, other members of the committee have not yet had an an opportunity to propound questions. Is it possible for you to return at 2 o'clock?

Secretary STANS. Certainly.

The CHAIRMAN. Fine. Without objection, then, we will resume with the Secretary at 2 o'clock this afternoon.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 2:00 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE; ACCOMPANIED BY STANLEY NEHMER, DEPUTY ASISSTANT SECRETARY FOR RESOURCES; LAWRENCE FOX, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL TRADE POLICY; FOREST ABBUHL, DIRECTOR, TRADE AND COMMERCIAL POLICY DIVISION; SETH BODNER, SPECIAL ASSISTANT TO DEPUTY ASSISTANT SECRETARY FOR RESOURCES; AND MICHAEL F. BUTLER, ASSISTANT GENERAL COUNSEL—Resumed

The CHAIRMAN. We will resume our hearing with Mr. Vanik propounding questions.

Mr. VANIK. Mr. Chairman, I have just several questions that I would like to ask the Secretary.

First of all, Mr. Secretary, to what extent are the foreign producers of textile in Japan, Korea, Taiwan, and Hong Kong, and through that area, owned by American investors, substantially, or American producers?

Secretary STANS. Up to now, so far as we know, the interests of American producers in that area are relatively small.

There is, however, a growing inclination on the part of them to look toward that area, and I have been told by some that unless we find a solution to this problem that more of them will be going into the areas of the Far East to manufacture for the U.S. market.

Mr. VANIK. More of them plan to go over there?

Secretary STANS. Yes, unless we find a solution.

Mr. VANIK. I noticed in today's newspaper, and we are dealing with the larger question of trade, which is within the call of the committee, where Secretary Laird is apparently against Henry Ford providing technical aid for the development of the trucking industry in the Soviet Union.

Does Secretary Laird's views represent yours, or are they different?

Secretary STANS. Well, as you know, the Congress passed a new law in December dealing with the eastern countries, the Communist countries, and set forth new policies for the determination of whether or not we would sell to them.

One of the factors to be considered is whether or not any sales to Russia or the Communist countries would add to their military capability.

I haven't had specifically put before me the question of this truck plant, but if Secretary Laird has said that at this point it would be,

I am sure, on the basis that he is concerned about it adding to the military capability of the Russians.

However, that is not an official administration position until such time as a specific proposition is before us.

Mr. VANIK. What was the answer to the question?

Do you agree or not agree with what Secretary Laird has said?

Secretary STANS. My answer is that I really don't know until I see the specific proposition, but I would be inclined to agree with Secretary Laird that, on the surface, building a very large truck plant is probably going to add to the military capability of the Russians and under those circumstances would not be desirable.

But I would like to reserve a full judgment on that until I see what it is we are asked to do.

Mr. VANIK. As I understand it, the plan is to provide technical experience and know-how rather than any material things.

Secretary STANS. That is what I understand, too.

Mr. VANIK. In our imports, I asked the Ambassador yesterday how the importation of high labor, high-cost labor, items compared with the importation of low cost labor items. In other words, we have an importation of commodities, and we have an importation of things that are manufactured in which there is a considerable degree of labor involved.

What would be the proportion relating to, first, our imports?

Secretary STANS. I don't think it has ever been examined in quite those terms of definition, but we have made a study, as I referred to earlier in my testimony, in terms of segregating items of manufactured goods that contained high technology and, therefore, are more likely to have less labor components, from those of low technology which would presumably have a higher labor intensive characteristic.

In that, there is a very precise distinction and a very marked difference in our trade position. In the items of low technology, we have moved from a surplus position 15 or so years ago to a position of very substantial deficit.

This is the kind of thing like textiles, shoes, and partially processed materials and so forth, where the rest of the world has the advantage of the same technology, the same equipment, the same machines that we do.

We now have a substantial trade deficit in those items.

In the items of high technology which in many cases involve less labor intensive industries, like the building of aircraft, nuclear power plants, and so forth, we have maintained our trade surplus and actually it has grown somewhat in recent years. That is the best breakdown I can give you in answer to your question.

Mr. VANIK. Could you tell me what the commodity exchange is? What is the commodity import and the commodity export?

Secretary STANS. In terms of commodities we again break it down into two categories. In agricultural commodities over the last 10 or 15 years, we have been losing our position slightly, particularly in the last few years.

In other words, we have a net balance of agricultural exports in our favor but it is relatively small. In the case of minerals and oil, which make up another category, we are importers and we are importing more and more with the result that we have a growing trade deficit in those items.

Our analyses have broken down our international trade in those four categories, agriculture, minerals, low technology manufactures and high technology manufactures.

That is the best measure I can give you and it is a very effective measure of where our trade transactions are trending.

Mr. VANIK. Can you, for example, divide up the $37 billion in these four categories?

Secretary STANS. Yes, I can. I don't know that I have it today. I can submit it for the record.

Mr. VANIK. I would ask leave that that be inserted in the record, Mr. Chairman, for both export and import.

The CHAIRMAN. Very well.

Secretary STANS. I will be glad to give it to you for a period of years.

U.S. FOREIGN TRADE, 1963, 1965, 1967, AND 1969

[Millions of dollars]

	1963	1965	1967	1969
U.S. foreign trade, total:				
Domestic exports	23,102	27,187	31,238	37,444
General imports	17,207	21,429	26,889	36,052
High-technology manufactures:				
Exports	10,586	13,030	16,002	20,553
Imports	2,637	3,895	6,988	11,334
Low-technology manufactures:				
Exports	3,710	4,410	4,841	6,212
Imports	5,428	7,350	8,768	11,688
Minerals, fuels, and other nonmanufactured and nonagricultural products:				
Exports	3,222	3,518	4,015	4,743
Imports	5,122	6,102	6,661	8,076
Agricultural products:				
Exports	5,584	6,229	6,380	5,936
Imports	4,020	4,082	4,472	4,954

Note: These groupings have been constructed from the basic U.S. export and import classifications, as follows: high-technology manufactures—all chemicals (sec. 5), all machinery and transport equipment (sec. 7), and scientific instruments (group 861); low-technology manufactures—all other manufactures except military goods (secs. 6 and 8 except 861); minerals, fuels, and other nonmanufactured and nonagricultural products—petroleum, coal, and other fuels (sec. 3). ores and other crude materials (sec. 2), fish (division 03), low-value shipments, arms and ammunition, etc. (sec. 9), and other nonagricultural products (from secs. 1 and 4); agricultural products—all products of farms (from secs. 0, 1, 2, and 4).

Mr. VANIK. I would also like to have the figures on the aircraft industry separately.

Secretary STANS. All right. We will put them in to the best extent we can.

(The information referred to follows:)

U.S. TRADE IN AIRCRAFT PRODUCTS, 1965, 1967, and 1969

[In millions of dollars]

Commodity	1965	1967	1969
Exports:			
Aircraft, total	1,137	1,519	2,398
Civilian aircraft	478	790	1,241
Military aircraft	349	305	601
Aircraft parts	310	424	556
Imports:			
Aircraft, total	140	248	283
Civilian aircraft	66	59	110
Military aircraft	9	2	2
Aircraft parts	66	188	172

Note: Data may not add because of rounding.

Mr. VANIK. I have corporations that are both exporters and importers. One division will be urging that I be very restrictive on imports and the other division will do exactly the opposite. That makes it very difficult for the legislator. It must be very difficult for everybody along the line.

Secretary STANS. It is difficult for us.

Mr. VANIK. I was wondering if we could get some figures as to the trade balance of the leading companies of America, the leading corporations involved in foreign trade, let us say the principal 100 exporters and importers, or the principal 150 exporters and importers, to determine what the trade balances might be within the framework of our major corporations.

Is that figure available?

Secretary STANS. It is not available now, except as some companies have volunteered it to us. I have had some companies point out the margin of their exports and the margin of their contribution to the balance of payments, but only as they volunteer it.

We have never asked for it. We probably could get it. I think it would be of some interest, but it really doesn't get to the heart of the whole problem, which is more on a category basis than on a company basis.

Many companies make many categories of goods, and it wouldn't really identify where our difficulties are.

Mr. VANIK. In the four categories that you gave me in the trade categories, where would franchises and licensing appear?

Secretary STANS. They wouldn't appear in that. They are part of the cash flow that make up the balance of payments, but they are not considered as imports or exports.

Mr. VANIK. Do they count in the trade balance?

Secretary STANS. They do not count in the trade balance. They count as services and appear in the balance of payments.

Mr. VANIK. Would technical services rendered, for example, by the Ford Motor Co., appear in that category?

Secretary STANS. That is correct.

Mr. VANIK. Is it possible to get that figure, to have it submitted along with the other four categories?

Secretary STANS. Yes; we can get that in the aggregate and submit it.

(The information referred to follows:)

Income from abroad for such business services as patent royalties, licensing fees, and management services is included under receipts for services in the balance of payments accounts.

If the income received by a U.S. firm originated from a transaction with a subsidiary company abroad, it is recorded under "Fees and royalties from direct investments." In 1969, such receipts totaled $1.3 billion.

Fees and royalties representing receipts from unaffiliated foreign firms are included under "Other private services." The latter account also includes receipts arising from such transactions as the foreign contract operations of U.S. engineering, contracting, and consulting firms, receipts from the operation of U.S. telecommunications companies, international reinsurance transactions, and retal receipts from the showing of U.S. motion pictures abroad. This category further covers receipts obtained from the operation and maintenance expenses of foreign embassies and international organizations in the United States. In 1969, the income derived from all these "Other private services" amounted to $1.6 billion.

Mr. VANIK. The statement was made by the Ambassador yesterday, or some comment that he made in a speech that I recalled, in which he talked about the economic miracle in Japan.

I was wondering what relationship there was between the economic miracle in Japan and Germany and how that related to the fact that a tremendous part of the defense of those countries is carried on by the American taxpayer.

Shouldn't this enter into our consideration some way or another? I felt that we ought to be withdrawing or bringing our troops home from these countries because as long as they don't have to contribute to the cost of national security, as long as that is being paid for by the American taxpayer, it puts the American producer and the American worker at a tremendous disadvantage, because he has to carry the cost of this tremendous defense obligation as an override on his cost of doing business.

Secretary STANS. I think there is a great deal of merit in what you say. Obviously, that applies more, I think, in the case of Japan than in the case of Germany.

But the money that would otherwise go into military expenditures in those cases can go into the capital investment that is necessary for industry, and it makes it possible, in some of those countries, for the government to play a greater part in the development of industry than is possible in the United States.

I am cetrain that that is a factor in the growth of their competitive positions vis-a-vis the United States.

Mr. VANIK. Do you think there is any way that we can somehow recoup some of those costs in our trade discussions?

Secretary STANS. As you know, in the case of the Government of Germany we have been negotiating and recovering for the balance of payments in one way or another the costs or a large part of the costs of our military activities in Germany.

I don't think that exists with respect to Japan. But it is a field which is a little bit out of the area of my activity, and I would prefer, if you don't mind, that you ask thta question of Secretary Rogers when he is here before the committee.

Mr. VANIK. Mr. Chairman, I thank the gentleman.

Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Secretary, I am interested in the whole spectrum of import controls. I have some skepticism about involuntary quotas.

I wonder if there is any reason to believe that voluntary quotas will work any better than involuntary controls when you are dealing with a very large number of potential suppliers.

It seems to me that it is going to be very difficult to allocate these quotas and to police their enforcement regardless of the means by which the quotas are imposed.

I wonder if you would discuss with me a little the implementation of this process.

Secretary STANS. In the case of textiles, for example, there is a very fine example of how arrangements of this type can be worked out on a voluntary basis. There is a long-term arrangement relating to cotton textiles. It was developed in a multinational framework under GATT and is implemented largely by a series of bilateral arrangements between the United States and other countries.

That mechanism has been in effect for about 9 years. It has worked very well.

Mr. CONABLE. How many countries are involved, sir?

Secretary STANS. There are 31 participants in the cotton textile arrangement and we have 24——

Mr. CONABLE. We have 31 bilateral agreements?

Secretary STANS. We have 24 bilateral agreements with the countries that are producers of cotton goods.

Mr. CONABLE. Isn't every developing country a potential supplier of textiles?

Secretary STANS. I am afraid that is true today, because it is the very first thing that a developing country seeks to do, to build textiles, to make textiles, shoes, and steel.

Mr. CONABLE. How can we allocate these quotas on a fair basis rather than a purely historical basis? It isn't likely to be completely fair; is it, to do it only historically.

Secretary STANS. I don't believe there is any wholly equitable solution to that. I think it has to be on a basis of negotiation, considering all of our relationships with a particular country, the dependence upon exports on their part, the size of the market, the particular type of product that they are making within the broad categories, and so forth.

All I can say is that while there is some unhappiness about the textile quotas under the cotton agreement in a few countries, generally, most of them think it has worked quite well. It hasn't foreclosed their access to our market. It does provide in most cases for a growing volume of exports to the United States.

Mr. CONABLE. Providing the market continues to grow.

Secretary STANS. Well, of course, if the market failed to continue to grow, then it would affect our next negotiations with these countries and we couldn't, obviously, give them that much of a greater share.

Mr. CONABLE. Do you have any concern, sir, about what is likely to happen in Congress once we open this Pandora's box?

Secretary STANS. Yes, sir. I am very much concerned about it. I think it would be extremely unfortunate if the passage of this bill led to a "Christmas tree" type of thing that would add a great many products under quota arrangements.

Many of these products which we have under consideration, because of the level of imports, might be dealt with in other ways.

The administration is very conscious of the difficulties that some of these industries are having. We would like to find ways of dealing with their problems internally.

The textile industry is too big for any kind of solution that we would be able to apply internally.

Mr. CONABLE. Do you acknowledge that it is extremely likely that any trade discussions we have here are likely to turn into some kind of a log-rolling exercise?

Secretary STANS. I think that, regrettably, is a possibility. I would hope that it could be held to narrow dimensions within the framework of the bills that are before you.

Mr. CONABLE. Let me ask you this, sir: If there were no history of previous trade negotiations, would you prefer the quota system over the tariff system? It seems to me that quotas, because they tend to exclude competition rather than to control it, are less acceptable to consumers than tariffs.

Secretary STANS. It is a very difficult question to answer. I am sure that you are aware that we went through a great debate on this in connection with oil imports just recently.

Some people feel that the tariff is a better way to regulate imports and that it also produces some revenue for the Government. Others feel that a more precise way, a more accurate way, and a more readily adjustable way, is to use the quota system.

I would have to say that I think if you were to consider these two as direct alternatives it would have to be variable according to the particular product involved.

Mr. CONABLE. What I am trying to get at, sir, is the reason for the popularity of the quota device as a way of limiting the impact of imports. Is this popularity based on other things than historical considerations at this point?

Secretary STANS. I can only surmise, but I would think the so-called popularity of the quota system rests on the fact that it can be more fair, and it can be more precise in its operations.

For example, in the case of our discussions with the Japanese on textiles, we have never said, "We want you to reduce the level of your exports of textiles to the United States." We have said: "We are willing to allow you to have a gradually increasing volume but all that we ask is that you be more fair and instead of increasing your exports at the rate of 30 to 50 percent a year, export them at a level which we can absorb."

So I think the quota system gives much more precision in the arrangements and is more likely to be fair to both sides than a tariff system which can be influenced and changed by costs of labor, costs of shipping, and a great many other factors, and can produce sometimes unintended results.

Mr. CONABLE. Do you feel any concern about the impact of quotas on inflation at this point?

Secretary STANS. No. Again, it depends upon how they are used. The application of quotas to textiles, as an illustration, provided it did not cause a rollback in the level of imports, would not be inflationary.

In other words, if it permitted the same proportion of imports in the future as has been the case in the past, it would not be inflationary at all.

Mr. CONABLE. It certainly would limit supply, however.

Secretary STANS. It would limit supply, and to that extent would maintain the average level of foreign cost versus domestic cost.

Mr. CONABLE. Assuming there were no increase in demand.

Secretary STANS. That is right. Our current cotton textile bilateral agreements, I should note, provide for annual increases, and our proposals on wool and manmade-fiber textiles also contemplate annual growth in exports to the United States.

Mr. CONABLE. That is all, Mr. Chairman.

Mr. ULLMAN (presiding). Mr. Secretary, I recognize Mrs. Griffiths but I ask her to yield for a question or two.

Mrs. GRIFFITHS. Yes.

Mr. ULLMAN. Many aspects of this whole trade problem concern me, Mr. Secretary, but let me briefly refer to two of them.

Does your Department prepare the tables on trade deficits?

Secretary STANS. The trade statistics? Yes; we prepare them.

Mr. ULLMAN. What is your justification for computing imports on the basis of their foreign value? It would seem to me by every test of logic that the proper valuation on both exports and imports should be at our shoreline, because that certainly is where the impact would be felt.

Do you have statistics based upon shoreline value?

Secretary STANS. We have statistics based on shoreline value. They are not as precise or as accurate as the statistics based on the dutiable value or the invoicing value. They are available and we know the measure of difference.

Mr. ULLMAN. I would think you would have to agree with me that when we are trying to arrive at the proper relationship on both exports and imports, the relationship of its impact on the American economy, that the shoreline value in both instances would be the only valid criterion.

Secretary STANS. The addition that results from the freight and insurance in a very, very rough order of magnitude is about 10 percent. It could be done either way. We use the point of shipment value in all cases simply because that makes the goods leave one country and arrive in another country at the same figure so that the trade statistics of all the countries of the world balance out.

For a number of years the rule-of-thumb percentage used in adjusting f.o.b. import values to a c.i.f. basis was 10 percent. The most recent study by the Bureau of Customs and the Bureau of Census, based on imports in 1967, indicate that the value of U.S. general imports on a c.i.f. basis is about 69 percent higher than the total value reported for the year in U.S. import statistics. (For detailed information see U.S. Department of Commerce, FT 990/March 1969 Highlights of U.S. Export and Import Trade, pp. III–VI.)

Mr. ULLMAN. It might be a nice, easy way of rounding it out, but it is not, in my judgment, an accurate way of designating the actual problem. In order to do that, then it would seem to me that you would have to add the cost of transportation in foreign bottoms and the cost of insurance by foreign insurers in order to arrive at the proper impact on our economy of the import.

Secretary STANS. I don't disagree with you at all. I just point out that the standard international practice is to value both exports and imports on an f.o.b. basis. This is the procedure that we follow, but we do have the figures on the other basis as well, recognizing the point you made.

Mr. ULLMAN. I understand that the c.i.f. basis is the basis on which you have added transportation and insurance, is that right?

Secretary STANS. That is correct.

Mr. ULLMAN. It is my understanding that most countries actually are on the c.i.f. basis and we are one of the very few countries on the f.o.b. basis and with least justification.

I don't know what percentage of imports come here in American bottoms, but I imagine it is just almost negligible.

Secretary STANS. I think we understand each other on this, but I would like Deputy Assistant Secretary Fox, who is here, and who has much more to do with the statistical data, to answer your point and explain to you why it is done the way it is.

Mr. Fox. Mr. Congressman, the standard method of publishing trade data for most countries depends on the nature of their tariff.

Therefore, countries that have a tariff that is written on an f.o.b. basis publish their data f.o.b. Countries that value their imports on a c.i.f. basis publish their data c.i.f.

For balance-of-payments purposes, all countries convert their data to f.o.b. basis. That was the nature of the Secretary's comment with respect to international practice.

Then for balance-of-payments purposes, the c.i.f. feature is factored into each country's accounts.

Mr. ULLMAN. You said balance of payments in both instances. What did you mean in the first instance?

Mr. Fox. For balance of trade, each country ordinarily publishes its data based on its tariff law. We value f.o.b. Therefore, we publish our data f.o.b. Countries, such as the European countries, which do their valuation on the basis of c.i.f., publish their trade data c.i.f.

I am now done with balance of trade.

When you get to balance of payments, it is necessary to adjust to the same basis. All countries for balance of payments convert their trade to f.o.b. and then they add in under services, and so forth, the c.i.f. portion, so that we all get to the same basis in that way.

Mr. ULLMAN. You would agree with me, then, that if we are read-in your tables for purposes of balance-of-trade impact, and this is the primary reason that we look at them, that a c.i.f. basis would be much more accurate and defensible than an f.o.b. basis, right?

Mr. Fox. It depends what your purpose of valuation is. If you want to know precisely in terms of merchandise trade, f.o.b. basis is more valuable.

If you want to know the total impact on our balance of payments, how much are we paying for the goods, then you want to do it c.i.f. because ocean freight may be a factor.

However, if you do it c.i.f., you have to do it accurately because some of those ships are American ships and some of the charges are American port charges.

Balance of payments, therefore, factors those features out and converts the gross c.i.f. data to precise balance-of-payments data which are necessary in order to reach the judgments that are desired.

Mr. ULLMAN. Except all your published tables that I have seen that purport to give an accurate picture of our trade relationships, particularly from the point of view of balance-of-trade impact, all of these tables read f.o.b.

It would seem to me that it would be much more accurate in printing these tables to factor in the c.i.f. and then you would have truly an accurate picture of the balance-of-trade relationships.

Mr. Fox. We actually do report quarterly on a c.i.f. basis. I believe that every country that has a tariff that is based on f.o.b. does exactly the same as the United States, namely, it reports its trade f.o.b. That is where the duties are collected and that would be the statistical method. Otherwise, you would have to estimate the c.i.f. This estimating is rough.

The Secretary gave the 10-percent figure. It varies from one commodity to another. In these quarterly reports I referred to, where the c.i.f. figures are given, we do make estimates and, of course, those are regularly published by the Census Bureau.

Mr. ULLMAN. I will not dwell on it further, Mr. Secretary, except I don't believe in your testimony, in presenting these trade relationships, that you used the c.i.f. figures at all.

Secretary STANS. No. As a matter of fact, we used the f.o.b. figures. I should point out that they are subject to another criticism as well, and that is that our export figures include the exports that go under AID programs and go under Food for Peace for which, if we do get paid, we get paid on a very long deferred basis. But it is the measure of the goods that leave our shores.

Mr. ULLMAN. You say, though, it amounts to about 10 percent, is that right? We could add 10 percent to the import value?

Secretary STANS. For c.i.f. yes.

Mr. ULLMAN. Would you present c.i.f. tables for the record, then, at this point, for the past 10 years?

Secretary STANS. Certainly. We would be glad to.

Mr. ULLMAN. Do that on imports, please. I would judge then that we would be running a sizable deficit this year and the last year if we used c.i.f. import figures.

Secretary STANS. If we use the c.i.f. import figures, we would be in a deficit position at this time. If we eliminated the AID shipments and Food for Peace shipments, and the military shipments, we would have a fairly substantial deficit at this time on a commercial basis.

Mr. ULLMAN. Would you do that, too, in the tables that you give me, combine both of those factors?

Secretary STANS. Yes; we will.

Mr. ULLMAN. In my judgment, that will give us a far more realistic picture of our actual trade situation than what has been officially presented.

(The information to be furnished follows:)

ESTIMATED U.S. TRADE BALANCE, 1966-69

[In millions of dollars]

Year	U.S. exports					U.S. imports		U.S. trade balance, based on estimated c.i.f.-valued imports and exports excluding military grant-aid, AID, Law 480 shipments
	Total, including reexports	Military grant-aid	AID loans and grants	Public Law 480 shipments	U.S. exports excluding military grant-aid, and Public Law 480	F.o.b. value	Estimated c.i.f. value	
1966	31,430	940	1,186	1,306	26,998	25,618	27,745	−747
1967	31,622	592	1,300	1,237	28,493	26,889	28,745	−252
1968	34,636	573	1,056	1,178	31,829	33,226	[1] 35,519	−3,690
1969 [1]	37,988	674	994	1,018	35,302	36,052	38,539	−3,237

[1] Preliminary data.

Note: The above export figures are not necessarily a measure of that part of U.S. shipments to foreign countries which are "commercial." No data are collected according to method of financing. In any case, certain goods exported under U.S. Government programs are sold on terms which compare closely with those financed in other ways. Substantial receipts for many of these shipments are realized from interest and payments on principal, from U.S. Government use of foreign funds in lieu of direct outflows, and from imports of goods under barter or military arrangements.

The statistics for AID loans and grants and for agricultural shipments under Public Law 480, which are compiled by the Agency for International Development and by the Department of Agriculture in connection with the administration, control, and review of their programs, are not entirely comparable in coverage or timing with data obtained from the export declarations filed by shippers with the Bureau of Customs that are the source documents for the export statistics.

Estimated c.i.f. values are based on sample studies of U.S. imports in 1966 and 1967. The relationship between f.o.b. and c.i.f. values in those 2 years varied considerably. Figures on a c.i.f. basis for 1968 and 1969, which are based on the 1967 study, are preliminary and subject to revision when studies for these years are made.

Mr. ULLMAN. A second point I would like to touch on briefly is in looking on the country-by-country statistics, I am greatly concerned by what I see. For instance, in the past 4 years we have lost some $4 billion, almost $5 billion, in foreign trade balance.

What countries are involved here? Perhaps it would be simpler to just put the question: What kind of countries in the world do we have the deficits in and what kind do we have the surpluses with?

Secretary STANS. The major deficit countries at this time are Japan, which had a trade surplus with us of $1 billion 400 million last year; Canada, which was in approximately the same dimensions, and Germany, which had a substantial trade balance last year in their favor but which may be less since they revalued their currency.

Mr. ULLMAN. About how much? Do you have the figures on West Germany?

Secretary STANS. Canada was approximately a $1.2 billion deficit for us last year. Japan was approximately $1.4 billion. Germany was approximately $500 million. However, the European Economic Community as a whole was approximately $1.2 billion in surplus.

I will give you the figures separately for Germany.

Mr. ULLMAN. We have about $3 billion, then, of trade deficit with the most highly industrialized countries in the world, and the ones that have the strongest economy.

What this means is that we have to pick up $3 billion in the underdeveloped countries of the world. This concerns me very greatly because the whole theory of foreign aid during the past years has been one that we should be managing our policies so as to help the developing countries along. Certainly, a trade surplus with developing countries is not a way of helping them along, but it certainly is an overall hindrance to their development.

Secretary STANS. I agree with you in principle. I would like to point out, though, that beyond Germany, Japan, and Canada, there are many developed countries with whom we have trade surpluses. We, obviously, cannot hope to continue very large trade surpluses with the developing countries. They need a lot of our goods. They need a lot of our machinery. They need a lot of our equipment and advanced technological items.

But if we don't buy a lot from them they can't pay for them. So we will have some surpluses with many other countries, particularly those where tourism or military expenditures give them a basis for paying for our goods.

I agree with you that, generally speaking, we cannot build up large balances at the expense of the developing countries.

Mr. ULLMAN. I am afraid if you added tourism to this, the balance would go even further toward the developed, industrialized nations. It seems to me in looking at the long view on trade policy that there are overwhelming arguments in favor of some kind of basic trade policy that would weigh our trade relationships in the other direction rather than in the direction of helping the strong and not the weak.

I think that should certainly be a consideration for all of us in examining this overall trade policy. I would hope you would have it in mind, too.

Secretary STANS. I would like to answer that a little more specifically, particularly with respect to Japan who, as I pointed out, had a $1.4 billion trade surplus with the United States last year.

Japan has a great many trade restrictions against our goods. Japan has approximately 100 items, categories of items, on their restricted list for imports which are in violation of their undertakings under the General Agreement on Tariffs and Trade.

We have been importing, we have been urging, and we have been pressuring Japan to release these restrictions and to allow greater access to our goods, because we have very little limitations on their goods coming into the United States.

It is not a reciprocal relationship. The only thing we can hope is that in time Japan, which has become the second largest producing nation in the free world, will accept more of the responsibilities of a major nation and will extend reciprocity to its trading partners.

Mr. ULLMAN. Mr. Secretary, as much of a friend as I am to Japan and to Germany and to Canada, I would hope that out of these hearings they would somehow get the message that we cannot continue to tolerate this kind of trade deficit acceleration, and the imbalance between developed and developing nations.

We have an obligation to developing nations. I think we have exercized that obligation in the past to Japan and to Germany. But it is time that we shifted back again to a policy of helping the developing nations along and recognizing that those that are developed are more able to take care of themselves, and that our trade weighing should be in the other direction rather than in their direction.

Thank you, Mr. Secretary.

Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you.

Mr. Secretary, when do you expect to end the embargo on scrap nickel?

Secretary STANS. I will ask Mr. Nehmer, who is more directly familiar with that subject than I am, to answer.

Mr. NEHMER. Mrs. Griffiths, we established the embargo when the strike began in the International Nickel Co. mines in Canada last July.

On March 11, we announced that we were relaxing the embargo immediately with regard to one type of nickel scrap, and effective April 1 with regard to several other types.

We also announced on July 1 that all the rest would be allowed to be exported, although subject to quantitative limitation.

Mrs. GRIFFITHS. And quota systems?

Mr. NEHMER. Right.

Mrs. GRIFFITHS. Why a quota system?

Mr. NEHMER. Because during the course of the strike we lost something like 100 million pounds of nickel supply. The stocks of nickel in the hands of the steel mills have only gradually, since the end of the strike, been building up. The Government had to release 29 million pounds of nickel from the strategic stockpile and from the Treasury Department's nickel coinage stocks.

We felt this was a prudent course of action until we could see how the situation developed. Since our announcement of March 11, it would appear that there has been an improvement in the situation with regard to nickel supply, and we are at the present time examining whether or not we can perhaps take a more liberal view on the export controls with regard to nickel scrap than that which we announced on

March 11, even though that in itself represented a relaxation of controls.

Mrs. GRIFFITHS. Isn't it a fact that the improved situation for nickel scrap is because of the bad car sales and the lack of demand for steel? Isn't that really the problem?

Mr. NEHMER. I don't know. I might say that the steel mills are saying to us that their nickel supplies are still not adequate. They buy as much primary nickel and as much nickel scrap as they can possibly get.

On the other hand, the nickel scrap exporters indicate that they have nickel scrap which nobody in the United States wants to buy.

We have allowed some of that to be exported on a case-by-case basis.

Mrs. GRIFFITHS. Isn't it a fact that while we have had an embargo on nickel exports, that Russia and Communist China have moved into the European market?

Mr. NEHMER. Other countries also had to establish an embargo.

Mrs. GRIFFITHS. But in general, haven't most of the other countries released their embargos?

Mr. NEHMER. Some have. I don't believe all have, Mrs. Griffiths.

Mrs. GRIFFITHS. But some of them did?

Mr. NEHMER. Yes.

Mrs. GRIFFITHS. And haven't Russia and China moved into the European market to pick up the sales?

Mr. NEHMER. I don't know. I haven't been aware of that.

Mrs. GRIFFITHS. Why are we permitting them to use Europe as a sales place for scrap?

Mr. NEHMER. Well, the United States——

Mrs. GRIFFITHS. And what are they getting from Europe?

Mr. NEHMER. The United States is traditionally a large exporter of nickel scrap. We supply the steel mills in Sweden, Germany, and Japan with nickel scrap. I would assume that with the relaxation that has taken place as of March 11, plus the further relaxation of July 1, and whatever else we may do, that we will once again be able to supply that demand.

Apparently, we have the types and quantities which are in demand in these foreign countries.

Mrs. GRIFFITHS. But a market once lost is rather difficult to recover, isn't it?

Mr. NEHMER. That is a normal approach. I think with this particular commodity, considering the wide diversity of the different types of nickel products that we turn out, I think that would not necessarily be the case, Mrs. Griffiths. But we are looking into the problem, I can assure you.

Mrs. GRIFFITHS. I would like to ask about the balance of trade also between the United States and Canada. In the year before the Canadian Automobile Agreement, wasn't the balance of trade running $600 million in our favor, as I recall?

Secretary STANS. That is correct.

Mrs. GRIFFITHS. So that the real difference in this is cars, is that correct?

Secretary STANS. The major difference is in the fact that it is now a trade deficit for us due to automobiles.

Mrs. GRIFFITHS. $1.2 billion?

Secretary STANS. Yes.

Mrs. GRIFFITHS. And it is largely made up of cars?

Secretary STANS. That is correct.

Mrs. GRIFFITHS. How much difficulty is there in investigating dumping?

Secretary STANS. Well, I take it there is a great deal of difficulty because it is extremely difficult to get the facts as to costs and prices. This is administered by the Department of the Treasury.

I suggest that if you would like to pursue that further, Secretary Kennedy and his associates will be here shortly. I think they could answer much better than I could.

Mrs. GRIFFITHS. Thank you. I personally feel that Japan is doing quite a little dumping but it is hard to prove. Every place I have been in Asia, Japan has been the main trading mart. They are very adverse to American capital controlling any of their products; isn't that right?

Secretary STANS. That is entirely correct. They have very heavy restrictions on American capital going into Japan, and when they do permit it to go in, it is almost invariably only on a 50-percent-ownership basis, whereas, we permit Japanese capital to come into the United States today and but almost anything up to 100 percent that they want to buy.

Mrs. GRIFFITHS. As a matter of fact, aren't they building ships in Alaska?

Secretary STANS. I think they are, yes.

Mrs. GRIFFITHS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

Mr. Secretary, I would like to pursue a part of your testimony this morning having to do with the fourth area that you mentioned, the area of high technology products, being the area in which we still had a favorable balance of trade.

I would like to ask you what we are doing to portect that particular area. To my own satisfaction, I am persuaded that at least in one area, let us say the Japanese area, they have taken equipment or products which we have developed and either gotten around patents or, in some other way, produced these products so that today we don't even a favorable balance in those areas.

I will give you a good example: The videotape recorder which was originally patented in this country. Today, most of the video recorders come from Japan.

In more recent days, I see in the aviation industry where the Japanese are manufacturing I think the only pressurized light aircraft cabin, for example. I don't think we are producing this kind of article, even though we developed the original basic technology.

What I am really asking is: Are we really holding our own in that area of high technology to which you referred earlier in your testimony?

Secretary STANS. I don't think we are protecting the areas of high technology. I am not quite sure that we can. In many cases, American companies license Japanese companies for a royalty or other kind of fee in the use of the technology.

It once was though that the Japanese were great copiers, but they have become innovators as well, and they are able, in many cases, to take our technology and improve upon it.

The point is that, first of all, technology moves very easily from country to country these days in perfectly legal ways, and; secondly, we have no monopoly on the engineering and other types of genius that are necessary to improve on technology.

The Japanese have been very aggressive in world markets and, as a result, they have moved not only very heavily into the more common consumer products and textiles, things like that, but also have been moving into items of relatively high technology.

Mr. PETTIS. Are you satisfied that there is no violation of patents, then, that these are based upon legitimate agreements between companies in the United States and either Japanese companies or European companies?

There is no big problem in patent violations?

Secretary STANS. Let me say that I know of no significant volume of patent violations. There may be some. But they would be in the hands of the owners to enforce, and none of any significance have come to my attention.

Mr. PETTIS. Mr. Chairman, if I might, I have a question I asked of the Ambassador yesterday.

Do you feel in the area of steel, for example, that the voluntary agreement which we reached with the Japanese in 1968 is a successful agreement in terms of the agreement itself?

As I remember the agreement, for the west coast, the Japanese agreed to, I think, 25 percent of the west coast market.

The first quarter, I think, indicates that Japanese steel imported into the west coast is higher than that.

Secretary STANS. I am not aware of any precise restrictions as to the geography in the United States. My recollection is that the agreement on the part of the Japanese was to limit their shipments of steel to 5¾ million tons in 1969 with a step up in each year from then on.

In 1969, they adhered to that agreement except for a small overrun which they have agreed to apply against their 1970 quota. I do not have current 1970 figures as of now.

Mr. PETTIS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Landrum will inquire.

Mr. LANDRUM. Mr. Secretary, I want to begin my questions with a statement to you, joining the others on the committee who have already praised you for your efforts in this trade field. Some have said that you have done a superb job. I would say that you have done the most superb job done in the Department so far as I have been able to observe in the years that I have been here. I commend you for it.

Your capacity to grasp the knowledge and your ability to articulate that knowledge has been helpful to all of those concerned with this.

Nevertheless, I feel now on some specifics I must find some ground to take a little issue with some of the things you have said here today, and some of the things that were said yesterday by Ambassador Gilbert.

In your supplementary statement on textiles you say, "Recent action which I cannot detail today for obvious reasons." I accept the fact that you can't detail them, but I wonder if you could tell us just how recent this action is. Just when did it occur?

Secretary STANS. It has occurred over approximately the last month.

Mr. LANDRUM. But then, Mr. Secretary, I read in the Daily News Record published in New York on Monday, May 11, a statement on page 20 under the heading "U.S.-Japan No Closer On Imports."

And down in the second paragraph, it says:

> Stans said negotiations are continuing but added "there is no indication we are any closer to reaching an agreement. There is nothing yet sufficiently close to a solution to be worthy of public disclosure."

That was dated May 11, which, I believe, was yesterday. I just wondered if that is the statement you made some weeks or months ago, or could it be that there is some conflict in this move?

Secretary STANS. Mr. Landrum, I was out of the United States for 2 out of the last 3 weeks, and in the week since I have been back, I don't recall having made any public satements. So I suspect that may be an earlier quotation.

I must say that there have been times at which I felt exactly that way.

Mr. LANDRUM. I will say that this article is datelined Hot Springs, Va. Would that suggest anything to you about when you might have said that, if you did say it?

Secretary STANS. I had a press conference in Hot Springs, Va.

Mr. LANDRUM. How long ago would that be, sir?

Secretary STANS. Last Saturday. But I don't recall saying anything precisely in those terms. If I did, I would have to correct it today by saying that there are indications that there is a possibility of reaching an agreement within the next two weeks.

Mr. LANDRUM. I listened this morning while you said to the distinguished chairman of this committee, Mr. Mills, that you would come back before these hearings are concluded, and I thought I understood in the colloquy between you and the chairman that that return to the committee would be sometime in early June, and that you would at that time be able to disclose to the committee whether or not you have been successful in obtaining a voluntary agreement.

Secretary STANS. That is correct.

Mr. LANDRUM. And you do expect to come back to the committee then, early in June?

Secretary STANS. I expect to come back before this committee closes the record in these hearings.

Mr. LANDRUM. Before the committee closes the hearings?

Secretary STANS. Right.

Mr. LANDRUM. I appreciate your desire this time in order to negotiate a voluntary agreement, or further pursue the effort to negotiate a voluntary agreement.

Based on your experience, Mr. Secretary, in this business, wouldn't you have to agree that the job would be much easier if we could go ahead with the hearings and conclude testimony on this point, and perhaps even reach a stage in executive hearings where we might approve this bill?

Wouldn't you be in a little stronger negotiating position then than you would be without anything?

Secretary STANS. I don't think there is any doubt about that.

Mr. LANDRUM. Then who are we kidding? Why do you come and ask us to defer this? Aren't we going into the negotiations, if we say

here today we are going to defer them, with a "Come on, boys, give us an agreement, any agreement, something we can call an agreement. We don't care whether it is good or whether it is bad."

We are not going to say that, but we say we have an agreement out of them and they volunteered to it. Then we come in and ask the people to go along with us on this business of accepting an agreement that really, as a matter of fact, is no agreement. It is an agreement without relief. We could get something like that. Isn't that true?

Secretary STANS. Mr. Landrum, no, I don't think so. I would not recommend to the President, nor would I have any part of accepting an agreement that didn't solve this problem.

Mr. LANDRUM. I don't believe you would, either. I agree with you. I have that much confidence and that much faith in you. I don't believe you would.

But I just can't understand why you, of all people, Mr. Secretary, would come here and ask us to defer action and expect us to believe that you were going to be in any better position 2 or 3 weeks from now than you are today.

Secretary STANS. What I am suggesting is not going to hold up anything. I merely say that before you conclude the hearings I would like to come back and given you a much more definitive answer as to our position because we have discussions and negotiations underway.

It may very well be that we will have a satisfactory understanding before you close the hearings. If we can, I would like to be able to report that to you.

Mr. LANDRUM. Then, really, you are not saying defer the hearings on this. You are saying, "Go ahead and discuss this thing. See if we can't get something. Keep the gun cocked." Is that what you are telling us?

Secretary STANS. I certainly think that this committee ought to hear all of the facts of the problem and be in a position to reach its own judgment. When we come in before you close the hearing, we will tell you exactly what we have been able to deduce and the committee can then use its own judgment.

Mr. LANDRUM. Now let us get over on another matter which is somewhat related to that.

I noted in your supplementary statement on textiles, on page 13, you ask us to redefine what the bill means by textile articles.

You say:

> We do not believe that these manmade fiber materials should be included within the framework of a textile articles program as in reality they are products of the chemical industry rather than of the textile industry.

Now, Mr. Secretary, let me state this: I agree with you that these manmade fibers are products of the chemical industry, but cotton is a product of the agricultural industry. Cotton is used in weaving and in manufacturing textiles. Manmade fibers, products of the chemical industry, are used in weaving and manufacturing textiles, the clothes we wear, the shirts we have. It is hard to find a cotton shirt now.

I would hope that you and those associated with you would restudy this and see if you could come up with a little different request. I don't think it would be quite right to exclude these manmade fiber materials from the definition of textile articles when, as a matter of fact, after

they are developed by the chemical industry they go through the same type of manufacturing process, generally, as cotton and other yarns that you have. I hope you will restudy this.

Secretary STANS. I am not quite sure that I understood your point. Raw cotton is no part of the present legislation nor the proposed legislation.

Mr. LANDRUM. We understand that, because you have the Long-Term Cotton Agreement.

We are not bothered by that. We understand that. But we are bothered by imports from these manmade fibers. As a matter of fact, they make up a substantial portion of what is coming into the market.

Secretary STANS. Insofar as those manmade fibers are processed into filament yarns, we think they should be included. We have not had any indication that there is any significant problem with respect to the manmade fibers themselves.

Mr. LANDRUM. I would hope that before we get through with this bill, and before we finalize what the committee recommends on the definition for that, that we could get some more study from your experts and from your Department, with other recommendations.

Now on another matter about the bill. I am terribly worried about these three points you discussed this morning which are in the bill, about the provisions for assistance to industry that is damaged by the imports.

The way you discussed them this morning, the first possibilities was tax relief, and then you have long-term loans at low rates, followed by technical assistance. As a matter of fact, Mr. Secretary, isn't one of the real problems we are having today with imports from other countries that these governments are subsidizing the industries which are exporting to the United States?

Secretary STANS. In some cases that is true.

Mr. LANDRUM. I can't for the life of me see how we can combat the importation of goods from countries with wages one-third to one-half, and in a rate instance no more than three-fourths what our wages are, and expect to give an industry, manufacturing a competing product over here, a tax relief to put them on a level of embarrassment with their fellow industrialists, the man across the road with a factory. He is paying taxes and this fellow is free because he happens to be making, something in competition with a manufactured article we are letting come in here without a quota.

I am perfectly agreeable to letting them have, as we have stated and as you have stated, a fair share of the market as it grows annually. But I don't see where it would be wise for this Government to tax the public, and that is what it means—you are taxing one group and letting another group go free—and neither do I see where it would be wise to make long term loans to such damaged industries because that comes out of the taxpayers' pockets, too.

You aren't getting the industry that is being damaged any place. It does no good to give an industry that has been damaged by imports a loan. He can't pay it back, if you let the damage continue, if he continues to have his market at home denied him because imports are coming in. He can't get enough money to pay the loan back.

It is rare, I believe, that he would get enough to pay the interest back. He could never get into a position to start paying taxes.

I just don't see how that ought to be a part of that bill.

The technical assistance feature of it, Mr. Secretary, it seems to me we ought to be able to provide all the time, whether he is being damaged or not damaged. Our Government with its capacity and expertise it has available to it ought to be able to provide technical assistance whenever an industry seeks it. Many do.

As you well know, the Department of Agriculture provides considerable assistance in that field, and many other agencies of the Government as well as your own. You provide technical assistance today through the Department of Commerce.

I wouldn't be opposed to that. But I think that these first two are different. I would think the taxpayers of this country would raise considerable question about the validity of such relief.

Secretary STANS. Could I comment on that and give you an illustration?

Mr. LANDRUM. Yes, sir.

Secretary STANS. We recently had some cases involving sheet glass that went to the Tariff Commission and then to the President.

The industry was found to be suffering by reason of heavy imports. The President so ruled and decided that relief should be granted.

The relief he granted was to continue the tariff rates at their present high levels for 2 more years, after which they would be reduced.

In the meantime, we would provide adjustment assistance to the companies in the industry. This is a good example because it is an industry in which there are very few units. What has happened to the sheet glass industry is that the British developed a system of making glass by a float process which some of the companies in the United States adopted and some didn't.

It is possible, and I am not prejudging their conclusions, that by giving adjustment assistance, by giving loans and technical assistance to some of the smaller companies, they can go into the float process and be able to compete in this market.

If they do, this is a perfect example of how the escape clause and the provisions for relief can help. That doesn't provide any kind of a solution for the textile industry which has so many units across the country and is a relatively modern industry compared with our competitors. But I do urge, Mr. Congressman, that the escape clause has a use, and the adjustment assistance provisions have very valuable uses in the right instances, and we should make them work. They don't work now because the door to them is so tightly closed that up until recently almost no one has been able to qualify.

Mr. LANDRUM. I do hope you will restudy the recommendation you are making about the definition. I would hope that you could restudy these first two items with regard to that.

Moreover, I would urge you to move as expeditiously as possible, Mr. Secretary, toward the day when you can say one way or the other about this voluntary agreement that we all know we have been trying to get for some time.

Secretary STANS. Yes, sir. I am as anxious as you are, sir, to have it finished.

Mr. LANDRUM. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Corman.

Mr. CORMAN. Mr. Secretary, I take it you are relying heavily on improvement in our situation if we make changes in the escape clause. That is one of the things you are relying on very heavily to help us.

Secretary STANS. Well, I would believe that it might solve some portion of the problems we have. I am sure it is not going to solve all of them by any means.

Mr. CORMAN. When you are trying to decide whether or not an industry comes within the escape clause, assuming we change the definition, you rely heavily on the change in the word "major" to "primary," but I still haven't gotten clear in my mind some of the other kinds of problems besides imports that are going to be considered.

Secretary STANS. I am not sure that I could give you all of the circumstances that might be considered, but I think I could name some. For example, a company might be suffering from bad management. It might be suffering from failure to modernize. It may be suffering from lack of capital with which to operate.

It may be suffering from lack of a distribution system, a marketing system, and so forth.

All of these could cause a company's business to deteriorate, as many companies do who are not affected by imports particularly at all.

Mr. CORMAN. Are these the kinds of things that have caused companies who tried to come under the escape clause to fail?

Secretary STANS. These are among the things that have caused companies to lose market position and deteriorate. The purpose of the language in the escape clause, the use of the word "primary" or "substantial" as the case may be, is to distinguish the effects of import competition from the other circumstances that might exist.

Mr. CORMAN. Do we have some history, though, where companies tried to come within the escape clause and they failed because of this failure?

Secretary STANS. Yes.

Mr. CORMAN. I take it, the Commission decided that these other things were more than half of their problem; is that correct?

Secretary STANS. That is correct. Under the present requirement which requires that the major cause be excessive imports, the Tariff Commission on a number of occasions has found out that it is not the major cause and there are other causes.

Mr. CORMAN. At what point do you decide what kind of relief to give? I assume the kind of relief to be given will come after the decision that the firm or industry falls within the escape clause; is that correct?

Secretary STANS. Yes; after the Tariff Commisison has concluded that relief should be given, it is referred to the President to determine the steps to be taken.

Mr. CORMAN. It seems to me that there are two distinctly different kinds of relief. One would go as to tariffs or quotas, a relief which has to do with the foreign import, and the other is purely adjustment assistance.

My worry is: What is going to be in the mind of the Tariff Commission? We assume for the moment that it is a situation where they want to avoid giving relief that has to do with imports. Is that going to influence them in making a decision as to whether or not a firm or an industry falls within the escape clause?

Secretary STANS. The Tariff Commission, of course, has the responsibility of finding the facts and recommending to the President what might be done.

The President makes that decision. It can be either relief under the escape clause or adjustment assistance, or both.

In some cases, it may well be that we will find our best solution is using both methods.

Mr. CORMAN. You mentioned that the upright piano industry had been granted relief under the escape clause. Did I understand you correctly?

Secretary STANS. I didn't mention them; I mentioned sheet glass.

Mr. CORMAN. This morning you mentioned upright pianos.

Secretary STANS. Pianos have been; yes.

Mr. CORMAN. What kind of relief were they given? Was it adjustment or tariff relief?

Secretary STANS. I will ask Mr. Fox to answer that.

Mr. FOX. Certain concessions were made in the Kennedy round on upright pianos, Mr. Corman. The President stayed any further reductions in the Kennedy round tariff reduction beyond the 1969 rate.

At the same time, he authorized adjustment assistance. We have received in the Department of Commerce applications from several firms for adjustment assistance in the case of the manufacturers of upright pianos.

Mr. CORMAN. It was mentioned this morning that maybe some of these smaller industries that don't have quite the political strength that textiles do, might get left along the wayside.

One that came to my attention was cordage and twine. I understand there has been a substantial decrease in the percentage of domestic production in the last few years.

Would you comment on what the situation is in that industry?

Secretary STANS. I am not informed on that at the moment. I would be very happy to put a statement in the record on what the situation may be.

Mr. CORMAN. It is my understanding that the foreign imports account for about 88 percent of the present use of twine, and that that is a substantial increase, and rope, which is somewhat similar but which is under a quota system, has imports of about 28 percent.

A comment would be appreciated in that respect.

Secretary STANS. I will supply it for the record.

(The information requested follows:)

U.S. CORDAGE INDUSTRY

In 1967, the U.S. cordage industry was composed of approximately 165 establishments[1] half of which employed less than 20 employees. Of the 82 firms employing more than 20 persons, 35 were located in the South, 15 in the Middle Atlantic, 14 in New England, and 11 in the North Central region, and 7 were dispersed in the rest of the country. Between 1963 and 1967, the total number of establishments declined by 2, but the number employing 20 persons or more increased by 6 indicating a slight movement toward greater concentration of the industry.

Employing of production workers in the industry increased from 7,700 employees in 1963 to 8,600 in 1967 or about 12 percent. The value of shipments, however, increased from $149.3 million in 1963 to $187.5 million in 1967 or an increase of 26 percent.

[1] The latest year for which official production statistics are available.

Domestic production of cordage is concentrated in cotton, man-made fiber and hard fiber cordages.[2]

Cotton Cordage is produced by more than 70 plants at widely separated locations, with the heaviest concentration in the New England States. Cotton cordage is used mainly as cords and twines for commercial, farm and household uses. Some cords and twines are used in clothing, upholstery, draperies, curtains, and window shades. U.S. production is believed to have been variable during the sixties although about a 12 percent increase was recorded between the 1963 and 1967 census (see attached table). In 1964, exports accounted for 3.8 percent of production. Imports of cotton cordage increased from 65,000 pounds in 1964 to 85,000 pounds in 1967. The ratio of imports to apparent consumption is believed to have been declining and in 1967 is estimated at about 1.5 percent.

Tariff rates on all cotton cordage were reduced by one-third during the Kennedy Round, except for cotton cordage measuring 3/16 inch or over in diameter, which was not reduced. Imports of cotton cordage are subject to restraint under the provisions of the Long-Term Arrangement Regarding International Trade in Cotton Textiles.

Hard Fiber Cordage is manufactured in about 15 plants located in New York, New Jersey, Massachusetts, Louisiana, and California. Hard fiber cordage is made primarily of abaca, sisal, and henequen and is used as baler and binder twine, tying twines and cords, and rope.

U.S. production of hard fiber cordage has declined from 201 million pounds in 1958 to 125 million pounds in 1967. According to the Cordage Institute of the United States this trend has continued during 1968–69, reaching a low of about 75 million pounds. Exports of hard fiber cordage amounted to 1.5 million pounds or about 1 percent of production in 1964, the last year for which exports of this type of cordage are reported separately. Imports increased about 10 percent between 1964 and 1967 from 282 million pounds to 310 million pounds. Imports accounted for about 73 percent of apparent consumption of hard fiber cordage in 1967.

According to the Cordage Institute, domestic consumption of hard fiber rope has declined in the last five years from 70 million pounds in 1964 to 56.9 million pounds in 1969. Imports have increased from 13 to 16.4 million pounds while domestic commercial production fell from 56.8 to 40.3 million pounds. Domestic producers supplied 84.4% of the U.S. market in 1964 and 71.2% in 1969.

Imports of abaca rope are subject to an absolute quota of six million pounds on imports from the Philippines, the only major producer of abaca fiber. In the years 1946–61 this quota was not filled; it was filled during 1961–65 but not during 1966–69. The quota is scheduled to terminate in 1974.

The Cordage Institute reports that apparent consumption of hard fiber industrial twine has declined over the past five years from 50.7 million pounds to 35.3 million. Imports declined from 34.9 million pounds in 1964 to 31.1 million in 1969. Domestic production declined from 15.8 million pounds to 4.2 million during the same period. Domestic production accounted for 31.2 percent of the U.S. market in 1964 and only 11.9% in 1969.

Consumption of hard fiber agricultural twine has varied over the past five years according to the Institute. Consumption ranged from a high of 348.6 million pounds in 1966 to a low of 282.8 million in 1969. In the same period, the share of the market supplied by U.S. producers dropped from 24.3% to only 11.2%.

Man-made Fiber Cordage production by U.S. companies has been one of the principal reasons for the decline in U.S. consumption of hard fiber cordage. Synthetic cordage is manufactured by 50 producers with the heaviest concentration in the Northeastern States. Man-made fiber cordage is made principally from nylon, polypropylene, polyethylene, and polyester and is used for hawsers, felting cords, industrial and marine rope, and fishing and other twine. Man-made cordage generally has greater strength and durability than comparable natural fiber cordage, is lighter, and is more resistant to rot and mildew. It has been estimated that one pound of synthetic cordage replaces from three to four pounds of natural fiber cordage, although this replacement factor is extremely difficult to quantify.

Domestic production of man-made fiber cordage more than doubled between 1963 and 1967, rising from 22.0 million pounds to 50.9 million pounds. Imports of

[2] Jute and other soft fiber cordages accounted for about 14 percent of U.S. production in 1967. Imports of these cordages declined somewhat between 1963–67.

man-made fiber cordage increased sharply during this time but were still insignificant (less than 0.5 percent) in comparison to domestic shipments.

Table "A" attached shows United States Producers' Shipments of Cordage and Twine during 1963 and 1967, and U.S. imports of cordage and twine for 1964 and 1967.

Tables 1 through 8 show comprehensive data on U.S. general imports of cordage from 1964 through March 1970.

Attachments

CORDAGE: U.S. PRODUCERS' SHIPMENTS AND U.S. GENERAL IMPORTS

[In thousands of pounds]

	U.S. producers shipments		U.S. imports	
	1963	1967	1964	1967
Cotton	57,200	64,000	65	85
Manmade fibers	22,200	50,900	43	223
Hard fibers	153,400	124,900	281,696	310,315
Jute	20,500	34,500	5,515	4,629
Other soft fibers	4,600	3,900	1,379	1,063
Total	257,900	278,200	288,702	316,315

Source: U.S. Department of Commerce.

CORDAGE, OTHER THAN COTTON, WOOL, OR MANMADE FIBERS

U.S. GENERAL IMPORTS FROM SELECTED COUNTRIES, 1964 TO MARCH 1970

[In thousands of pounds]

Country of origin	1964	1965	1966	1967	1968	1969	Y/E March 1970
Mexico	128,549	115,691	98,668	99,064	79,591	86,273	90,106
Portugal	51,055	52,176	70,129	63,681	62,722	62,986	70,624
Netherlands	22,796	24,135	34,246	27,969	30,810	24,765	26,634
Brazil	4,152	5,251	15,058	15,325	14,069	20,959	23,518
Haiti	8,867	3,889	----------	2,929	13,684	9,470	19,433
Tanzania	----------	437	2,562	15,670	18,756	18,739	18,950
Belgium	9,770	12,615	16,684	17,364	14,203	13,985	13,790
Canada	25,424	42,722	37,437	25,121	18,275	14,053	13,399
Denmark	14,463	10,914	13,656	11,937	13,107	12,289	12,405
Mozambique	----------	----------	----------	2,291	8,638	13,608	12,227
Republic of South Africa	3,330	4,145	2,518	4,119	8,843	8,341	8,740
United Kingdom	7,696	10,563	9,072	7,396	6,300	5,681	6,134
Philippine Repbulic	6,203	6,145	5,787	5,891	5,553	5,131	5,310
West Germany	625	1,706	564	2,080	1,576	855	969
Total, above countries	282,930	290,389	306,381	300,837	296,127	297,135	323,239
Total, other countries	5,664	5,344	19,264	15,170	13,275	6,082	7,715
Total, all countries	288,594	295,733	325,645	316,007	309,402	303,217	330,954

CORDAGE, OF HARD (LEAF) FIBERS[1]

Mexico	128,549	115,691	98,668	99,063	79,586	86,273	90,106
Portugal	48,649	50,349	67,756	61,866	60,302	60,842	68,258
Netherlands	22,774	24,134	34,236	27,961	30,798	24,758	26,630
Brazil	4,152	5,251	15,058	15,325	14,069	20,959	23,517
Haiti	8,867	3,889	----------	2,929	13,684	9,470	19,433
Tanzania	----------	437	1,152	15,670	18,756	18,739	18,950
Belgium	9,550	12,414	16,488	16,893	14,083	13,872	13,662
Canada	25,415	42,719	37,435	25,118	18,275	14,053	13,396
Mozambique	----------	----------	----------	2,291	8,638	13,608	12,227
Denmark	13,344	10,849	13,427	11,693	12,894	12,029	12,193
Republic of South Africa	3,330	4,145	2,518	4,119	8,843	8,341	8,385
Philippine Republic	6,203	6,145	5,782	5,886	5,553	5,131	5,310
Total, above countries	270,833	276,023	292,520	288,814	285,481	288,075	312,066
Total, other countries	10,863	13,737	26,575	21,501	19,532	10,705	14,237
Total, all countries	281,696	289,760	319,095	310,315	305,013	298,780	326,303

CORDAGE, OTHER THAN COTTON, WOOL, MAN-MADE FIBER, HARD FIBERS, COIR OR JUTE

Italy	635	632	716	554	566	514	556
West Germany	255	234	178	129	191	368	370
United Kingdom	251	259	64	46	55	147	130
Belgium	89	119	113	129	104	99	115
Denmark	96	50	75	69	62	32	32
Total, above countries	1,326	1,294	1,146	927	978	1,160	1,203
Total, other countries	44	52	76	118	77	28	42
Total, all countries	1,370	1,346	1,222	1,045	1,055	1,188	1,245

[1] Includes abaca, hennequen, sisal, etc. (TSUS 31505–31560).

Source: Office of Textiles, Trade Analysis Division, May 21, 1970.

U.S. GENERAL IMPORTS OF CORDAGE, OTHER THAN COTTON, WOOL OR MANMADE FIBERS 1964–70

[In thousands of dollars]

Description	1964	1965	1966	1967	1968	1969	Year ending March 1970
Hard fibers	53,787	46,377	43,473	39,251	35,400	32,963	34,757
Coir	2	41	9	4	3	1	3
Jute	1,075	915	1,096	971	730	718	762
Other vegetable fibers	742	685	598	508	526	732	749
Silk					1		
Other	1	(1)	5	1	8	7	4
Total	55,607	48,019	45,180	40,735	36,667	34,419	36,276

[1] Less than $500.

U.S. GENERAL IMPORTS OF CORDAGE (TSUSA NOS. 3150500–3167000)

[In thousands of dollars]

	1964	1965	1966	1967	1968	1969	Year ending March 1970
Cotton	19	3	1	15	165	42	242
Wool					2		1
Manmade fiber	48	51	128	171	192	221	273
Other	55,607	48,019	45,180	40,735	36,667	34,419	36,276
Total	55,674	48,072	45,309	40,921	37,025	34,682	36,792

CORDAGE OF COIR AND JUTE, U.S. GENERAL IMPORTS FROM SELECTED COUNTRIES 1964–70

[In thousands of pounds]

Country of origin	1964	1965	1966	1967	1968	1969	Year ending March 1970
Portugal	2,406	1,827	2,342	1,762	2,382	2,145	2,366
Pakistan				299	202	408	337
Japan	2,405	2,050	2,418	1,717	412	256	264
Denmark	131	15	153	175	151	227	181
United Kingdom	512	300	239	254	72	95	102
Republic of So. Africa							85
West Germany							14
Total, above countires	5,454	4,192	5,152	4,207	3,219	3,131	3,349
Total, other countries	74	435	176	440	115	119	58
Total, all countries	5,528	4,627	5,328	4,647	3,334	3,250	3,407

U.S. GENERAL IMPORTS OF CORDAGE (TSUSA NOS. 3150500-3167000)

[In thousands of pounds]

	1964	1965	1966	1967	1968	1969	Year ending March 1970
Cotton	65	1	1	85	83	104	105
Wool					(1)		(1)
Manmade fiber	43	40	143	223	280	294	378
Other	288,594	295,733	328,645	316,007	309,402	303,217	330,954
Total	228,702	295,774	325,789	316,315	309,765	303,615	331,437

[1] Less than 500 pounds.

U.S. GENERAL IMPORTS OF CORDAGE, OTHER THAN COTTON, WOOL OR MANMADE FIBERS, 1964-70

[In thousands of pounds]

Description	1964	1965	1966	1967	1968	1969	Year ending March 1970
Hard fibers	281,696	289,760	319,095	310,315	305,013	298,780	326,303
Coir	13	294	42	18	12	5	20
Jute	5,515	4,333	5,285	4,629	3,322	3,245	3,387
Other vegetable fibers	1,366	1,345	1,217	1,405	1,052	1,185	1,243
Silk					(1)		
Other fibers	4	(1)	4	(1)	3	3	2
Total	288,594	295,732	325,643	316,007	309,402	303,218	330,955

[1] Less than 500 lbs.

Source: TQ 2510.

Mr. CORMAN. You mentioned that aircraft is one of the areas where we still have a favorable balance. I assume that within the next few months, or at most, years, there is going to be a substantial change in the kinds of airplanes that move most of the people around.

There are certainly a lot of foreign carriers that will be in a position to buy planes. Can you give us some idea of what your Department is doing to assist the domestic producers of the large transport planes in trying to meet the foreign competition? This is a growing industry abroad, as I understand it.

Secretary STANS. We are working regularly on these transactions involving foreign airplanes and working very closely with the Export-Import Bank.

Most of these transactions, in fact, I think, almost all of them, depend upon partial financing. The Export-Import Bank carries the basic responsibility for seeing that financing is available.

We in the Department of Commerce, among other things, are co-managers of the Paris Air Show each year in which American planes are exhibited in competition with all the other planes in the world.

Whenever possible, we assist in negotiations with the foreign countries on these matters, as do some of the other Government departments. We are very keenly aware of the necessity of maintaining a predominant position in world markets for American aircraft.

There is competition, but so far we have maintained a technical superiority and we hope that we can maintain it.

Mr. CORMAN. Are we faced with any nontariff barriers in this field that we have faced in other things, such as automobiles?

Secretary STANS. I think Mr. Fox might answer that. He has some observations on it.

Mr. FOX. Yes; I would say that we do face nontariff barriers at times in the sale of our aircraft. As you know, Mr. Congressman, in many instances, foreign governments own their airplanes, and there have been cases where a foreign government-owned airline has been given guidance by that government to purchase aircraft manufactured by an airframe manufacturer in that country.

I think that is in the nature of a nontariff barrier. We have protested such interference in the market conditions for the sale of U.S. aircraft. It is one of the items that we have notified as a nontariff barrier in the GATT discussions, in preparations for NTB negotiations.

Mr. CORMAN. Are we in a position to protect ourselves in any way by what we do in the way of importing aircraft parts, I suppose primarily engines, to have something that we might do to assist our own aircraft industry?

Mr. FOX. I would observe that the American airframe manufacturers are keenly competitive, one against the other, for these contracts.

At times, foreign governments will urge coproduction agreements on the American manufacturers. In other words, they will say, "We will buy your aircraft, Company *x*, provided you buy the electronics for that aircraft in our country."

Well, of course, our Government wants to interfere in commercial considerations like that as little as possible, but I do say it is complex and the purchase of parts and equipment is a private, commercial matter.

It is one of the difficulties of operating trade negotiations when individual firms must pursue their own self interest.

At times, the interest of one American firm is served by one particular solution, and a different solution might favor another. But if we can get the governments to stay out of the marketplace and let the aircraft and their parts be sold on purely commercial considerations, we will achieve the objective that we are trying to do with respect to the NTB negotiations.

It is the requirement of the GATT that market conditions prevail and that governments not intervene in the marketplace in this type of commercial transaction.

Mr. CORMAN. Mr. Secretary, we have a peculiar problem in the filmmaking industry. It doesn't lend itself to the same solutions that fit other kinds of production. You are probably aware of the fact that a great number of countries offer substantial subsidies to induce American filmmakers to make their films in foreign countries.

I wonder, if you are aware of this problem, if you would comment on any possible solution? We are exporting a substantial amount of employment because of those foreign subsidies.

Secretary STANS. I think there are a great many countries in the world that impose quotas on the showing of American films, and in some cases, they modify their quotas if the American film companies find it possible to make films in their countries.

This is also a nontariff barrier and we have notified the GATT of it. But up to now, we have not been able to accomplish any significant improvement in the situation.

Mr. CORMAN. Is an outright cash subsidy a violation of GATT?

Secretary STANS. Yes; it is.

Mr. CORMAN. I am trying to remember the phrase that the English have for a whole taxing system which goes to subsidize filmmaking in their country.

Mr. FOX. Mr. Congressman, one of the difficulties with nontariff barriers, and it is particularly difficult in the case of subsidies, is to determine the effect. If the subsidy is to build up a domestic industry, that is presumably within the prerogatives of any government, and if the country wants to have a film industry, it can do so.

However, if the subsidies are directly related to exports and they constitute export subsidies within the meaning of the GATT, then, of course, that is prohibited and, of course, the problem is one of fact, motivation and determination of the impact of the subsidy.

It is one of the important activities underway in the GATT, for it circumscribes the rules under which subsidies may be used so as to affect exports and imports.

Mr. CORMAN. I conclude that we don't have any relief from runaway films so far as GATT is concerned. It is the Edie plan, in Britain. That probably doesn't violate GATT.

Mr. FOX. It is possible that certain relief can be given. In the case of the United Kingdom, the principal problem we have observed relates to TV time, how much time will the British broadcasting authorities accord to imported films. Frankly, we have made some progress in that respect and will have to continue it.

But each country, naturally, regards the TV as a national medium, and I think it is an area where negotiations could be presumed to take quite a while before we are all entirely satisfied with the result.

Mr. CORMAN. I think we have a peculiar kind of problem. As I say, the customary solution we are talking about in the way of tariffs and quotas does not precisely fit the filmmaking industry.

If you or Treasury could help us find some solution to that problem it would mean a tremendous amount of employment and the generation of taxes in this country.

Mr. FOX. So far, the principal areas of success have been to permit a freer remission of the profits to the United States which, of course, go to the filmmakers here and they can use for various purposes of new film production here.

The allocation of time for TV is a difficult question and, of course, it is really in the nature of a quota. That is what it amounts to. It is not applied directly to imports, but the effect can be the same.

This is one of the subjects that we have in the GATT. I personally do not look for quick or easy solutions in that field.

Mr. CORMAN. In the automobile industry, as the chairman mentioned this morning, we are getting a flood of automobiles with almost a lawnmower motor. But, apparently, a lot of people want that.

I am wondering why our American auto industry has never been able to build one competitively. Apparently, the Japanese, the Germans, the Bavarians, and a lot of other people are vigorously competing with each other.

But I don't see anything on the horizon to indicate that the American auto industry is anticipating entering that field.

Secretary STANS. As you know, some years ago when foreign imports of automobiles became very large, the American companies built compact automobiles and that slowed down the trend of imports and we regained a larger portion of the market.

However, as time went on, the compacts were upgraded to the point where the imports have now taken over again a larger proportion of the market.

One of the reasons, obviously, is that in some of the countries, particularly Japan, the costs of manufacture are substantially lower because of the lower labor cost. However, the U.S. industry recognizes the present situation and each of the major companies is now engaged in selling or about to sell new models of so-called minicars or small cars to compete with imports. They expect that they will be able to regain a percentage of that market from the foreign producers.

Mr. CORMAN. I just wondered. For instance, in Germany, are labor costs enough different that it has given them an edge or is it really just a matter of their having built a better mousetrap so far as the American consumer is concerned?

Secretary STANS. There is a combination of things that enter into this. To a degree, the American consumer has always been interested in the idea of buying an imported item. Perhaps that is more true in the case of ladies' style items than it is in automobiles, but some people like the idea of an imported car.

Labor is a very important part. And, of course, they have a substantially equivalent technology. At times, they can come up with ideas which are more effective than some that we use. Of course, the success of one of the most important cars, the Volkswagen, is due primarily to the money they save and the lower price at which they can produce as a result of not changing models from year to year.

The American companies have decided that American tastes want a change in models. But some of the foreign cars tend to disprove that by their success.

So there are a great many elements that enter into it. I am somewhat hopeful that the new, small cars by the American motor companies will make it possible for them to regain some of the market they have lost.

Mr. CORMAN. Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Secretary, we do thank you and those at the table with you for your very interesting testimony and fine responses to our questions. We appreciate it very much.

(On June 25, 1970, Secretary Stans reappeared before the committee and gave further testimony. This testimony will be found on p. 4417, pt. 10.)

The committee will suspend until we answer a quorum call.

The Secretary of the Treasury will be the next witness.

Secretary STANS. Thank you, Mr. Chairman.

(Whereupon, a brief recess was taken.)

The CHAIRMAN. The committee will please be in order.

Our next witness this afternoon is the Secretary of the Treasury, the Honorable David M. Kennedy. We appreciate having Mr. Kennedy with us.

You have others at the desk. If you will please introduce them for the record, Mr. Secretary.

STATEMENT OF HON. DAVID M. KENNEDY, SECRETARY OF THE TREASURY; ACCOMPANIED BY PAUL A. VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS; JOHN S. NOLAN, ACTING ASSISTANT SECRETARY FOR TAX POLICY; EUGENE T. ROSSIDES, ASSISTANT SECRETARY FOR ENFORCEMENT AND OPERATIONS; ROBERT J. PATRICK, ASSOCIATE TAX LEGISLATIVE COUNSEL (INTERNATIONAL); AND JOHN R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

Secretary KENNEDY. I am pleased to be here to appear with you today. I have with me the Under Secretary for Monetary Affairs, Mr. Paul A. Volcker, Assistant Secretary John R. Petty, and the Acting Assistant Secretary for Tax Policy, Mr. John S. Nolan; and Mr. Eugene T. Rossides is Assistant Secretary for Enforcement and Operations.

Mr. NOLAN. And Robert J. Patrick, Jr., Associate Tax Legislative Counsel (International).

The CHAIRMAN. You are well supported, Mr. Secretary. You are recognized.

Secretary KENNEDY. As I indicated, I am pleased to appear today to discuss certain elements of the administration's trade policy and to support H.R. 14870, the proposed Trade Act of 1969. In addition, my associate, John S. Nolan, Acting Assistant Secretary for Tax Policy, is prepared to present to you in some detail a specific proposal covering our tax treatment of export income.

The CHAIRMAN. Did I hear you say you were appearing on a matter of trade and not of taxes?

Secretary KENNEDY. I am going to get into the question of taxes. In addition, Mr. Nolan is prepared to present to you in some detail a specific proposal covering our tax treatment of export income.

The CHAIRMAN. It is only a limited tax proposal you are seeking?

Secretary KENNEDY. Very limited, Mr. Chairman.

This proposal is designed to provide tax treatment of export income more comparable to that provided other foreign source income and more in accord with the competitive realities of world markets.

The United States has provided leadership throughout the postwar period for liberal trading and investment practice. The essence of that policy has been to work toward the removal of tariff and other restrictions on trade on an evenhanded and reciprocal basis. We have done so in the firm belief that expansion of international trade and investment under fair competitive conditions is in the interest of all nations.

I believe we can take pride in achievements of the past, particularly in the reduction of tariffs. Our basic approach remains sound. At the same time we must recognize that, with tariff barriers already substantially reduced, dramatic new breakthroughs are less likely in that area. Our attention must shift increasingly to other barriers to trade—equally real but often less easy to identify and measure. We must also be alert to the hardships and adjustments enforced on particular industries or sectors in response to shifting trade patterns. Otherwise, past accomplishments will be undermined, and we will not be able to maintain forward momentum against the challenge of those who would seek other solutions to their problems—solutions that look inward to unilateral protective measures in one form or another.

H.R. 14870 would provide the administration with the minimum tools it needs to maintain forward progress, while protecting the legitimate interests of American business and labor. The Special Representative for Trade Negotiations has discussed the specific provisions of that bill in some detail. I would like, briefly, to note the relationship between our approach to trade policy and our broad international economic situation.

Our international balance of payments remains unsatisfactory. This is true despite the fact that during 1969 we achieved some growth in our international reserve assets—that is our holdings of gold and foreign currencies, as well as creditor position in the IMF. At the beginning of this year, these assets were further supplemented by the first allocation of special drawing rights. Moreover, foreign official dollar holdings have declined significantly below peak levels. In each of the past 2 years, we have recorded some surplus in our official settlements accounts, in a cumulative amount of about $4½ billion.

However, it must be recognized that these shifts in our financial position were primarily a reflection of extremely tight money in the United States. The high-interest rates and shortage of funds in our markets attracted a huge influx of short-term money from abroad. This influx of short-term funds cannot continue indefinitely. Indeed, in 1970, there has already been some reversal. This has contributed, at least temporarily, to a sizable deficit in our external accounts during the early months of the year.

In these circumstances, a new emphasis needs to be placed on developments in the more basic elements of our international accounts. Our trade position is of central importance in this respect. The heart of our present balance of payments problem lies in the fact that, largely under the pressure of internal inflation and overheating, our traditional trade surplus has dwindled away. Standing at about $6½ billion in 1964—roughly 1 percent of our then GNP—our trade surplus declined to less than $1 billion in both 1968 and 1969. Paralleling this drop in our trade balance, our surplus on all goods and services—despite a steady increase in income on foreign investments—has also decreased.

Rebuilding this surplus must be a prime policy objective. There is no other way in which, over a period of time, we can provide the rest of the world with the real goods and services necessary to support our investment activities and international obligations. Moreover, we must restore our trade and current account surplus in a manner fully consistent with our key position in the world economy, and with the rule of the dollar as the preeminent world reserve and trading currency.

In meeting this challenge, the path of restrictionism is not really open to us, not just as a matter of economic philosophy, but also for very practical reasons. Restrictions which are unfair and unacceptable to our trading partners invite retaliation. Thus no benefit to our trade position is achieved, and spreading restrictions would damage our prospects for regaining a substantial surplus through competitive processes. Moreover, I believe we should recognize that freedom to import is one of the most effective possible checks to domestic inflationary pressures. We cannot expect to maintain a competitive industry at home behind a succession of import barriers.

Conversely, as we reap the benefits of our current policies to restrain internal inflation, one consequence will be an improved international trade position. We see evidence of this already. In the first quarter, our trade surplus was about $500 million, almost as much as during all of 1969. This is encouraging, but we have a long distance to go in in achieving and maintaining a surplus in the magnitude we need.

Better economic performance over a series of years is essential to that effort. But, in addition, the administration is undertaking a concerted effort to induce and support efforts of industry to seek out and better develop foreign markets. One major element in that effort is to assure competitive export credit facilities. At the same time, we in the Treasury have reviewed thoroughly the implications of our tax structure for the exporting effort.

Specifically, we have appraised such factors as the tax treatment of exporters in other countries, the tax treatment of export income under U.S. law as compared to other foreign source income, and the question whether the U.S. tax structure does not inadvertently contribute to an attitude among many American producers that export markets are of secondary interest, not worth concerted and aggressive effort over a period of years.

This examination has led to the conclusion that, in some respects, our tax system does tend to create an unnecssary drag on exports and actually gives some incentive to manufacturing abroad rather than in the United States. Accordingly, we have developed a proposal for a Domestic International Sales Corporation (DISC). We believe this proposal provides a more equitable and satisfactory basis for the taxation of export income. Essentially, it would permit a company, within prescribed rules, to defer income taxation on exports sold through a domestic export subsidiary. The proposal builds upon and modifies certain existing provisions of U.S. tax law that, in practice, have not been fully effective. It is consistent with international practice and obligations.

Specifically, the DISC proposal recognizes that export income is partly foreign source income, just as income from foreign subsidiaries is foreign source income. This principle that export income may in substance include foreign source income has long been recognized in our tax code, and it has long been a provision of the tax code of other countries. Where this sound tax philosophy has gone astray in the operations of our tax system is that the tax deferral of retained earnings available on foreign investment income can only be obtained on export income through creating a foreign-domiciled sales subsidiary, which many companies find awkward and impractical. Foreign source income may appropriately be determined by the real place of sale, and the destination of the goods; the domicile of the corporate vehicle through which the sale is passed is a matter of incidental significance.

We believe that this approach is consistent with the basic philosophy of the U.S. tax system.

The committee has before it another bill, H.R. 13713, that would approach the problem from an entirely different direction, providing a rebate to the exporter for taxes directly or indirectly borne by articles exported. I recognize that elements in this approach bear some similarity to the GATT-sanctioned practices of many foreign countries providing a rebate to their exporters for valued-added taxes. It would

however, raise a number of issues that have not been satisfactorily resolved internationally. In the circumstances, other countries could well institute comparable provisions related to similar taxes where no rebate is now provided. Moreover, the revenue cost would be substantial. For example, if the rebate should work out to roughly 4 percent, the loss would probably approach $1 billion or more.

It must be recognized that our own proposal, by deferring income taxes on a large volume of exports, would also entail a significant revenue loss. I cannot ignore that impact, in the light of our present budgetary position. Consequently, fiscal responsibility requires that the effective date for action in this area be delayed beyond fiscal 1971 to July 1, 1971.

The estimated revenue impact for the first full year—under our proposal, fiscal 1972—is expected to approximate $450–$600 million. This revenue impact will, of course, need to be taken into account in shaping our overall budgetary program for that period.

The impact on exports would develop through several channels. Most directly, the tax deferral would increase the profitability of exporting. In many instances this should induce more effective promotional efforts or other measures to compete more effectively. Perhaps more important over time, basic decisions on the location of new investment facilities at home or abroad would be affected, and companies would be encouraged to develop long-range export strategies. Indeed, I believe this shift in taxation would help signal to industry that improved expert performance is a national objective of high priority; it would help build the consciousness and attitudes toward exports that this country has been sorely lacking.

In our judgment, the effective of removing the bias against exports in our tax system in the manner proposed should be to generate over time a level of exports a billion dollars or more greater than might otherwise develop.

In summary, we consider the DISC can be an effective companion piece to our liberal trade policy. It is an outward-looking measure, resting on a desire to remove impediments to competing more effectively. It can be a part of an effective approach to our entire balance-of-payments problem, and it is an approach that accepts competitive imports as a factor in our battle against inflation.

At the same time, we must face the fact that, in the light of fiscal requirements, the effective date should be deferred. We urge that this proposal receive your careful consideration in the light of all these factors.

Mr. Chairman, Mr. Nolan has a rather long statement explaining in some detail, and we can take questions now or afterward.

The CHAIRMAN. Let's let Mr. Nolan present his statement. I think we need to get a full picture before we begin interrogating.

Mr. NOLAN. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before this committee to describe our Domestic International Sales Corporation (DISC) recommendation. We make this recommendation because the U.S. tax system presently results in an income tax disadvantage to U.S. export sales as compared to foreign production of subsidiaries of U.S. companies, or of foreign-owned companies. At a time when the United States is making every effort to improve its balance of trade, this

disadvantage should be removed. The DISC proposal provides for deferral of U.S. tax for a domestic corporation engaged in export sales similar to that presently provided for foreign manufacturing subsidiaries of U.S. companies. This recommendation for providing greater equity in the U.S. tax treatment of export income to the extent it constitutes foreign source income is sufficiently related to the foreign trade position of the United States that it deserves your consideration at the present time.

While income tax factors are important, we recognize that economic factors often tend to favor local production in or near the market in which the products are being sold. Over the last 20 years we have witnessed a constantly increasing degree of manufacturing abroad by U.S. companies. In many cases, for a variety of political and economic reasons, such local production may be the only means of competing effectively in certain markets. U.S. tax policy can and should, at best, have only a limited effect on such decisions. On the other hand, the U.S. tax laws themselves have treated export sales much less favorably than foreign manufacture and thus have compounded the emphasis on foreign production. This inequity in our tax laws can and should be remedied.

We should compare U.S. tax rules with those of many of the developed countries of the world which base their tax jurisdiction on territorial concepts and defer their tax on export income or exempt such income from tax, to a greater or lesser extent. In addition, many countries have special tax rules which effectively promote export activity such as extraordinary reserve allowances on export sales and greatly accelerated depreciation of export assets. In contrast, the United States taxes currently and, with the exception of the Western Hemisphere Trade Corporation concept, fully, the income from any export sale by a domestic corporation because the corporation is incorporated in the United States.

In 1962, legislation was enacted to tax currently U.S. shareholders on certain passive income (such as dividends, interest, and royalties) and on certain sales and services income earned by controlled foreign subsidiaries. Several important exceptions were made. The so-called subpart F rules do not apply to a foreign sales subsidiary which sells principally in its country of incorporation. Second, the Export Trade Corporation exception in section 970 of the Internal Revenue Code provides specifically for limited deferral of income earned by a foreign corporation selling U.S. export production. In retrospect, it seems strange that such deferral should be available only to a foreign corporation and not where export sales are made directly by a U.S. corporation.

Third, section 963 allows in effect full U.S. tax deferral of low-taxed income of a foreign sales company where pursuant to a so-called "minimum distribution" election such income is averaged with higher taxed income from foreign manufacturing activities of the same controlled group if the average effective foreign tax rate reaches 90 percent of the U.S. tax rate. In a real sense, the only U.S. exporters who benefit from such deferral are those who also have substantial investments in foreign manufacturing facilities and thus can achieve this complex averaging effect.

In view of these limitations on deferral, the only way most U.S. manufacturers are able to obtain the benefits of full deferral of the U.S. tax is to form a foreign corporation to manufacture or sell abroad. The income from the sale of goods manufactured by foreign corporations owned by U.S. shareholders is not taxed by the United States until such income is distributed to the shareholders (or the stock of the subsidiary is sold). Until distribution (or the sale of the stock), the only applicable income taxes are foreign taxes, and these may be imposed at a level below the U.S. level or may be completely waived, especially on exports.

This existing U.S. tax treatment of foreign source income inherently involves a bias in favor of our largest corporations. Through their extensive foreign structures, they are frequently able to use the foreign tax credit, either with or without minimum distribution elections, to reduce their U.S. tax liability on export earnings. To the extent this is being achieved under present law, the tax deferral effect of the DISC proposal would not involve a revenue loss through a postponed receipt. We do not have adequate data at this time to determine the extent to which the foreign tax credit presently serves to shield export income from U.S. tax, but we believe it to be significant. The more important point, however, is that the DISC would work more in favor of companies without existing large foreign structures and extensive foreign tax credits.

Accordingly, the DISC will provide equivalent opportunities for tax deferral for foreign source income, to the extent this income arises from export sales, for smaller corporations, and for corporations newly entering the export market or expanding their export sales. This additional equity of tax treatment as between our largest corporations and U.S. business in general is an important feature of the administration's proposal.

Some would say that the remedy to the inequities we describe is simply to remove the deferral on all foreign earnings of U.S.-controlled businesses and tax it currently. Such a response clearly acknowledges the inequities we describe. It also overlooks some critical facts. The foreign-owned competitors of the U.S. businesses in the world markets are generally not subject to such an all-embracing concept of taxation by their home countries. To the contrary, the territoriality principle of the tax systems of the majority of industrialized countries exempts foreign source earnings, so that their companies operating abroad are able to enjoy the full advantage of tax holidays and reduced corporate rates, whether directly or through greatly accelerated depreciation allowances or other special tax allowances or inducements.

Our studies show that the average effective foreign tax rates are generally below our U.S. effective corporate rate. For 1964, the effective foreign tax rate on all foreign subsidiary operations of U.S. businesses was approximately 38.6 percent. Our U.S. companies presently achieve deferral on the difference between the foreign tax level and the U.S. tax level with respect to the earnings of their foreign subsidiaries, and thus pay no more tax on a current basis than their competitors. However, virtually every foreign country imposes a withholding tax on dividends. If the United States were to impose its taxes on the earnings of U.S.-controlled foreign subsidiaries on a current basis, these

subsidiaries would surely remit their earnings in dividends to be certain of obtaining the foreign tax credit for the withholding taxes on dividends. Earnings needed in the businesses of the foreign subsidiaries would then be returned as capital contributions or loans.

These withholding taxes would largely offset the residual U.S. tax through the foreign tax credit. The net effect would be an increase in the current foreign taxes collected from U.S. businesses with little, if any, additional U.S. tax. Thus, the position of the U.S. businesses in the world market would be prejudiced.

We think it is not wise as a matter of sound national tax policy to affect adversely the competitive position of our companies by neutralizing their opportunities to benefit from lower levels of foreign tax in countries in which they have substantial operations and which are enjoyed by their competitors. This, of course, would be precisely the effect of extending our own corporate tax to all foreign source income of U.S. businesses. The existing structure provides for deferral of the U.S. tax until dividends are paid. The payment of such dividends reflects the fact that the foreign earnings are no longer needed in the foreign operations. This is a sound system and is equally sound for export earnings.

Thus, the basic purpose of the DISC proposal is to remove inequities in our present system in the tax treatment of export earnings. I will now outline the main features of the proposal.

1. BASIC PROVISIONS

The Internal Revenue Code would be amended to provide for a new category of domestic corporation to be known as a domestic international sales corporation (DISC). The U.S. tax on the export income derived through such a corporation would be deferred as long as it is either used in the corporation's export business, is invested in "export-related assets" of the DISC, or is invested in "Eximbank paper," and thus is not distributed to the DISC's shareholders. "Export-related assets," which is a term of art for this purpose, would include loans to manufacturers, including the DISC's U.S. parent company where the DISC is a subsidiary, to finance investments in U.S. plant, equipment, and machinery, inventory, and research and development to the extent these investments are deemed export related. The manufacturer's total investments for any of these purposes would be treated as export related in the same ratio as the manufacturer's sales destined for export bear to total sales.

In order to qualify as a DISC, a corporation would be required to confine its activities almost entirely to export selling and certain related activities. A DISC could have foreign sales branches and its own foreign sales subsidiaries where such branches and subsidiaries are engaged in the sale of U.S. exports. The DISC could not engage in manufacturing or invest in or finance foreign manufacturing activities except to a very limited degree in direct support of its U.S. export sales activities.

A DISC could sell the products of any domestic manufacturer (purchased from, or sold on behalf of, the manufacturer of another DISC) and could sell them to any foreign purchaser for a foreign destination, whether or not related. While foreign permanent establishments of U.S. persons would be treated as foreign purchasers, this rule would

not apply to sales to the U.S. Government for foreign use. The relationship of the DISC proposal to trade effected under the Canadian Automobile Agreement is being examined.

Although some complexity will be inherent in defining an entity entitled to the tax status of a DISC, we intend to simplify tax concepts applicable to export activity to the maximum degree possible. For example, a destination test for export sales would be substituted to reduce the complexities of the present passage of title test.

2. QUALIFICATION AS A DISC

In order to qualify as a DISC, a domestic corporation would be required to meet a gross receipt test and an assets test. It would also be required to distribute currently interest received on investments in "export-related assets." To achieve recognition as a DISC, the only requirements would be an equity capital investment of $2,500 or more, a ratio of indebtedness to related companies not in excess of five times the equity capital, and an appropriate election.

To meet the gross receipts test, at least 95 percent of the DISC's assets would be required to be used in its export business or be in the form of export-related assets or Eximbank paper. To prevent inadvertent disqualifications under either of these tests, we will provide that if any income derived from nonqualified receipts or any nonqualified assets are timely distributed by a DISC, such receipts or assets will not be taken into account for purposes of the 95 percent gross receipts and the 95 percent assets tests.

The following would be treated as giving rise to qualified gross receipts:

(1) Export sales of goods manufactured, produced grown or extracted in the United States by persons other than the DISC and sold by the DISC either on a purchase or resale basis or as a commission agent;

(2) The leasing or rental of U.S. export property;

(3) The performance of services by the DISC ancillary to its sales or leases;

(4) Interest on credit extended to export customers in accordance with normal commercial practices;

(5) Interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper;

(6) Interest and dividends from foreign sales subsidiaries engaged in marketing U.S. exports, including foreign packaging and limited assembly operations;

(7) Interest and dividends from limited investments in unrelated foreign corporations made in furtherance of export sales, such as a loan to a foreign distributor;

(8) Interest on investments in export-related assets, including loans to U.S. manufacturers, whether or not related to the DISC, to finance investments related to export production;

(9) Gains on the sale of assets used to produce export receipts;

(10) Interest on deposits in the United States with persons carrying on the banking business provided the deposits are temporary—that is, any deposits as of the last day of the taxable year—other than working capital used in the export business—must be invested in other qualified

assets within the time prescribed for the filing of the DISC's return for such taxable year; and

(11) Other transactions and activities directly related to exporting of U.S. products as designated by the Treasury Department in regulations.

Qualified assets would include assets used by a DISC in its export business—that is, assets giving rise to export receipts—investments in export-related assets, temporary deposits in U.S. banks, and investment in Eximbank paper. Among the assets which would in all events be treated as used by a DISC in its export business or as qualified assets are:

(1) Obligations of export customers received on sales in accordance with normal commercial practice;

(2) Other working capital used in its sales or commission business;

(3) Export property held for lease;

(4) Assets of foreign sales branches handling U.S. exports;

(5) Obligations issued, guaranteed, or insured by the Export-Import Bank and certain other similar paper;

(6) Stock or securities in foreign sales subsidiaries engaged in marketing U.S. exports, including foreign packaging and limited assembly operations;

(7) Stock or securities in unrelated foreign corporations made in furtherance of an export sale or sales;

(8) Obligations representing loans to domestic producers to finance export-related assets;

(9) Temporary deposits in the United States with persons carrying on the banking business; and

(10) Other assets directly related to the U.S. exporting as designated by the Treasury Department in regulations.

The third basic requirement for qualification as a DISC is the distribution by the DISC as a dividend within 9 months after the close of its taxable year of interest received on investments in export-related assets—loans to manufacturers—and on temporary deposits in U.S. banks in excess of normal working capital requirements. The stockholders of the DISC receiving such dividends are subject to full corporate or individual income tax on the distribution, as the case may be.

3. TAX TREATMENT OF DISC INCOME

So long as the domestic corporation continues to qualify as a DISC, U.S. tax would not be imposed on its current or retained export earnings, which would include dividends and interest from its qualified foreign subsidiaries. Upon a dividend distribution or the liquidation or sale of the shares of the DISC, its retained export earnings would be taxed to its shareholders as ordinary income. Thus, the net effect would be a deferral of the U.S. tax. The intercorporate dividends-received deduction would not be available since the DISC would not have been subject to tax and the tax is only to be deferred until distribution by the DISC.

Dividends of a DISC paid out of qualified income would be treated as foreign source income except to the extent such dividends are attributable to interest on investments in export-related assets or on domestic bank deposits. With respect to any foreign income taxes paid by the DISC, a foreign tax credit would be available to the corporate

shareholders to offset U.S. tax on foreign source dividends received from the DISC (or U.S. tax on liquidation or sale of the DISC); it could also serve, subject to the limitations in section 904 of the Code, to offset U.S. tax on other foreign source income. This would approximate the tax treatment of accumulated earnings and profits of foreign subsidiaries under present law and the present treatment for exports where passage of title is arranged to occur outside of the United States.

4. LIMITATION ON DISC PROFITS

We propose that limitation be established on the profits which could be earned by a DISC in cases where it is purchasing from, or acting as a commission agent for, a related manufacturer. Such limitations would be specified in regulations pursuant to statutory authority.

The regulations would provide that the income of the DISC (computed under normal tax accounting rules) would be subject to being allocated to the related manufacturer if it exceeds the income computed under both the two alternative formulas. As long as the income of the DISC does not exceed the amount determined under the formula which gives the higher amount, no allocation would be made and the income could be deferred. The formulas would be:

(*a*) The DISC could not realize income in excess of 4 percent of its sales plus 10 percent of the export promotion expenses incurred by it; and

(*b*) The DISC could not realize more than 50 percent of the combinde taxable income from the manufacture in the United States and the export sale by the DISC, plus 10 percent of the export promotion expenses incurred by the DISC. For this purpose, the taxable income generated by sales of the DISC would be determined by deducting from sales the cost of goods sold determined on the same basis as that charged by the manufacturer on uncontrolled sales—inventory cost.

Other deductions—except certain nonoperating deductions—such as selling expenses, general and administrative expenses, research and development and interest expenses, would be allocated between sales by the DISC and sales by the manufacturer on the basis of net sales from each of these sources or, where certain markets are primary and other markets are secondary, on an appropriate basis to be specified in the regulations.

In addition to these formulas, the income of the DISC would not be allocated to the related U.S. manufacturing company if it is in accord with the intercompany pricing rules set forth in the existing regulations under section 482 of the Internal Revenue Code.

Allocation rules along the foregoing lines would be analogous of those applied by a number of countries, generally on an informal basis, in the determination of their tax liability on exports. Ther primary advantage would be in providing a greater degree of specificity and definitiveness in limiting the profit whch may be realized by the DISC vis-a-vis its related U.S. manufacturer.

5. INVESTMENTS IN "EXPORT RELATED ASSETS"

A DISC would be permitted to invest its accumulated export income in "export-related assets." Such investments would be in the form of loans to domestic manufacturers, whether or not related, to finance the manufacturer's export-related assets. The amount of export-related

assets of a manufacturer would be that proportion of the manufacturer's investment in production and supporting facilities which is the same as the proportion of the manufacturer's export sales and sales to DISC's to its total sales. Thus, if the manufacturer's export and DISC sales represented 20 percent of its total sales and its production and supporting facilities equaled $20 million, the authorized borrowing would be $4 million.

It is contemplated that when a DISC makes such loans to an unrelated borrower, such borrower would provide the DISC with a certification that the borrower has not and will not exceed its authorized borrowing for the year.

The production and supporting facilities of a manufacturer which would qualify for this purpose would include:

(1) Existing plant, equipment, machinery and supporting production facilities—including those for storage, transportation and administration—valued at their adjusted basis after depreciation—reduced by outstanding DISC loans previously made with respect to such assets;

(2) Investment in new plant equipment and machinery and other new supporting production facilities;

(3) Inventory (reduced by outstanding DISC loans previously made with respect to inventory); and

(4) Research and development expenditures (whether or not capitalized) incurred during the year.

It is not contemplated that there will be any tracing of loans to specific manufacturing facilities or equipment actually used in production for export.

All loans would be interest bearing, resulting in an interest deduction to the borrower. Since we would require the distribution of this interest, the income would be taxable to the U.S. manufacturing parent so the effect of the interest on the taxable income of the parties would be a wash. The section 482 safe haven rules will be applicable: presently the interest charged must be a minimum of 4 percent and maximum of 6 percent, although the rate may be higher if an arm's length rate would be higher.

The term of any loan need not be less than 10 years. Loans related to investment in research and development and inventory would be for 10 years. To the extent that loans relate to investments in fixed assets, the term may be longer based on the weighted average useful life for depreciation purposes for such assets, with an outside limit for any asset—including land—of 30 years. At maturity, any loan could be renewed, or the principal loaned to another borrower, provided always that there is compliance with the rules previously described.

Qualified loans would remain qualified throughout their term regardless of any decreases in export sales. They would not be treated as constructive dividends.

6. ACQUISITION OF EXPORT-IMPORT BANK PAPER BY DISC'S

As stated above, qualified export income would include interest on credit extended to export customers in accordance with normal commercial practice and interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper. Such debt obligations would also constitute qualified export assets. In cases

where the DISC acts as a commission agent for an export manufacturer, the obligations acquired by the manufacturer in connection with the extension of credit to export customers in accordance with normal commercial practice could be acquired by the DISC.

It would be provided that the following types of Export-Import Bank obligations and similar paper would give rise to qualified export income and constitute qualified export assets:

(1) Obligations issued by the Export-Import Bank;

(2) Obligations guaranteed or insured by the Export-Import Bank in cases where the DISC purchases the obligations from the Export-Import Bank or from the exporter;

(3) Obligations issued by the Foreign Credit Insurance Association in cases where the DISC purchases the obligations from the exporter;

(4) Obligations issued by certain domestic corporations organized solely for the purpose of financing U.S. exports pursuant to an agreement with the Export-Import Bank whereby such corporation makes export loans guaranteed by the Export-Import Bank.

7. DEFICIENCY DISTRIBUTIONS

In order to prevent inadvertent disqualification of a DISC, a deficiency dividend procedure would permit continued qualification of the DISC. Deficiency distributions could be made at either of two stages where either the income or asset test had not been met or interest on investments in export-related assets or temporary bank deposits—referred to as "distributable interest"—had not been distributed:

Current Deficiency Distributions

Where the DISC during the taxable year had at least 70 percent of its gross receipts in the form of qualified receipts, a distribution of the income derived from non-qualified gross receipts could be made at any time after the close of the DISC's taxable year and prior to the time for filling the DISC's annual return. Similarly, any nonqualified asset could be distributed, or such asset could be liquidated with the proceeds being distributed or invested in qualified assets, within such epriod. A distribution of "distributable interest" could be made within such period without regard to the 70 percent test.

Delayed Deficiency Distributions

A distribution of "distributable interest" or non-qualified income or a non-qualified asset (or a distribution from the proceeds of such an an asset) could be made at any time with respect to any year as to which the period for assessment of additional taxes had not expired provided that the existence of such income or asset and the failure to distribute it within the return filing period was due to reasonable cause.

A delayed deficiency distribution would be required to consist of the distributable interest or non-qualified income (or asset or proceeds therefrom) plus an annual interest charge to compensate for the deferral of tax on the income from the return filing date.

8. DISQUALIFICATION OF DISC, LIQUIDATION, OR SALE OF STOCK

Upon liquidation of a DISC or upon its disqualification (where the deficiency dividend procedures are not used), DISC status would terminate and the earnings and profits of the DISC on which U.S. taxes had been deferred would be deemed to be distributed to the share holders. Each shareholder would be taxed as if he had received his pro rata portion of such income in equal installments in the year in which such liquidation or disqualfication occurs and in each of the suceeding 9 years; except that if the DISC has not been qualified at such for at least ten years, the period of distribution will be deemed to be the number of years the DISC was in existence prior to the commencement of the liquidation or the disqualification.

Upon the sale of stock in a DISC, the gain realized will be taxed at ordinary income rates to the extent of the accumulated earnings and profits after the date of the DISC election. The foreign tax credit would be available similar to its application under section 1248 of the Internal Revenue Code.

9. REORGANIZATION OF EXISTING EXPORT OPERATIONS

It is contemplated that, in general, tax-free reorganizations would be permitted to place existing foreign operations in a DISC or to put existing foreign sales subsidiaries under its ownership.

10. FINANCIAL ACCOUNTING

We understand that the accounting principles board of the American Institute of Certified Public Accountants has recently reviewed the question of the proper accounting treatment with respect to the deferred tax liability on the profits of a DISC. We understand that they have concluded that the DISC could be treated in the same manner as a foreign subsidiary—that is, under current practice there is no requirement that the deferred tax liability be accrued currently on the income, so that the U.S. tax liability would be reflected as a cost at the time dividends are paid, just as it would be imposed under our DISC proposal.

This concludes our description of the DISC. A more detailed technical explanation has been delivered to the committee and is available to the public at the Treasury's Public Information Office. Assistant Secretary Edwin S. Cohen is fond of calling our Technical Explanation our Discotheque, prepared by Treasury disc jockeys.

I will be pleased to answer any questions concerning this proposal.

The CHAIRMAN. At this point we will include in the record the technical explanation prepared by the Treasury Department.

DOMESTIC INTERNATIONAL SALES CORPORATION TECHNICAL EXPLANATION OF TREASURY PROPOSAL

Definition of a Domestic International Sales Corporation (DISC)—A corporation would generally qualify as a DISC if (1) it is a domestic corporation which meets the minimum equity capital requirements, (2) within the first 90 days of the beginning of its taxable year the shareholders elect to have the corporation treated as a DISC,[1] (3) 95 percent of its gross receipts for the taxable year

[1] Such election remains in effect as long as the gross receipts and assets tests are met with respect to the year of the election and each subsequent year.

is derived from export activities, from "export related assets" and "Eximbank paper," (4) it distributes annually its interest income from its investment in "export related assets" and qualified bank deposits, and (5) 95 percent of its assets are used in the export business, are in the form of "export related assets" or "Eximbank paper."

Ownership of the Stock of a DISC.—Individuals, corporations, trusts, and estates could own the stock of a DISC. Nonresident aliens and foreign corporations could also own the stock of a DISC. Any dividends received by a nonresident alien or foreign corporation would be treated as effectively connected with a U.S. trade or business operated through a permanent establishment.

A domestic corporation engaged almost solely in the export business might well be able to qualify as a DISC. In cases where an export business is conducted in a non-corporate form, by a sole proprietorship or a partnership, it would be necessary to organize a corporation. Similarly, a corporation engaged in manufacturing or in non-export sales activities, as well as in exports, could organize an export sales subsidiary designed to qualify as a DISC. DISC's could export articles produced by related and non-related producers and could export to related and non-related foreign purchasers.

Equity Capital Requirement.—A DISC would be required to maintain at all times a minimum equity capital of $2,500 and the ratio of its indebtedness to related corporations [2] (or guaranteed by related corporations) could not exceed five times its equity capital.

Gross Receipts Requirement.—As stated, the gross receipts requirement is met if the domestic corporation derives at least 95 percent of its gross receipts from exports and export related investments and activities. The 95 percent test must be satisfied annually. Qualifying gross receipts would be derived from:

(1) the sale [3] of export property (hereinafter defined) for use, consumption, or distribution in a foreign country;

(2) the leasing or rental of export property for use in a foreign country by the lessee;

(3) gains from the sale or exchange of assets used by the DISC for the production of export receipts;

(4) the performing of services by the DIC which are ancillary and subsidiary to the selling or leasing of export property by the DISC;

(5) loans of DISC profits to domestic producers for "export related assets" as described in "Loans to Domestic Producers" on p. 18;

(6) temporary deposits in the United States with persons carrying on the banking business (see Item 9 on p. 11);

(7) dividends or interest which is received with respect to foreign investments described hereinafter in "Non-U.S. Investments" on p. 15;

(8) interest received on any obligation arising from sales or leases of export property and related services, including interest on receivables purchased by a DISC selling as a commission agent;

(9) obligations issued, guaranteed or insured by the Export-Import Bank and certain similar obligations (see p. 12); and

(10) other transactions and activities directly related to exporting of U.S. products as designated by the Treasury Department in regulations.

Distributable Interest.—With respect to loans made by the DISC to domestic producers for "export related assets" [(5) above], and interest on bank deposits [(6) above], the annual interest income from such loans and deposits (hereinafter referred to as "distributable interest") must be distributed by the DISC within the time required for filing the DISC's annual return for such year.

Export Income and Export Property.—On export sales or leases and ancillary services, the place of use, consumption, or disposition of the goods will determine whether the activity is export in nature rather than the technical source of income under the passage of title test. A DISC will be deemed to receive export income when it sells to a foreign purchaser for export to an unrelated DISC. Sales to a foreign establishment of a U.S. entity for use, consumption or disposition outside the United States will be considered export sales. However, sales to the U.S. Government will not be considered exports.

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[2] A "related" corporation as used herein refers to a corporation which controls or is controlled by the DISC or is under common control.

[3] In the case of commission income on the sale of property, the gross receipts test will be applied to the gross receipts on the sale of the property on which such commissions were earned.

"Export property" will mean any personal property, grown, extracted, manufactured or produced in the United States, Puerto Rico or any other possession for ultimate use, consumption or disposition outside the United States, Puerto Rico or any other possession. Qualified exports would not include exports to a possession of the United States, including Puerto Rico.

If a DISC sells products to persons who were formerly customers of its parent or a related company, the income generated by these sales would be qualified income. Similarly, some or all of a DISC's line of products may be sold on behalf of unrelated producers.

A limitation will be imposed on the amount of "foreign content" which may go into the goods which a DISC exports. The property must have been substantially transformed in the United States prior to export. The U.S. content must account for at least 50 percent of the total costs of the product as established under standard government procurement regulations. In addition, any item containing components imported into the United States and classified under Item 807 of the Tariff Schedules of the United States will not qualify as "export property."

Where a DISC sells a product to a related foreign company and such foreign company either resells the product, or performs a further amount of work on the product before resale, or utilities the product itself, the income which the DISC received from the sale of the product to the affiliate would be qualified.

A DISC could sublease export property as to which it is the lessee.

The DISC's receipts attributable to the DISC's transporting its qualifying exports (either in the United States or abroad) would be treated as qualified receipts.

Non-qualifying Receipts.—The forms of qualifying receipts of a DISC are set forth above. The following will not constitute qualified receipts:

(1) the sale of export property to the United States or any agency or instrumentality thereof and service or other income ancillary thereto;

(2) income from the use of intangibles abroad such as copyrights, trademarks, and patents;

(3) foreign franchising operations (however, where a U.S. taxpayer supplies a foreign franchisee with a particular product or product line, the sale of these items through a DISC could generate qualified export income); and

(4) services other than those rendered by a DISC in connection with the sale or lease of export property by it.

Income which results from a DISC selling export property abroad for final disposition, use, or consumption of such property in the United States will not be qualifying income.

The relationship of the DISC proposal to the Canadian Automotive Agreement is presently under study.

Limitation on DISC Profits.—In order to avoid unnecessary problems on intercompany pricing allocations, it is intended to provide guidelines to prevent the excessive shifting of income to a DISC where it is purchasing from or selling on behalf of a related manufacturer. The regulations would provide that the income of the DISC (computed under normal tax accounting rules) would be subject to being allocated to the related manufacturer if it exceeds the income computed under both of two alternative formulas. As long as the income of the DISC does not exceed the amount determined under the formula which gives the higher amount, no allocation would be made and the income could be deferred. The formulas would be:

A. The DISC could not realize income in excess of 4 percent of its sales; or

B. The DISC could not realize more than 50 percent of the combined taxable income from the manufacture in the United States and the export sales by the DISC For this purpose, the taxable income generated by sales of the DISC would be determined by deducting from sales the cost of goods sold determined on the same basis as that charged by the manufacturer on uncontrolled sales (inventory cost). Other deductions (except certain nonoperating deductions) such as selling expenses, general and administrative expenses, research and development and interest expenses, would be allocated between sales by the DISC and sales by the manufacturer on the basis of net sales from each of these sources, or, where certain markets are primary and other markets are secondary, on an appropriate basis to be specified in the regulations.

In addition to the foregoing, a DISC would be entitled to an additional deferred income equal to 10 percent of the "export promotion expenses" incurred by it. Export promotion expenses would be those ordinary and necessary ex-

penses of the DISC paid or incurred in the production of export income, including salaries, rentals, warehousing, advertising, selling expenses, billing, collection and other administrative costs, but not including costs of goods sold, taxes or any expenses that do not advance the distribution or sale of exports.

The pricing between the U. S. parent and the DISC could also, of course, be established pursuant to the existing allocation rules under section 482.

A DISC must sell to a related foreign purchaser on an arm's length basis, as under section 482; provided, however, that no effort will be made by U.S. authorities to allocate or recharacterize income on such sales in a manner that would reduce the DISC profits below those authorized under the preceding rules. Credit terms extended to related foreign purchasers must be comparable to those that would be extended to unrelated purchasers.

Qualified Assets Defined.—An asset test is required in order to insure that the DISC assets are related to export activity. Therefore, 95 percent or more of the value of the total assets of the DISC as of the last day of the taxable year must consist of:

(1) working capital used in the export sales business (primarily consisting of cash, inventory and export receivables);

(2) plant, machinery and equipment and office and administrative facilities used in connection with the sale, lease, storage, packaging, servicing, assembly or transportation of the DISC's exports;

(3) obligations issued, guaranteed or insured by the Export-Import Bank and other similar obligations (see p. 12, *infra*);

(4) export property held for lease;

(5) assets of foreign sales and service branches handling U.S. export property; provided that the activities and assets are limited to those specified for foreign subsidiaries (see Item (3) on p. 16);

(6) stock or other securities issued by foreign customers and certain foreign companies as described hereinafter in "Non-U. S. Investments" on p. 15;

(7) export receivables purchased by a DISC from a manufacturer on whose behalf the DISC sells as a commission agent;

(8) obligations representing loans to domestic producers for "export related assets" as described in "Loans to Domestic Producers" on p. 18;

(9) deposits in the United States with persons carrying on the banking business, provided that any amount so held as of the last day of the taxable year (other than working capital used in the export sales business), shall have been invested in other qualified assets within the time prescribed for the filing of the DISC's return for its taxable year, or for such additional period of time as may be permitted by regulations; and

(10) any other asset directly related to exports which the Treasury Department describes in regulations.

Since the asset test includes an annual test to be met as of the last day of the DISC's taxable year, adjustments may be made to meet the income and asset tests during the period between the end of the year and the time prescribed for the DISC's filing of a return for the taxable year. While not taxable, it is contemplated that a DISC must file a reporting form during the 9th month after the close of its taxable year.

In order to give some flexibility to meet the problem of co-ordinating of loans to a producer and timing of construction and similar events, regulations would permit counting both loans that have been made and firm commitments scheduled to be taken down within a specified period.

Acquisition of Export-Import Bank Paper by DISC's.—Qualified export income would include interest on credit extended to the DISC's export customers in accordance with normal commercial practice and interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar obligations. Such debt obligations would also constitute qualified export assets. Where the DISC acts as a commission agent for an export manufacturer, the obligations acquired by the manufacturer in connection with the extension of credit to export customers in accordance with normal commercial practice could be aquired by the DISC.

The following types of Export-Import Bank obligations and similar paper would give rise to qualified export income and constitute qualified export assets:

obligations issued by the Export-Import Bank;

obligations guaranteed or insured by the Export-Import Bank in cases where the DISC purchases the obligations from the Export-Import Bank or from the exporter;

obligations insured by the Foreign Credit Insurance Association in cases where the DISC purchases the obligations from the exporter;

obligations issued by certain domestic corporations organized solely for the purpose of financing U.S. exports pursuant to an agreement with the Export-Import Bank whereby such corporation makes export loans guaranteed by the Export-Import Bank.

Deficiency Distributions.—In order to prevent inadvertent disqualification of a DISC, a deficiency dividend procedure would permit continued qualification of the DISC. Deficiency distributions could be made at two stages where either the income or asset test had not been met or the "distributable interest" (see p. 4) had not been distributed.

(1) *Current deficiency distributions.* Where the DISC during the taxable year had at least 70 percent of its gross receipts in the form of qualified receipts, the amount of income derived from non-qualified receipts could be distributed at any time after the close of the DISC's taxable year and prior to the time for filing the DISC's annual return. The amount of the required distribution in the case of non-qualified receipts will ordinarily be that proportion of the DISC's net income which its non-qualifying gross income bears to its total gross income. Similarly, any non-qualified asset could be distributed, or such asset could be liquidated with the proceeds being distributed or invested in a qualified asset, within such period. A distribution of "distributable interest" could be made at any time within such period, without regard to whether the 70 percent gross receipts test had been met. A dividend paid within such period will be deemed to be a distribution out of the preceding year's earnings and profits and would constitute taxable income of the individual and corporate shareholders for such preceding taxable year.

(2) *Delayed deficiency distribution.* A distribution of "distributable interest" or of non-qualified income or a non-qualified asset (or a distribution from the proceeds of such an asset) could be made at any time with respect to any year as to which the period for assessment of additional taxes had not expired, provided that the existence of such income or asset and the failure to distribute it within the return filing period referred to in (1) was due to reasonable cause. Such reasonable cause may be established by a showing, for example, that the income or asset arose by inadvertence or was of an unusual and non-recurring character.

A delayed deficiency distribution under (2) above would be required to consist of the distributable interest or non-qualified income (or asset or proceeds therefrom) plus an annual interest charge to compensate for the deferral of tax on the income from the return filing date.

Non-U.S. Investments.—A DISC may maintain investments in and receive income from certain non-U.S. investments. These are:

(1) trade receivables of foreign purchasers. In the case of related foreign corporations, the receivables must be in connection with sales or leases in the ordinary course of business and on ordinary commercial terms.

(2) a foreign real estate title holding corporation, holding title to foreign export facilities of the DISC.

(3) a foreign corporation controlled by the DISC and which has at least 80 percent of its gross receipts from the sale or lease of U.S. export property and from services ancillary and subsidiary to such sales or leases. For this purpose, packaging and minor assembly will be permitted, provided that there is no "substantial transformation" of the exported goods and if the value added abroad does not exceed 20 percent of the cost of the goods sold. A qualifying subsidiary under this section will not be subject to Subpart F, provided that it meets these requirements and the other asset requirements of a DISC.[4]

(4) obligations or stock of an unrelated foreign corporation provided that the acquisition is in furtherance of an export sale or sales and provided that the stock ownership shall not exceed more than 10 percent of the total combined voting power of the foreign corporation. This exception is intended to be limited to investments that might be required in unrelated foreign distributors or to help finance a customer's purchase of export property.

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[4] Where a foreign subsidiary is engaged in extensive assembly, manufacturing operations or the selling of products other than those from U.S. sources, it is always possible for the U.S. parent of the DISC, where the DISC sells to such subsidiary, to own such other subsidiary through a separate line of ownership, without the necessity of the DISC investing its funds in such subsidiary.

Liquidation or Disqualification of DISC.—Upon liquidation of a DISC or upon its disqualification (where the deficiency dividend procedures are not used), DISC status would terminate and the previously deferred earnings and profits of the DISC would be deemed to be distributed to the shareholders and taxed in the following manner:

Each shareholder would be deemed to receive his pro rata portion of such income in equal installments in the year in which such liquidation or disqualification occurs and in each of the succeeding nine years; except that if the DISC has not been qualified as such for at least ten years, the period of distribution will be deemed to be the number of years the DISC was in existence prior to the commencement of the liquidation or the disqualification. The foreign tax credit would be available similar to its application under secton 1248 of the Code.

Sale of DISC Stock.—Upon the sale of stock in a DISC the gain realized will be taxed at ordinary income rates to the extent of the accumulated earnings and profits after the date of the DISC election. The foreign tax credit would be available similar to its application under section 1248 of the Code.

Independent Export Sales Companies.—Combination Export Managers and other independent exporters account for more than 1 billion in exports annually. Under the DISC proposal, companies exclusively engaged in export activities will be qualified for DISC status, with current deferral of their export profits. Such companies will be entitled to loan their accumulated income to U.S. producers. In addition, it is proposed that such export companies be entitled to earn fees for services rendered in managing export operations for other DISC's, where, for example, a manufacturer wishes to have his own DISC, but lacks the experience to manage an export operation.

Loans to Domestic Producers.—A DISC will be permitted to loan its accumulated export income (but not borrowed funds) to any domestic corporation, whether or not related, meeting rquired export production tests. Such loans may be made as follows:

(1) As of the close of each taxable year, a borrower's permissible loans from DISC's for the next year would be determined by ascertaining the borrower's investment in qualified assets as of the close of the taxable year. The proportion of the borrower's assets that could be financed (designated as "export related assets") would be determined by multiplying the amount of assets designated in (2) below by the percentage which the export sales of the borrower for the taxable year and the immediately preceding two years is of the total sales of the borrower for such period. However, the base period for loans at the end of the first and second taxable years after enactment of the proposal will be computed on the basis of exports during such period. Thus, if the borrower's exports represented 20 percent of its sales and the total amount of the production and other assets enumerated in (2) below equaled $20 million, the authorized borrowing would be $4 million.

It is contemplated that any unrelated borrower would provide a DISC lending to it with a certification that the borrower has not and will not exceed its authorized borrowing for the year. Such certification would ordinarily be conclusive in establishing, for purposes of the DISC, that its loans are qualified export related assets.

(2) The assets taken into account as of the close of a taxable year to determine the base for DISC loans are:

(a) Existing plant, equipment, machinery and supporting production facilities (including those for storage, transportation and administration) valued at their adjusted basis after depreciation as of the close of the taxable year (reduced by outstanding DISC loans previously made with respect to such assets);

(b) Investment in new plant, equipment and machinery and other new production and supporting facilities for the next year;

(c) Inventory held on the last day of the taxable year (reduced by outstanding DISC loans previously made with respect to inventory); and

(d) Research and development expenditures (whether or not capitalized) incurred during the taxable year.

It is not contemplated that there will be any tracing of loans to specific manufacturing facilities or equipment which will actually produce for exports.

(3) All loans would be interest bearing, permitting an interest deduction to the borrower. The section 482 safe haven rules will be applicable: presently the interest charge is a 4 percent minimum and a 6 percent maximum, although the rate may be higher if an arm's length rate would be higher.

(4) The term of any loan need not be less than 10 years. Loans related to investment in research and development and inventory would be for 10 years. To the extent that loans correspond to investment in fixed assets, the term may be longer based on the weighted average useful life for depreciation purposes of such assets, with an outside limit for any asset (including land) of 30 years.

(5) Qualified loans remain qualified throughout their term regardless of any changes in the ratio of export sales to total sales. They will not be treated as constructive dividends.

(6) At maturity, any loan may be renewed or the principal loaned to another borrower, provided always that there is compliance with the rules described above.

(7) It is presently anticipated that an election should be allowed that either (i) each corporation within a controlled group would be treated as a separate borrower for purposes of the loan limitations and that the appropriate assets and ratio are the assets of the particular corporate borrower and the ratio of such borrower's export sales to its total sales, or (ii) the combined export production assets and sales of all affiliated companies within the controlled group would be used for this purpose.

In determining the manufacturer's exports sales base, reference will be made only to sales of goods, comparing export sales of goods to total sales of goods. Income from services will be disregraded for this purpose.

Distributions from a DISC.—Distributions shall be deemed to be made in the following order and as income from the following sources:

(1) Distributions of "distributable interest" (deemed domestic source income of the shareholder);

(2) Deficiency distributions with respect to non-qualified income or assets (deemed domestic source income of the shareholder);

(3) Distribution of accumulated qualified income from the most recent taxable year of the DISC (foreign source income of the shareholder);

(4) Distributions from pre-DISC years, which shall retain their character as to source as under present law.

The portion of dividend distributions treated as foreign source income shall be entitled to foreign tax credits, subject to the appropriate overall or per-country limitation. Foreign taxes borne by the DISC or its first-tier foreign subsidiaries may be credited by corporate shareholders of the DISC owning 10 percent or more of the DISC's stock. The foreign source portion of any dividends shall be deemed to carry full foreign tax credits for foreign taxes attributable to the foreign source income so distributed; rules will be provided to avoid dilution by the mix of domestic and foreign source income in the DISC. In determining the foreign source income on a distribution from a DISC to a corporation shareholder, for foreign tax credit purposes, it is not intended that allocations of general and administrative expenses and overhead of the corporate shareholder will be made to reduce the foreign source income element in the DISC distribution.

The destination test (rather than passage of title) will also be used in determining the source of export income of the DISC for foreign tax credit purposes.

Liquidations and Reorganizations.—Established corporations with foreign sales subsidiaries might encounter difficulty in restructuring their corporate organization to take advantage of a DISC concept. It is desirable, therefore, to provide nontaxable treatment to these corporate entities to enable them to transfer their foreign sales activities to United States subsidiaries (DISC's). Therefore, section 367 would be amended to provide that an advance ruling is not required where the assets of a foreign corporation are acquired by a DISC in a liquidation described in section 332 or in a reorganization described in section 368(a).

Some restrictions regarding which assets of a foreign corporation would be eligible to receive this treatment may be necessary. Foreign subsidiaries that are now foreign export trade corporations under section 970 should be able to retain the deferred status for their present qualified accumulated export trade income in the event that they are subsidiaries of or are liquidated into a DISC.

Ineligible Corporations.—The following corporations shall not be eligible to make a DISC election:

(1) a corporation exempt from tax by reason of section 501;

(2) a financial institution to which section 581 or section 593 applies;

(3) a life insurance company as defined in section 801(a);

(4) a regulated investment company as defined in section 851(a);

(5) a real estate investment trust as defined in section 856;

(6) a corporation receiving the special deduction provided in section 941(a);

(7) an electing small business corporation (as defined in section 1371(b)); or

(8) corporations referred to in section 1504(d).

Information Returns.—All corporations that have DISC status and all manufacturers with DISC loans must file annual information returns indicating their export production and sales, and amounts of income on which taxes have been deferred in the DISC.

Effective Date.—The DISC rules would become effective on July 1, 1971.

Miscellaneous Rules.—(1) Distributions from a DISC will not be entitled to the dividends-received deduction under section 246(a).

(2) The accumulated earnings tax provisions of section 531 will not apply to DISC.

(3) The personal holding company provisions of section 542 will not apply to a DISC.

(4) On liquidation or sale or exchange of stock in a DISC, the principles of section 1248 will be applied to result in a tax on the accumulated earnings of the DISC, not previously subjected to U.S. tax, as ordinary income subject to appropriate foreign tax credit.

(5) It is contemplated that a DISC may sell to another DISC. This would permit a captive DISC to sell to an independent exporter for ultimate sale for use, consumption, or disposition outside the United States.

(6) A DISC may not be included in a consolidated return.

(7) A Western Hemisphere Trade Corporation may not own shares in a DISC.

The CHAIRMAN. Mr. Secretary, I believe I understood you to say earlier that you might have an appointment to keep later. Please feel free to leave whenever you must. I have some questions, but I can direct them primarily to Mr. Nolan. I will yield first to my colleagues.

Mr. BURKE. Does the administration have any plans underway to grant tax concessions, such as the 7-percent investment credit, to industries in this country that are in some trouble as a result of the acceleration of imports, industries that need to install improved machinery and to modernize their plants? Have you done anything to encourage these people who are really bearing the brunt of this problem?

Secretary KENNEDY. In connection with this matter, the President asked that studies be made to see what could or should be done with respect to any such cases. I do not know the existing status of anything that we have. We have no proposal at the present time.

Mr. NOLAN. We do not have any specific proposals to deal with that problem in the context of the income tax laws.

Mr. BURKE. I have in mind some of the firms up my way that are closing their doors. If through some concessions these firms could defer their taxes for a few years, they might be able to modernize their plants. Under present conditions they cannot afford these improvements. They only face the prospect of going out of business.

What are we going to do now to help these people who are suffering real injury?

Secretary KENNEDY. That is another problem, and it is a real serious one. It is not so much a matter of tax relief as it is of providing more direct help in other ways.

Mr. BURKE. So far the administration has given the committee general satements here about what they intend to do with the escape clause and adjustments, and other things, but those measures do not seem to be sufficient.

Secretary KENNEDY. Mr. Volcker was just making the point to me that these companies would not have taxable income, so it would be another kind of help that you would have to be giving them.

Mr. BURKE. Some have taxable income now. They are paying a small amount of tax. Possibly something could be done to help these people so they could set enough money aside in a reserve to modernize and improve their plants. They are not all losing money, they may be losing money in a year or two.

I wonder whether Treasury is thinking of giving them help of any kind so these people can survive in the next few years.

Mr. NOLAN. There was a provision in the Tax Reform Act last year that could be of some help to them. They would be entitled to an operating loss carryback but also in the Tax Reform Act last year we provided for a capital loss carryback, so if they suffer a capital loss they will be able to carry back the loss and recover tax as a result immediately, rather than being required to carry the loss forward only.

Mr. BURKE. Do you expect any loss of revenues as a result of the reductions in the proposed new tariff reductions?

Secretary KENNEDY. You are not talking about DISC, which is $450 to $600 million.

Mr. BURKE. I am talking about the further reduction of tariffs. Will that result in a further reduction of Federal revenues?

Mr. PETTY. Offhand, I believe the overall rise in imports resulting in revenue increases offsets the reduction in revenues collected by customs coming about as a result of the Kennedy round reductions.

Mr. BURKE. I don't want them right now, but could you give us for the record how the revenue worked out year by year since the Kennedy rounds?

Secretary KENNEDY. We can provide a statement for the record on that, Congressman Burke.

(The following information was subsequently received from the Treasury Department:)

U.S. customs receipts:

1967	$1,988,800,000
1968	2,328,000,000
1969	2,429,200,000

Mr. BURKE. Thank you, Mr. Secretary. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. I am glad that you included the technical explanation of this DISC.

As I gather it, this proposal is directed really to try to equalize the situation with a foreign subsidiary or a foreign-owned company or manufacturer. It is not intended as a step in the direction of trying to cope with the problem created by the value-added tax and its imposition on imports into, let us say, the Common Market area or its rebate on an export from that country; is it?

Mr. NOLAN. We think of it more as a matter of equity, of removing an existing disadvantage to exports. For example, it is possible today to operate through a foreign manufacturing subsidiary and pay no taxes currently——

Mr. BYRNES. It is directed at that aspect rather than the aspect of the problem created by the value-added tax and its impact on trade.

Secretary KENNEDY. That is a broader problem, and it is one that we have to continue to work on in the multilateral discussions on GATT.

Mr. BYRNES. Do you consider this a real problem that we have to look at and try to find some way to cope with, because of its adverse effect as far as we are concerned, and an inequity as far as we are concerned in the trade area?

Secretary KENNEDY. I think in the long run we have to. We are aware of that and we are working on that now. This will not end that problem and we will be continually working with our partners abroad to determine what can be done with their rules to break down barriers, but also to see what action we must take here with respect to our own tax system.

Mr. BYRNES. I just hope we don't give up on the idea of at least trying to get some equity in this facet of international trade problems.

As I understand it, I think most of these taxes are generalized in the Common Market with a 12-percent rebate which on an ad valorem basis is a pretty substantial encouragement for foreign export, and it is a heavy deterrent to a product that has already paid very high taxes if it is produced in the United States.

I think we have here an intolerable situation if what we are trying to do is create equity and reciprocity in international trade. I don't know how, or why, we let them get by with a situation where we were put at that kind of disadvantage when we entered into the GATT agreements anyway. Apparently GATT recognizes this is a legitimate application of their taxes but will not, I gather, at least as of now, permit the United States to trace through a comparable burden of the income tax on an item that is exported.

Let me divert from that particular problem which I think is one that I would hope we could do more than just let time try to correct, with some effort.

Secretary KENNEDY. Let me assure you we are concerned about this and we are making efforts and I believe as a result of the work we are doing we can get at least some better feeling of what we should do here if we can't make adjustments abroad.

Mr. BYRNES. I would have that No. 1 on any list I had before any meetings of the General Agreement on Tariffs and Trade, and before we made any more negotiations or anything else. I would be inclined to suggest that they had better address themselves to finding a final solution for that.

Secretary KENNEDY. That is a far better way than building up barriers on each side.

Mr. BYRNES. One of the things that bothers me, Mr. Secretary, is that we worry about our actions in inhibiting trade, and yet while trade is very important to us, as far as this country is concerned it is a small percentage of our gross national product.

It seems to me other countries have a much higher dependency on trade as their element of existence and their economy than we have.

It would seem to me they ought to be more worried in some of these cases than we should be worried, about retaliation, and so forth, that causes a tightening up of international trade.

I think we worry too much about what effect something that we might do will have on retaliation. And it seems to me the other industrial countries should have more of a worry.

Really, this is an important segment of our economic life, but it is not the all-important segment that it is to some of the industrial countries of the world.

Let me move to one other item because it is getting late.

I want to know when we will get a situation where the Treasury will follow the law, and I am referring to the application of the countervailing duties under section 303 of the Tariff Act of 1930, which is still on the books.

Secretary KENNEDY. I think that is a good place for me to turn the mike over to Mr. Rossides.

Mr. BYRNES. We know where countries are directly or indirectly bestowing a bounty on exports of articles. The law is clear there is no discretion anyway that they should be levied and paid in those cases in addition to the duty otherwise imposed by the act, and an additional duty equal to the net amount of such bounty or grant, however the same be bestowed.

The Secretary of the Treasury has the responsibility of ascertaining or determining or estimating—you don't have to worry whether you can prove it to the penny—you can estimate the net amount of each such bounty or grant and shall declare the net amount so determined or estimated.

Customs is supposed to collect it. I would not expect necessarily that you would be prepared to comment on a particular case before you but in the dairy area there is an acknowledged subsidy on exports. In the Common Market particularly this is true, and in some other countries.

I am inclined to think if some country did not provide a subsidy and came here and they complained that the Common Market was subsidizing something that was coming into this market and they also wanted to go into that market, we would act faster on a complaint by some foreign country than we act on the basis of our own industry coming in and showing what the situation is.

You have had a case down there since July 26, 1968, in the area of dairy products. If I get excited, it is only because I don't know what the dickens goes on when we write some of these laws, and we don't put any discretion in it where the agencies find all of this discretionary authority.

Can you give me any information on this at all?

Mr. ROSSIDES. I can, Mr. Byrnes, give you some information. It is under consideration, as you know, and you have been in touch with the Department. There are very special circumstances relating to this particular matter in view of the section 22 quotas that were involved, as well.

Mr. BYRNES. That is discretionary there.

Mr. ROSSIDES. The question of relationship of that decision on the quotas to this and the industry discussions that took place with the industry in the fall of 1968 are a factor, but I do not want to leave it just on that.

One of the decisions that we did make, Mr. Byrnes and Mr. Chairman, was to try to push ahead vigorously in both the countervailing duty and dumping fields.

Frankly, we have been pushing to bring up to date the terrible backlog in the dumping area. We had cases well over 2 years old and

we pushed in that regard. We will be pushing further in the countervailing duty area hopefully in the not too distant future.

Let me give you an example of the problems Customs and the Treasury face. We had a total of five men working on dumping and countervailing duty cases when this administration took office. The Secretary gave policy instructions to move ahead vigorously and enforce these two price discrimination statutes. We have increased the manpower from five to 14 people working on these matters. We will be hopefully doubling the 14 to 28 persons in Customs working on this. We are determined that by September 1 of this year to have no dumping case, Congressman, older than 1 year. When we came on, they were well over 2 years and now they are over 1 year or some. That does not get specifically to your countervailing duty item.

We did issue a countervailing duty case last spring and we have a couple of them that may be coming up.

I am not disagreeing on the question of discretion. However, we feel there is a relationship to the quota and the countervailing duty law under this particular case, and it is still being studied.

Mr. BYRNES. I am going to have some questions for Secretary Hardin on section 22. I don't know how we can get a little jurisdiction here.

I think in a dumping area, in the subsidy area that I just talked about, the way we permit subterfuges to avoid the spirit and the intent of a Presidential order makes us the laughingstock of the world. The history of section 22 in the dairy area has been a history of the ingenuity of foreigners in finding some loophole and then it takes us a year and a half or 2 years or we never close it up.

We say if you are ingenious enough, boys, that's great, and we all regard you far that ingenuity instead of maintaining the integrity of you order, as strongly, Congressman.

Mr. ROSSIDES. We feel as strongly, Congressman.

Let me give you a couple of points in the dumping area particularly. We have instituted new procedures on the various steps and stages of a dumping case so that there are deadlines. I was brought up on antitrust law and Federal procedures, and there will be these deadlines and they have shortened considerably the time element in the dumping cases.

Within the next few days we will be completing and issuing a new policy on price assurances, Congressman. Before, as you know, it had been our procedure when there were dumping margins there would be discussions to see if the exporter would raise his U.S. prices or lower his home market price to eleminate the dumping margins. We are now changing that policy at the Treasury and there will not be any automatic acceptance of price revision and assurances.

Indeed, it will be the opposite. We will have withholding of appraisement at an earlier stage of dumping investigations, and we shall restrict the acceptance of price revisions and assurances of no future sales less than fair value to de minimis cases. We feel this will have a bearing on some of the problems to which you have referred and we will move as rapidly and as quickly as we can to close the loopholes with all of the ingenuity we have. I hope you will keep these comments in mind and come back to us and see how it goes periodically.

There is no question these are price discrimination statutes and we tend to enforce them as such.

Mr. BYRNES. I wonder if you could supply for the record what is being done by way of tightening up so at least we can take a look at what you are doing to make the intent of Congress a reality in these two areas that are under Treasury's jurisdiction, namely, the dumping and the 303 operation.

Mr. ROSSIDES. Certainly.

(The information referred to follows:)

INFORMATION REGARDING TREASURY DEPARTMENT'S ADMINISTRATION OF ANTIDUMPING AND COUNTERVAILING DUTY LAWS

PERSONNEL INCREASES

When the present Administration assumed office, the Treasury Department lost little time in initiating a broad-gauged review of the Department's procedures for administering the two anti-price discrimination statutes for which it is primarily responsible, i.e., the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.), and the countervailing duty law (19 U.S.C. 1303).

At that time five officers in the Bureau of Customs were assigned to the administration of this legislation. In addition, one Treasurer career officer was assigned, on a part-time basis, to review individual cases coming to the attention of officials at the Departmental level.

We initiated organizational changes to strengthen our administration of the two statutes. At the present time there are fourteen people in the Bureau of Customs who are spending most of their time in this field. In addition, I have established an Office of Tariff and Trade Affairs under the direct supervision of my Deputy for Customs Matters. This office, when fully staffed, will spend a considerable amount, if not a majority, of its time on antidumping and countervailing duty matters.

If experience shows that more is required to carry out our responsibilities under the antidumping and countervailing duty laws, I shall take all measures within my power to obtain the necessary additional resources.

ADMINISTRATIVE CHANGES

When I first assumed office, I discovered that it often took over one and frequently two years before the Treasury Department completed its antidumping investigations. It is my firm aim to reduce the period of investigations to a maximum of one year and hopefully less.

This acceleration in the investigative process is not simply a question of additional personnel. Procedural changes are also involved. We are determined to maintain a firm attitude in adhering to deadline schedules when questions which relate to these two statutes are asked of foreign manufacturers or officials, and domestic producers. In the past, extensions of time for replying to such questions were granted almost automatically. In the future, I plan to be far more restrictive in granting extensions of time.

We are also experimenting with methods of shortening the investigative process by the use of various devices to save manpower: for example, greater substitution of form questionnaires for individualized letters; and the use of more sophisticated mechanical aids than those used until now.

REVISED POLICIES WITH RESPECT TO PRICE ASSURANCES

In the very near future, the Treasury Department plans to announce revised policies for price assurances in the antidumping field. Until recently, a foreign exporter who sold in the United States at prices below those in his home market could be reasonably certain of avoiding a Treasury determination of "sales at less than fair value" by revising his prices and offering assurances that he would not engage in such practices in the future. Under this approach, foreign exporters could undercut the prices of their U.S. competition in American markets without undue concern for the consequences under the Antidumping Act.

The Treasury Department is now confining acceptances of price assurances in situations such as those just described to instances where the dumping margins in terms of the volume of goods sold are determined to be minimal. This change in policy should have a significant psychological impact in discouraging potential dumping.

CONCLUSION

I am aware that there have been many problems in this field. I wish to emphasize in this connection that it is not the Treasury's objective, nor should it be under these statutes, to protect American producers from foreign competition which is able to undersell us because of natural advantages, for example, easy access to cheap raw materials. These do not fall within the purview of the anti-price discrimination statutes. It is our objective, on the other hand, to do everything we can to protect American producers from unfair foreign competition which falls within the provisions of the anti-price discrimination statutes.

Accordingly, our tightening of the administration of the anti-price discrimination statutes is fully consistent with the President's declared liberal trade program.

The CHAIRMAN. Are there any further questions?

Mr. VANIK. I regret the Secretary is not here. I wanted to give him my reaction to DISC. I have no enthusiasm for the proposal at the outset. It seems to me it just expands tax privileges. I would like to do the other thing and take away the privileges, the loophole privileges that the foreign subsidiaries already enjoy and put everything in balance.

I would like to ask this question: The tax loss on this proposal is what; $600 million? Is that the projected figure?

Mr. VOLCKER. We have estimated $450 to $600 million.

Mr. VANIK. Is that the first year's tax loss? What is your projection for 5 years?

Mr. VOLCKER. It would presumably increase as the volume of exports increases. However, to the extent exports increase as a result of the DISC, there is no further revenue loss since such revenues would not have been collected anyway.

Mr. VANIK. What would you expect it to be in 5 years?

Mr. VOLCKER. We would have a larger base of exports possibly offset by the deferral privilege coming home to roost, so to speak, and the dividends would be paid so you would get offsetting revenues.

Mr. VANIK. I have never seen a tax proposal submitted to this committee that did not have a long-range projection appended to it. It seems to me we ought to know not only the immediate tax loss but the revenue loss the year after that, and so on.

I think we should be thinking in terms of a 10-year period. It seems to be expecting too much to have this committee and the Congress accept such a guess as to what future costs of this incentive program might be.

Mr. VOLCKER. We will be happy to provide an estimate as best we can make it, Mr. Vanik, at this point.

Mr. VANIK. Will we have that during the course of these current hearings?

Mr. VOLCKER. Yes, sir.

(The information requested follows:)

TREASURY REVENUE ESTIMATES

Treasury indicated in its testimony that a year of full-time operations of the DISC would involve an estimated revenue cost of $450 to $600 million. Over a period of five years, the direct revenue cost could be expected to rise somewhat, to a $600 to $750 million range. Over this period, however, several offsetting gains (e.g., the tax on distributions by DISC's) would begin to accrue, reducing significantly the net direct budgetary cost. Further, the long-range stimulative effect of this proposal—in the form of additional jobs, additional investment and additional exports—must also be taken into account. While these

long-range compensatory benefits cannot be priced, they are expected to be substantial and to offset materially—and in time perhaps totally—the direct revenue cost of the proposal.

Mr. VANIK. In connection with the DISC proposal which I term an effort to slow down the payment of taxes to the Federal Treasury, are corporations required to increase their exports over present levels before getting the benefit of this new tax benefit or do you just start from dollar one?

Mr. VOLCKER. This would apply to all exports.

Mr. VANIK. In other words, we are going to be giving this benefit to corporations that are already in the business and to the extent they are already doing it we are going to give them a windfall.

In other words, if they just produce as much business next year as they did this year they will get a tax bonanza that they don't get this year, is that right?

Mr. NOLAN. We would not view that as a windfall.

Mr. VANIK. Does it have the effect of a windfall?

Mr. NOLAN. No; I do not think it does. In the first place, there are a number of companies that have responded in recent years to the voluntary program for maintaining or increasing their export levels. There would be a serious matter of inequity in depriving those companies who had responded to the voluntary program of this benefit.

In the second place, and perhaps even more important, we are as much interested in affecting the day-to-day decisions of companies as to whether they should transfer their manufacturing operations abroad or keep them here as we are in increasing exports. There is a constant tendency to move American manufacturing activity abroad. We are just as much interested in maintaining, as much as we can, those jobs in this country as we are in increasing exports. Any attempt to apply this on an incremental basis would simply not take account of that factor. Thus, the DISC would provide no benefit, if an incremental approach were used, for maintaining existing U.S. operations in the United States rather than transferring them abroad.

Thirdly, the mechanical problems of creating an incremental type of export provision of this nature are monumental. We tried that. It would be just as complicated as the excess profits tax law would be, and the proposal falls of its own weight under those circumstances.

One of the basic objectives here is to make that benefit available to smaller companies and middle-sized companies in a simple form utilizing a domestic corporation that everyone can understand and apply. We are trying to provide an equivalence of treatment between our largest companies and our other companies and the incremental approach is just too complex.

Mr. VANIK. As far as my question is concerned, are corporations required to increase exports over present levels before getting the new tax benefit. The answer is no?

Mr. VOLCKER. Right.

Mr. VANIK. The second question is, are we going to provide a tax benefit to corporations who are doing what they are already doing?

Mr. NOLAN. For maintaining their existing level of export.

Mr. VANIK. Has your Department received any commitments from private corporations that they will in fact increase their exports as a result of these new tax benefits? I happened to see some rather dis-

couraging comments by the press that seemed to indicate there was no great reaction to the proposal.

Mr. NOLAN. I don't think those press comments are fair. I was part of the team from Treasury that went around the country talking to businessmen in different cities throughout the United States ascertaining what their feelings were. Of course there are some companies that would prefer a more drastic change, such as fully exempting all export income from U.S. tax. However, by and large, the sentiment was overwhelmingly in favor of this proposal. That comes from not only large companies but from what we would call middle-sized companies in this country. We have been in touch with literally hundreds of companies about this proposal.

It seems to me in the overall we can only describe their sentiment as being strongly in favor of this concept.

Mr. VANIK. To give us a projection, we need this to know what effect it will have. Can you provide the committee with a list of the corporations and the amount of proposed expansion in exports if this privilege were to be considered by the Congress? Can you give us the dollar value of their projections?

This might be helpful to us. If you want to get the law changed, we ought to have the information.

Mr. NOLAN. We do not have that kind of data. Projections of that nature would be almost impossible for us to obtain. We would certainly provide some summary of the verbal reactions that we have gotten from companies, the kind of oral assurances they have given us, illustrative assurances they have given us as to how it would affect their decisions. I don't think we can provide a projection of specific numbers, because those data are not available.

Mr. VOLCKER. This is just one aspect that will affect our export performance over the years. It is our opinion that our present tax system serves as an impediment to exports from the United States as opposed to manufacturing abroad. We seek to remove that impediment. However, taxes are only one factor in a decision whether to export or manufacture abroad.

Mr. PETTY. As I recall, Mr. Vanik, it is more like 93 corporations might account for about 43 to 50 percent of the exports of manufacturers. These are the same corporations that the testimony that Mr. Nolan provided indicated are more likely to have a large international network. Those corporations that have an existing foreign tax credit under present operations are, therefore, more likely to be able to use the foreign tax credit under the present law for their export income. Therefore, the benefits of DISC would not fall as heavily in favor of these corporations as it would the small, new exporters.

Mr. VANIK. Is it not true that these corporations would be among the Nation's 500 largest, the 93 percent that have 50 percent of the export volume? They would be among the largest?

The question goes through my mind, does this not really amount to a tax reduction for the benefit of a few corporations, just a backdoor method of getting a corporate reduction?

Doesn't it amount to that? Didn't the Senate repudiate that last year?

Mr. VOLCKER. We are clearly trying to make a change in the tax structure here which is in accord with the national objective. As Mr.

Petty was suggesting, we think proportionately the benefit will be less for these larger corporations that already have foreign operations than for a smaller corporation that cannot take advantage now of the foreign tax credits.

Mr. VANIK. Is it true this proposal will primarily aid existing giant corporations that can set up subsidiaries?

What benefit is a tax deferral to a new company that has little or no profits?

Mr. VOLCKER. It is of no benefit to a company with no profits.

Mr. VANIK. It will help the giants.

Mr. VOLCKER. It is not only the giants that have profits.

Mr. VANIK. The way we are going no one is going to have any profits.

Mr. VOLCKER. We hope we won't reach that point but I would think this might well be an encouragement to a smaller or medium-sized firm that is thinking about entering the export business, and the fact that he can take advantage of this provision, looking toward the future years of profits and could well help induce him to make that decision, and that is the kind of decision we want to affect.

Mr. NOLAN. It might be useful if I gave you a few of the names of the companies from whom we received favorable comments. They are: Monroe Auto Equipment Co., S. & C. Electric Co., Vaughan & Bushnell Manufacturing Co., Tee-Pack, Inc., Kimberly-Clark Corp., American Equipment, ONC Motor Freight, Gilson Bros., Varian Corp., T. Anderson Co., Dana World Trade Corp., General Binding Corp., Dymat International Corp., Culligan, Inc., Square D Co., Skokie International, Collins Machinery Co., Atlantic Chemical Co.

Those are in general some smaller and middle-sized companies that seemed thoroughly enthusiastic about the potential of this proposal for them.

Mr. VANIK. Do I understand you don't have any of the big companies in your list?

Mr. NOLAN. No; I have the big ones, also. I have the list divided according to size, but these companies were very enthusiastic about this proposal and none of them are among our largest companies.

Mr. VANIK. I think it would be helpful to have a list of their projections. I see no reason why not, in order that we can see the effect of it. Wouldn't this proposal primarily benefit conglomerates? I can't see how it can help a single corporation whose only business is exporting. Wouldn't it serve more to help the conglomerates?

Mr. VOLCKER. I don't see where that would be the case, Mr. Vanik. I think it will help the exporter and it will help the industry that exports the most. It is clearly designed solely to help the industry that exports whether it is a conglomerate or not. To the extent a conglomerate does not export and does not export a great deal, it will not help him.

Mr. VANIK. Doesn't GATT prohibit this?

I understand GATT specifically prohibits this kind of thing.

Mr. NOLAN. We have given a lot of attention to this matter. What the GATT prohibits is a forgiveness of direct taxes or an exemption of export income from taxes. This proposal does neither of those things. This is merely provision of tax deferral for export income, just as we presently provide for foreign direct investment income, and tax deferral has not been found to be a violation of the GATT. The British had the Overseas Trading Corporation tax concept from the years 1958

to 1966 which was very similar in nature to this proposal and which was never challenged under GATT.

Mr. VANIK. The deferral of income taxes provided in this proposal could be permanent.

Mr. NOLAN. It depends on the——

Mr. VANIK. Is it possible to be permanent?

Mr. NOLAN. It is possible. If the company continues to expand its export capacity, the deferral could in effect be permanent.

Mr. VANIK. Isn't a permanent deferral of the corporate income tax a violation of the GATT provision?

Mr. NOLAN. There really is no way to determine in advance how long earnings will be retained by companies. Distribution will be made at some point in time. As long as it is a deferral only, it is not a forgiveness of tax, nor an exemption of export-income from tax, and thus does not violate the GATT.

Mr. VANIK. Is what you say backed up by any opinion of the Attorney General? Do we have a lawyer's opinion on that, or is it just your opinion?

Mr. NOLAN. We have the opinion of the General Counsel of the Treasury Department.

Furthermore, in this proposal I want to emphasize again what we are doing is providing only the same treatment for export income that we presently provide for foreign manufacturing and foreign sales subsidiary income. We are not creating anything new. We are merely providing an equality of treatment for export income. Thus, no tax preference is being extended to export income. It is merely being given equal treatment with that we provide for foreign direct investment income and which is provided by many foreign countries.

Mr. VANIK. Could the opinion of the Treasury Counsel be made a part of the record on the GATT question?

Mr. NOLAN. I am sure it could.

Mr. VANIK. I would ask unanimous consent that it be incorporated at this point.

The CHAIRMAN. Without objection that may be done.

(The material referred to follows:)

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., June 16, 1970.

Hon. WILBUR D. MILLS,
Chairman, Ways and Means Committee, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: At the presentation before the Ways and Means Committee by the Treasury of its proposal for a domestic international sales corporation (DISC) on May 12, 1970, it was requested that the Committee be furnished with an opinion as to the compatibility of the DISC proposal with the obligations of the United States under the General Agreement on Tariffs and Trade. (GATT).

The pertinent provision of the GATT is Article XVI: 4. That Article provides in part as follows:

". . . from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market . . ."

Thus, the DISC proposal would be inconsistent with the obligations of the United States under the GATT only if that proposal involved the granting of a subsidy and the subsidy would result in the sale of products for export at a price lower than the comparable price in the domestic market.

The GATT Working Party on Subsidies of November 19, 1960 (BISD, 9th Supp., Geneva, 1961) issued a report which, at page 185, sets forth a list of practices which would constitute a subsidy within the meaning of Article XVI:4, including the "exemption in respect of exported goods, of charges or taxes, other than . . . indirect taxes" and the "remission, calculated in relation to exports, of direct taxes . . . on industrial or commercial enterprises."

The DISC proposal involves neither the direct granting of a subsidy, the remission of direct taxes, nor an exemption from direct taxes. The essence of the DISC proposal is that United States tax on the export income derived through such a corporation, like the United States tax on income of a foreign subsidiary, would be deferred until distribution to shareholders, at which time the distribution would be taxed at regular rates.

Therefore, after having considered the provisions of Article XVI:4, official statements and reports regarding that Article, the internationally accepted past and present practices of various countries which are also bound by the provisions of that Article, and having considered in addition the provisions of the United States Internal Revenue Code for the taxation of income of foreign corporations, and having regard also for other relevant factors, I am pleased to advise you that, in my opinion, the DISC proposal, as presented to the Committee, is consistent with the obligations of the United States under the General Agreement on Tariffs and Trade.

Sincerely yours,

ROY T. ENGLERT,
Acting General Counsel.

Mr. VANIK. Has Treasury obtained views from other GATT countries?

Mr. VOLCKER. I have discussed the DISC concept with a number of GATT members, although not specifically as to its legality under the GATT, but they have been specifically informed of the proposal, and no one has raised any question about it.

Mr. VANIK. Is it possible the adoption of this proposal might cause foreign governments to do the same thing and retaliate by comparable measures of their own either to slow down——

Mr. VOLCKER. We feel foreign countries do in effect do the same thing. That is one reason why we have arrived at this proposal.

Mr. VANIK. The result would be they would be losing their Federal income taxes and we would be losing ours and the taxpayers in both countries would be suffering?

Mr. VOLCKER. Foreign countries in many instances have comparable provisions at present.

Mr. VANIK. Is there any other situation that you know of where we have something comparable to the DISC proposal, anything like this operating in the world?

Mr. VOLCKER. Yes, sir; the British had a very comparable provision in their Overseas Trading Corporation from 1958 to 1966.

Mr. VANIK. Is it comparable to the DISC proposal with the tax advantage?

Mr. VOLCKER. Yes, sir.

Mr. PETTY. Many others, Mr. Vanik, have the same privilege without the corporation actually being established in their own border. They locate extensively beyond their border and frequently have operating branches within their own borders.

Mr NOLAN. There are other tax provisions in other countries that achieve this same deferral and they have not been challenged under GATT. There has been very little litigation in GATT on deferral type devices of this nature, so there is good reason to assume from that fact, and also from the fact that the countries which are parties to the

GATT have not challenged these provisions, that they are not in violation of the GATT.

Mr. VANIK. Is it not true the countries with which we experience balance-of-payments deficits are not the countries that buy U.S. exports.

Mr. VOLCKER. I have difficulty in answering that question, Mr. Vanik. I don't think we can usefully appraise our balance-of-payments situation looking at it country by country in a multilateral world. We certainly sell our exports to a great variety of countries, some of which we would have a bilateral deficit with and some of which we would not. We would like to encourage more exports to the world at large, including both the surplus and the deficit countries.

Mr. VANIK. It seems to me this information is important because it could tell us how this proposal is going to help our balance of payments. I think it is essential for us to know that.

Let me ask another question: Suppose a manufacturer imports all of the components of an item and then exports the assembled product. Will this qualify for the tax incentive?

Mr. NOLAN. Could you state that again?

Mr. VANIK. Suppose a manufacturer imports all of the components of an item and then exports the assembled product. Will this qualify for the tax incentive?

Mr. NOLAN. It would not qualify. We will have a specific rule that requires a 50-percent U.S. content in the product before it will qualify as an export sale for this purpose.

Mr. VANIK. So the 50-percent rule will apply.

Mr. NOLAN. That is right, not more than 50 percent of the value of the exported article may consist of the use of imported materials or components.

Mr. VANIK. Supposing a company exports an item and then it is reimported into the United States. Will this export qualify for the tax benefit?

Mr. NOLAN. The answer is no.

Mr. VANIK. How do you expect to police that?

Mr. NOLAN. We have a specific rule that precludes that. In the case of a related company where there is a sale to a related company outside the United States it will be necessary to insure that that corporate group is not going to reimport the product into the United States, and without that assurance the sale wouldn't qualify.

Mr. VANIK. How does DISC apply to combination export managers, the export brokers; if DISC benefits are available then these corporations become tax exempt; don't they?

Mr. NOLAN. The DISC proposal will be available to a combination export manager; that is correct.

Mr. VANIK. They become tax-exempt corporations; don't they?

Mr. NOLAN. The tax will be paid by the shareholders of the CEM Corp. when the distribution occurs.

Mr. VANIK. Is there a change in that reply?

Mr. NOLAN. The tax will be paid by the shareholders when the income is distributed. We most certainly do not want to adversely affect the position of CEM's—combination export managers—in our export efforts. They perform an immensely valuable function and this proposal has been structured so as to continue to give them an op-

portunity to achieve the same kind of tax deferral as a company not using a CEM.

Mr. VANIK. You want to preserve and protect the export combination broker. He represents a lot of small exporters.

Mr. NOLAN. That is right. It is designed to provide the same benefit for him as anyone else.

Mr. VANIK. There have been reports that companies go abroad and set up subsidiaries using cheap labor and import the products back to the United States. Doesn't the present tax deferral awarded the U.S. controlled foreign subsidiaries subsidize this process? Isn't this a tax preference that is unfair to the direct importer? I am talking about the benefits the foreign subsidiary has.

Mr. NOLAN. There would be a tax benefit if they were in a low tax foreign country.

Mr. VANIK. I have just a couple of more questions, Mr. Chairman. I have been working all afternoon on this.

Is it possible that this proposal may have the effect of reducing employment in this country? For example, it permits investment in the stock or security of foreign sales subsidiaries that are engaged in packaging or assembling the product in the foreign country. Wouldn't that have the effect of reducing employment in the United States?

Mr. VOLCKER. I would certainly think the major effect of this one would increase employment in the United States to the extent it helps us preserve export markets.

Mr. VANIK. Did you think it would have exactly the opposite effect?

Mr. VOLCKER. I do indeed.

Mr. NOLAN. I would like to point out we will have a specific limit on the extent to which value can be added by packaging or assembly abroad. We contemplate that the great bulk of the value must be U.S. exports, must be U.S. value, and not be the result of foreign assembly or packaging operations.

Mr. VANIK. There are other reasons besides the tax benefits for which the U.S. companies form foreign subsidiaries. Do you think this is going to get around those other reasons that have really had a great part in the establishment of foreign subsidiaries?

Mr. VOLCKER. We are not working a revolution here, Mr. Vanik. There are many reasons why companies want to move abroad. We are trying to remove one tax incentive to produce abroad rather than to produce in the United States. We would like to equalize the impact of the tax system on these devices. That does not mean that American companies are not going to continue to invest abroad. We simply want to remove this particular artificial incentive toward investing abroad rather than exporting from the United States.

Mr. VANIK. Certainly I can say this proposal is extremely complex. I can see that we are going to have an awfully difficult time just trying to interpret it and explain it to our colleagues in the House.

My own position, Mr. Chairman, is I am trying to simplify tax laws. I am trying to make them more understandable. It seems to me this is a very complicated new thing that seems to establish a real preferred tax treatment for some taxpayers at the expense of all the others.

Mr. NOLAN. We have tried to develop this proposal in such a way to limit its effect to the purpose that it is designed to achieve. This

makes the various limitations and rules necessary. In explaining it the first time through, it necessarily seems complicated, but basically I think that on further study you will find that it is not really that complicated. There are a few basic rules that are entirely understandable and consistent with the purpose of the proposal and once they are laid out, the limitations and detail rules fall into line and are easily understood. It is not as complicated as it might seem on the first time through it.

Mr. VANIK. I have one final question. Do you have any figures as to the amount of export sales now subject to the U.S. corporation taxes which would be relieved of such taxes under your proposals? What in sales are we talking about?

Mr. VOLCKER. We are talking about some $40 billion-odd of export sales. In a sense, I suppose all of these potentially if they are profitable, are subject to U.S. tax. We don't have the exact information on the exact size.

Mr. VANIK. Your estimate of $46 billion——

Mr. PETTY. That is for fiscal year 1972.

Mr. VOLCKER. That is not the same amount that would be funneled through one of these DISC corporations.

Mr. NOLAN. We have not in those figures included a full offset for the extent on which current exports are currently shielded by U.S. tax laws by minimum distribution elections.

As I said in my statement, we don't have the data to measure the full extent of present deferral on export income, but certainly there is a significant amount of export sales of U.S. companies today that is already being shielded from U.S. tax by the flexibility available to very large companies under subpart (F) and the foreign tax credit previous.

Mr. VANIK. What do we include in sales? Do we include franchise and licensing?

Mr. PETTY. Just goods and commodities. The license income and royalty phases are handled as separate income.

Mr. VANIK. You can assure me there is no language in here which would permit franchising or licensing for the sale of technical services?

Mr. NOLAN. We have carefully drawn the language to exclude this.

Mr. VANIK. So the items produced are commodities produced here.

The CHAIRMAN. Mr. Corman.

Mr. NOLAN. May I add one small point to that?

We do cover services that are ancillary to the sale of the goods by the DISC. That is to say, services which are part of the sale of the goods themselves are covered.

Mr. PETTY. An engineering contracting firm working on a foreign project, designing it, installing it—his contract fee is directly related to the sale and is a legitimate item.

Mr. VANIK. That would be entitled to tax benefits?

Mr. PETTY. Yes, sir.

Mr. CORMAN. Turning a minute to agricultural exports, I assume it is not the practice in marketing them to create foreign subsidiaries such as some of the other manufacturers can do.

Mr. NOLAN. To the contrary, it is very much the case. A few large companies have foreign subsidiaries to handle a large volume of our agricultural exports.

Mr. VANIK. Mr. Corman, I have just one question. Would you yield for one question?

Mr. CORMAN. Yes, sir.

Mr. VANIK. The Western Hemisphere Trade Corp. permits a reduction of 10 percent. Would the Treasury favor repeal of this since their purpose would seem to appear to be contrary to DISC?

Mr. NOLAN. I don't think it is contrary to DISC and we would not favor prohibited repeal of the WHTC provisions. The Western Hemisphere Corp. provisions are designed to provide a benefit to operations largely in Latin America and they have worked well over the years. They are not limited to sales operations. They include manufacturing activities. It has been a very successful program and I do not think we would want to affect that role.

Mr. CORMAN. I wonder what the attitude of the administration would be if we decided to couple the passage of DISC with a 1-percent increase in the corporate tax rate to offset the revenue loss of DISC. As I understand it, we don't have any extra money and if we are going to have a tax cut we will probably have to find it someplace else.

Mr. VOLCKER. As Secretary Kennedy indicated in his statement, we are proposing the effective date be deferred until fiscal 1972 so that the revenue impact could be assessed in terms of the total fiscal impact and total budgetary program for that fiscal year. I think that question could only be dealt with in that context.

Mr. CORMAN. If we assume for the moment—I don't think it is a wild assumption—that even 2 years from now we will have needs, we have difficulty financing, would this be a reasonable approach to preserve our revenue income to offset this tax loss with a commensurate corporate tax increase to meet whatever the anticipated loss might be?

Mr. VOLCKER. We would prefer to approach that question on its own merits as to whether the corporate tax is too high or too low and that question should be answerd, I think, in that context and not in a context of a tradeoff for this particular program.

Mr. CORMAN. Do you concede if we do anticipate this kind of a revenue cut that we have to anticipate either increasing our revenues or cutting our spending.

Mr. VOLCKER. As with any other program that costs money, cost expenditures, or cost revenues, that question is relevant.

Mr. CORMAN. Do you have any suggestion as to how you would like to see us solve it?

Mr. VOLCKER. No, not at this time; and I think it will be solved in the context of the budgetary program for fiscal 1972.

Mr. CORMAN. When you made your estimate of $400 to $600 million revenue loss, I take it that you looked primarily at the $40 billion of export sales and estimated what the profits were and then estimated what the tax conditions would be.

Mr. VOLCKER. Yes, sir; given the proposed provisions for this corporation and various limits for its rules, limits to profits, and so forth.

Mr. CORMAN. Am I fair in concluding if 93 corporations have 50 percent of the export market for manufacturers that about half of this revenue impact would fall to 93 corporations?

Mr. VOLCKER. I don't think we can quite make that presumption, Mr. Corman, for the reasons Mr. Petty gave to Mr. Vanik.

Many of these corporations are the ones that through existing tax provisions can shelter some export income and would not have proportionate tax relief in this particular proposal.

Mr. CORMAN. Can you give me an idea how this might affect the aircraft industry? Do the aircraft manufacturers—they are big and identifiable—already use the process of a foreign subsidiary? What is their situation?

Mr. NOLAN. I have some familiarity with that industry. I think this provision will be of substantial benefit to that industry. By and large, they do not manufacture abroad and they do not have the same facility, as do some of our other large corporations, through the use of the foreign tax credit to use high foreign taxes to shield export income.

Their manufacturing is almost entirely in the United States, so that a provision which removes a disadvantage to exports as far as they are concerned is going to be beneficial to them.

Mr. CORMAN. Then really the only corporations that can use the present shield are those that have some manufacturing income abroad.

Mr. NOLAN. That is the principal way they can shield export income through an averaging process.

Mr. CORMAN. Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, I have just a few questions, and I would like to ask about the Domestic International Sales Corporation. Some have been covered, and some have not. What types of manufacturing businesses or enterprises here in the United States do you anticipate would be the principal users of a DISC facility, corporation? In what areas of production are they likely to be?

Mr. NOLAN. Nearly all companies that are engaged in the manufacture of the sales of goods, chemical companies, to some extent automobile companies, aircraft companies, manufacturers of farm equipment and heavy equipment of that nature, and the whole range of companies that produce goods for general consumption, as well as component parts for incorporation in other assemblies. They will all have the benefit.

I might add that the range of companies we have talked to covers the entire spectrum of products and product lines. We have received, as I say, I think, generally ovrwhelming support from all types of companies and from nearly all of the major trade associations.

The CHAIRMAN. You could get that if your proposal were merely a tax reduction. I am not being critical of your proposal at all because I think I understand your basic purpose. That is to equate, so far as possible, treatment of income from foreign business between domestic corporations and those having foreign subsidiaries. I understand that fully. I am trying to find out, in the light of the testimony that Secretary Stans gave us earlier today, about our balance-of-trade position. As he describes it, it is only in one of four categories that we have any substantial balance of trade in our favor.

That area, of course, is that in which labor costs presumably are low, in which automation is a big factor. Overall costs are reduced more in this area than in other areas because of the low labor content, and because our technology has not been equaled by countries abroad.

I wonder just how it would work. I wonder whether a very simple device like this would make a great difference in the problems we have today in being able to export.

The problem we face is that our prices are higher than the prices of goods made abroad so that we have difficulty selling the same article in a third country. Apparently we have even reached the point where

we have difficulty in meeting this competition here at home because of the price differential.

Does this simple device, the so-called DISC proposal, serve to equate that differential in price?

Mr. VOLCKER. This is not going to cure all of our export problems and all of our trade problems.

The CHAIRMAN. How much difference in price will it make? That is what I want to know. If there is any basis for making an estimate, will the proposal produce as much as a 10-percent reduction in the export price or even a 5-percent reduction?

Mr. VOLCKER. This is bound to be rather modest in those kinds of terms. Here we are talking about a revenue loss of $450 to $600 million on the basis of $46 billion in exports.

The CHAIRMAN. Less than 1 percent?

Mr. VOLCKER. Less than 1 percent, if spread over all exports; nearer 1.5 percent, if spread over the $33 billion of exports expected to move through DISC's; but we cannot reduce this all to price. It is not certain how different companies would react. Many will react differently. What we are trying to do is remove a bias in the tax system that we think works against exports. The particular form of the response of a particular company may be to increase promotional activities abroad. The company may think it is worthwhile to develop an export market over a period of time that it would not otherwise think worthwhile to exploit and develop. Another company may find it useful to make a different basic investment decision. Instead of building that plant abroad, he may decide now or for a number of years that it is still worthwhile to export from the United States.

There is a whole range of these kinds of decisions that I don't think can be reduced to a simple differential in price. This we hope will help stimulate corporate management to look harder at export markets and to look harder at them over a period of time and devote additional effort, time, and talent to those markets. But this is not a proposal which is suddenly going to relieve us of all of our trade problems and suddenly produce all by itself a glorious expansion in exports and solve our balance-of-payments problems. This is a more modest and limited step in a range of efforts that have to be taken over time to make American industry more competitive and more export minded.

Mr. VANIK. In reply to the statement you said something about $46 billion in exports.

Mr. VOLCKER. That is total export sales.

Mr. PETTY. The difference was I was referring to fiscal 1972 and Secretary Volcker is referring to the calendar year 1970. I think it was just accounting periods we talked about.

Mr. VANIK. I am still not clear on that.

Mr. PETTY. The estimate of exports for calendar 1970 is somewhat over $40 billion. The revenue estimate that we referred to fiscal year 1972——

Mr. VANIK. Which begins next June.

Mr. PETTY. The incremental growth figure is approximately $6 billion.

Mr. VANIK. Thank you, Mr. Chairman.

The CHAIRMAN. I still am a little confused. I believe I understand the proposition; I think that it has as its purpose to make the tax law

neutral with respect to business decisions and the method by which we will operate a given business. I recognize that presently that neutrality does not exist. An American manufacturing concern that wants to sell abroad finds that it has a distinct advantage in dealing abroad through establishing a foreign subsidiary to manufacture the product abroad and to sell it in the third country.

There is that tax advantage. But I had understood that it is not altogether the lack of neutrality in our tax laws that has prompted the decision to use foreign subsidiaries. The purpose primarily is to produce a product that can sell at less price than the price of the product produced in the United States. If we are going to move to increase exports of American-made goods, it seems to me that any proposal should be accompanied by a reduction in the price of the goods made in the United States compared to the price of the goods made by an American subsidiary in some foreign country.

If we are looking at this proposal solely on the basis of establishing tax neutrality, I question whether we want to accept it if the revenue loss, even at a time beginning July 1, 1971, is this great. It seems that most everything that has any revenue effect is being postponed until the beginning of fiscal year 1972.

I am afraid we are going to wake up and find out too much has been made effective on that particular date. We will have the 1972 budget in far worse shape than I think the 1971 budget is going to be.

I don't want to throw cold water on an idea that may work and perform miracles, but I have not as yet seen any real proof that any increase in the volume of exports will not be more than offset by the decrease in the prices of our exports when you consider what prices will have to be reduced in order to have such an increase in exports.

Your projection is a $6 billion increase in exports in a short period of time.

Mr. VOLCKER. This would be natural growth.

The CHAIRMAN. I know, but whether we will have that natural growth is what disturbs me as I go into this hearing. It is possible that we may have reached the point where we should begin to think in terms of whether we can even hold our present exports position. You and I know that our problem is price; is it not?

Mr. VOLCKER. That is a part of it.

The CHAIRMAN. There is a difference in price and the price is made up of the components of cost. Unless we can do something to affect these cost components, prices cannot be reduced if profits are to be made. If you forgo all taxes on exports, which you are not recommending, of course, that would be a material effect upon the price that a manufactured article could be sold at abroad. I agree that it inolves too much money, but since this is one of the cost elements there could be some reduction in price by reducing or eliminating taxes.

Now, the advantage of the tax deferment in their proposal as you and I would look at it, would be in the neighborhood of 1 percent, which would affect the whole price of the article. I don't think that would have enough impact to give us very much increase in exports. That is just my impression. I want to study this proposal more.

Mr. VOLCKER. I want to be perfectly clear, Mr. Chairman, we don't present this as a solution for all of our trade problems.

The CHAIRMAN. I understand that.

Mr. VOLCKER. It clearly is not. It is one factor we think we can usefully and equitably change that will assist in that process, but a great many other things have to be done most fundamentally dealing with our inflationary problem here and dealing in that very fundamental way to the price problem that you refer to.

I don't think this is at all hopeless task. I can look at the figures for the past decade or more and there was a period, for instance, in 1959 when our trade balance had virtually disappeared. Within 5 years we had achieved a trade balance of $6½ billion, or roughly 1½ percent of GNP.

The CHAIRMAN. As you look back, how did we do it?

Mr. VOLCKER. We did it by a period of orderly growth with price stability over an extended period of time and our competitive position appreciably improved during that period. That precisely is the kind of challenge we have before us for the next 5 years, and we want to repeat that performance.

The CHAIRMAN. You had price and wage stability.

Mr. VOLCKER. That is right.

The CHAIRMAN. How can we have it now?

Mr. VOLCKER. I think that is precisely what our total economic policies are aimed at achieving and restoring.

I would certainly agree that that is far more fundamental than this particular change.

The CHAIRMAN. Absolutely it is. It is most important that we get back to that stability. We all know that.

You said that you did not think that this proposal would have any adverse effect on independent export sales corporations, domestic corporations.

Mr. NOLAN. That is correct.

The CHAIRMAN. How can you say that, Mr. Nolan? Because through the very establishment of the DISC are you not eliminating the necessity for such an independent sales corporation?

Mr. NOLAN. There are a number of things we have done in that respect. We have permitted one DISC to sell to another. That is specifically designed for the situation where a company wants to get into the export sales business but has not developed an export market and is uncertain how to do it. It forms a DISC, it gets deferral benefits, and its DISC in turn sells to a DISC of a CEM. Thus, the deferral tax benefit is given to both of them, and we thereby encourage the preservation of the CEM. The more growth in export sales by smaller and middle-sized companies without foreign sales structures should result in greater use of CEM's.

Also the CEM can earn as qualified export income managing fees for managing DISC's of other companies.

We have bent over backwards to try to preserve the economic functions of the CEM in this process and to give them equivalent tax treatment. It seems to me that they will be preserved, that the greater volume of export activity which we hope will be generated by this will redound in some substantial part to the benefit of CEM's that have the know-how and the background for promoting export sales.

The CHAIRMAN. Let us look again at this matter of neutrality and equity. If the tax in the country in which an American corporation

has a foreign subsidiary is equal to the tax in the United States on corporations, is there any inequity between the operation of the foreign subsidiary in that country and the American corporation who might produce goods here and ship to that country?

Mr. NOLAN. Not if the corporate tax rate is as high as the U.S. tax rate.

The CHAIRMAN. Isn't the corporate tax rate in most of the developed countries at or near or above the American tax rate?

Mr. NOLAN. No, it is really not. You have to add in the withholding taxes on dividends to achieve that kind of equivalence. Let me give you a few examples of the effective rates of tax. It is not the nominal rate that counts so much. It is the effective rate after giving effect to accelerated depreciation allowances or other special deductions or reserve allowances. The effective rate of tax in Canada on all industry groups for 1964 of U.S. controlled foreign subs was 38.1 percent——

The CHAIRMAN. 1964?

Mr. NOLAN. Yes.

The CHAIRMAN. What is it now, though? Surely they are not operating on the same tax level in 1969 or 1970 that they had in 1964.

Mr. NOLAN. The statutory rate is 50 percent, which is higher than our statutory rate, but we have to deal in terms of effective rates and we have the data for 1964. We don't have it for more recent years.

The CHAIRMAN. Our tax rate is statutory, too, but we also deal in an effective rate, too.

Mr. NOLAN. Ours gets down to 43 to 44 percent.

The CHAIRMAN. And in some instances lower. Perhaps not in manufacturing but I remember one type of manufacturing where we found some evidence that the effective rate was a little lower than that in the case of a fuel company.

Mr. NOLAN. There are a number of countries that grant tax holidays which makes the residual U.S. tax a very important factor. The U.S. tax then is collected in full on the income, and the deferral privilege would be of maximum benefit.

The CHAIRMAN. Do we have any tax treaties with other countries with respect to withholding the tax on dividends?

Mr. NOLAN. The rate of tax on withholding is affected by a number of our treaties. It is reduced from the normal 15 percent or higher that these countries normally charge to 5 percent, other levels by treaty.

The CHAIRMAN. Let me ask you about the relationship of this proposal to section 482, Mr. Nolan. Does 482 come to your mind readily?

Mr. NOLAN. Yes; it does. We have given a lot of attention to 482 over the past year.

The CHAIRMAN. Isn't one of the two or three most important features of this bill really the easing off of the allocation rules imposed under section 482?

Mr. NOLAN. A key feature of this proposal is the specific definitive rules we provide for allocation of profits between the U.S. manufacturer and its related DISC. I would not want to refer to it as "easing off." What we are providing is a specific rule to determine the allocation of profit between the DISC and the manufacturer.

The CHAIRMAN. There may not be an easing off but would you agree that your new proposal does ease the situation somewhat?

Mr. NOLAN. It certainly provides more benefit than the existing 482 rules would provide.

The CHAIRMAN. Can't you do that by administrative action?

Mr. NOLAN. Yes; we could.

The CHAIRMAN. What other basic features of the proposal, however, that cannot be accomplished through administrative action?

Mr. NOLAN. We can't promulgate the basic rule itself which is to relieve the DISC itself of any corporate tax. It is a domestic corporation. It would be subject to U.S. tax but for the rule proposed.

The CHAIRMAN. You can't do that by regulation. What else is there in the proposal that you cannot do by regulation?

Mr. NOLAN. We propose a rule that would permit the DISC, if it were a domestic corporation, to lend its funds to its related companies without incurring constructive dividend treatment.

The CHAIRMAN. Can this be done under present law?

Mr. NOLAN. Not for foreign subsidiaries lending their funds back, but this would be a domestic corporation, so that rule would not be applicable.

The CHAIRMAN. You can do the second thing you mentioned, or at least the manufacturer can accomplish the second objective through the establishment of a foreign subsidiary, of course, right now?

Mr. NOLAN. Yes.

The CHAIRMAN. Is there any way the manufacturer can accomplish the third objective, the lending of the money from a domestic corporation to another domestic corporation under existing law?

Mr. NOLAN. I would think——

The CHAIRMAN. Is there any way in the relationship between the manufacturer and the export sales corporation or DISC that can be accomplished under existing law.

Mr. NOLAN. I think we would prefer and request that that be a matter of the legislation itself.

The CHAIRMAN. I know, but I say, is there any way, though, that the American manufacturer can accomplish this same objective through some other provision of law?

Mr. NOLAN. Certainly a domestic sales company could lend money to its domestic manufacturing parent, and the extent to which that would be treated as a constructive dividend could be specified by regulation, so the answer to your question is, yes, we could deal with that also.

The CHAIRMAN. Really, there are only two of the basic purposes here that could not be accomplished through some other provision of existing law, or through some other arrangement?

Mr. NOLAN. I think you are correct. What we need from the law, from a change in the law, so to speak, is the provision for relieving the DISC of tax under specified conditions, that is, that its gross receipts and assets be entirely devoted to export activity.

The CHAIRMAN. Why, if we do this, would a manufacturer quit using the foreign subsidiary? Would there be any reason why he would discontinue using a foreign subsidiary and return manufacturing to the United States and use a DISC?

Mr. NOLAN. I would think so, for the very reason you brought out earlier. We are providing a more definitive specific 482 rule for the allocation of profits between the DISC and its manufacturing parent, and companies presumably welcome that kind of certainty.

The CHAIRMAN. Have you talked with any companies, or have any of the companies you have consulted on this proposal indicated they would discontinue foreign manufacture of any particular article if the proposal were adopted?

Mr. NOLAN. I would offer as a specific example one small manufacturer of precision machines on the west coast. This company advised us by letter that "This would help maintain our position in export markets, and also would enable us to penetrate new markets in Latin America, Africa, and Asia. We were considering establishing a plant in the United Kingdom. This would be delayed or abandoned if DISC were enacted."

The CHAIRMAN. I don't want to bother you, but I see that Mr. Fox, who was just here with Secretary Stans, is nodding his head in answer to my question. This is a very interesting point.

Mr. FOX. We have had a number of examples, one given by the President, of a very large firm who is a member of the Tax Committee of the National Export Expansion Council, which is favorable to this proposal. He said that they had a foreign investment for a new manufacturing plant in mind, and they would not put that plant abroad. They would put it in the United States if the DISC were adopted.

Second, with respect to an existing facility, we were told in a consultation with business people that under the existence of the DISC exports that they now make in their foreign sub in the United Kingdom to a developing country market, they would discontinue and make that export from the United States if the DISC were in existence and available to them.

These two illustrations come to mind right off, but I think there are many more, and I believe when buisness firms appear before this committee, they will have a number of examples to give you along those lines.

The CHAIRMAN. This proposal works, then, in the direction of actually bringing to the United States more jobs?

Mr. FOX. I would think that would be one of the principal conclusions, that the exports would represent new production from the United States, and therefore additional employment in the United States,

The CHAIRMAN. You are convinced it can work in that direction?

Mr. FOX. I am absolutely convinced.

Mr. VOLCKER. The difficulties arise as to making its quantitative impact, and here you have to keep in mind the very points you were making. This is not a revolution, but a change in the bias in the tax system that we are attempting to work here.

The CHAIRMAN. I can readily see that. In the answer to this question, I think we are really getting down to something most important. There should be testimony before the committee, in my opinion, by those who would use a DISC arrangement and thereby forego construction of plants abroad. Perhaps some might be welling to discontinue producing articles abroad, and begin to produce them here for export.

I think you need some of that testimony, frankly, to clarify the situation and to get the support that is necessary to pass any new ideas.

Mr. VANIK. On that very point, when you made the list of companies in response to a question by me, could you tell me how many

of those companies were already engaged in an export business? You gave a big enumeration of companies.

Mr. NOLAN. To some extent, most of those companies were engaged to a greater or lesser extent already in exports.

The thrust of their letters was they would increase their exporting activities under this proposal.

The CHAIRMAN. It is one thing to do something which has some effect in changing the situation. It is another to provide a vehicle to give those who presently engage in foreign trade a little tax break, temporary or otherwise.

That does not help our program at all. It helps the individual concerns to the extent involved, or in the percent that would be involved. What we need to hear now, however, is that even though they may be engaging in production abroad, through a subsidiary or otherwise, that if they can have the benefit of a DISC, then some of their plans for future investment abroad will be dropped, and the investments will be made here. That would mean more new jobs in the United States, that on the basis of prior planning would have been jobs abroad somewhere.

I would think we would want to explore this aspect of the proposal very carefully.

Mr. Corman.

Mr. CORMAN. I am trying to determine how you arrive at the estimate of $400 million to $600 million loss of revenue from DISC.

It seems to me, first of all, you are making every effort to structure it so that it is available to everybody, so you would anticipate that most of that $46 billion would have a tax advantage.

You indicated that you had not tried to arrive at an offset for those that are already using a foreign subsidiary as a method of escaping a tax.

It looks to me like that is pretty low. What profit factor did you use in trying to ascertain the tax loss?

Mr. PETTY. There are several things involved in the estimate. The first is an item of tremendous difficulty in making estimates where our statistics are not broken down toward export operations as distinguished from overall corporate operations—how do you allow for what all corporations tell us is the greater cost of selling overseas? An export sale is more expensive to make. How much do you mark down the operating profit of the broad cross section of U.S. corporations in making your estimate?

We took the $46 billion figure for fiscal 1972, made some reductions from the figure involving primarily nonqualifying exports where the 50-percent rule that Mr. Nolan provided excludes some for export from reimport.

We have no way of knowing whether that $2 billion figure is right or wrong. The only guide to our staff was make it conservative, and it is lower than what my hunch would make the figure.

You then come up with an eligible export figure of $44 billion, and then concern with what the number of corporations would use the DISC in their export sales.

Again, in the first year we have assumed a very high figure of 75 percent, much larger than I would think corporations would switch to it, but again it is a conservative percent, 75 percent, or $33 billion would come under the rules of the DISC and the tax deferral.

The profits on that are assumed, one, the lower profit margin, much lower profit margin operating on agricultural products $7 billion of agriculture products, a figure near 1 percent might be more appropriate for agriculture export profit margins. For the bulk shipments, one-tenth of 1 percent is closer on the big grain shipments. Margins are very narrow there.

There are limitations in the amount of deferral a corporation can enjoy under the DISC, which would cause us to estimate that the DISC profit would be about $1.4 billion.

Mr. CORMAN. On $33 billion, the profit would be $1.4 billion?

Mr. PETTY. Yes, sir.

Mr. NOLAN. That is partly a function of the limitations on the amount of profit that could be put into a DISC, which I explained.

The basic rule is 4 percent. There is an alternative rule that 50 percent of the profit on the overall transaction can be put into the DISC.

Mr. CORMAN. If it goes over 8?

Mr. NOLAN. That is right, but the basic rule for most companies will be the 4-percent rule.

Mr. PETTY. Taxing that $1.4 billion at 48 percent, the tax deferral comes out to $720 million. That figure is reduced by two items—again we are estimating, here—exports that presently enjoy the provision in the the Western Hemisphere Trade Corp., and we are making a very broad guess—there is no other word—as to the amount of exports that have their tax liability reduced through the operation of the foreign tax credit.

It is because of those two assumptions we bring the figure down to the $450 to $600 million range.

That does not include, as Mr. Nolan has identified, any provision or allowance for trading profits currently taken in foreign trading subsidiaries or for worldwide trading subsidiaries to taxes now paid to other countries, which we don't get, and therefore we should not properly count it as a revenue loss.

So we stand by the figures to the extent that they are a very conservative estimate, and many of us think the actual revenue effect would be considerably below that.

Mr. CORMAN. That 25 percent that you anticipate would not take advantage of the DISC, would that be the 25-percent smallest companies in business?

Mr. PETTY. It would be partly those, partly corporations. The smaller companies, I think, after getting a bit of experience would go to the DISC. They would probably start out through the combination export manager route, which is the CEM's primary function.

Mr. CORMAN. We are peeling off $11 billion that we think is not going to take advantage of DISC, and I am wondering who they are.

Mr. PETTY. There are many corporations that have established patterns of sale which they would not seek to change certainly in the early parts of a provision, a change in the tax code.

We originally assumed the first year of corporations that would find it advantageous to use the DISC might be as low as 50 percent, but we have marked that up just in the interest of conservatism.

Mr. CORMAN. That would get us back to the 93 corporations. I know you are going to tell me some of them do not pay any tax, anyway, and perhaps that is right.

Mr. PETTY. That was not the thrust of my comments.

The CHAIRMAN. You gave Mr. Vanik some idea of some of the medium size and smaller companies that you contacted who looked with favor on this program. I think it would be well for you to put in the record, if you don't mind, some of the others that you also contacted, if there is no objection on their part.

Mr. NOLAN. I don't think there will be. We will provide a summary of the comments we have received.

(The information requested follows:)

COMPANY AND INDUSTRY RESPONSES TO DISC PROPOSAL

On May 12, 1970, during the Treasury Department's presentation of the DISC proposal to the House Ways and Means Committee, the Treasury was asked to furnish the Committee with the names of companies that had been in contact with the Treasury concerning the benefits that they saw for export expansion.

1. The following is a list of companies with paraphrases of their comments on the DISC:

Monsanto Chemical (St. Louis, Mo.)—Very beneficial to U.S. exports.

Emerson Electric (St. Louis Mo.)—Enthusiastic.

MWM Company (Detroit, Mich.)—Very much enthused—will be able to increase exports by at least 10 percent in first year, 5 percent each year thereafter.

ITE Imperial International (Chicago, Ill.)—Attractive proposal for international companies interested in expanding exports.

S&C Electric Company (Chicago, Ill.)—Would improve ability to compete in foreign markets.

Tee-Pak Inc. (Chicago, Ill.)—We approve—DISC would go a long way toward encouraging U.S. exports regardless of company size.

Princeton Applied Research Corp. (Princeton, N.J.)—Especially helpful to small, technically oriented firms. This would expedite our growth in exports. We project an expansion of our U.S. production facilities to aid us in penetrating export markets. In view of the current economic climate, DISC provides significant help for financing this expansion.

Dymat International Corp. (Sherman Oaks, Calif.)—Very important impact—will strongly motivate businessmen to increase export sales—will have this effect on us.

Atlantic Chemical Corp. (Nutley, N.J.)—DISC arrangement needed to help us regain lost export markets by equalizing existing tax bias against U.S. exports. 3 to 5 year start-up time.

Culligan Inc. (Northbrook, Ill.)—Will place us in a more competitive position in export markets—we extend our support.

Yellow Springs Instrument Co., Inc. (Yellow Springs, Ohio)—I speculate that the existence of such a vehicle would tend to increase the export of our domestic production.

International Hospital Supply, Corp. (New York, N.Y.)—We could very well increase our export business from 50 to 100% if we had such a tax deferral. We have lost many orders which we know we could have realized had we had the benefit of this type of a Treasury law at the time of negotiations. We heartedly support the DISC proposal.

Cargill, Incorporated Law Dept. (Minneapolis, Minn.)—In favor—would have significant impact in helping us to compete in increasingly competitive wheat, feed, grain and oil seed markets abroad.

National Bank of Washington (Tacoma, Wash.)—Our Bank will be following the progress of the DISC with a view of active participation by depositors.

San Diego International Services (San Diego, Calif.)—The consensus among clients was heartily in favor of the program being adopted and strong in the belief that it will enhance the climate for U.S. exports and give many basis for expanding sales effort and plant expenditure.

Sun Chemical Corp. (New York, N.Y.)—Would substantially increase our export of the goods we manufacture. Woud permit us to become more competitive in the markets where we have potential customers. Our expanded export market would utilize our present excess production capacity and would result in an increase of our future capacity.

International Controls Co. (*Warrenton, Pa.*)—The result is obvious. We need more working capital in the form of accounts receivable to continue our international sales efforts. The DISC program will be a major step in that direction. Without it, our activities must be curtailed.

Union Carbide Corporation (*New York, N.Y.*)—Based on almost fifty years of export experience, we believe that it should provide real incentive and stimulus resulting in a significant expansion of exports.

Monroe Auto Equipment Co. (*Monroe, Mich.*)—DISC would be of tremendous assistance in increasing our participation in the international market and would be a great incentive for American companies to supply their world markets from U.S. plants.

North American Rockwell (*Pittsburgh, Pa.*)—Can be a very meaningful incentive for U.S. exports.

Erie Manufacturing Co. (*Milwaukee, Wisc.*)—It is my belief, that with such a program we could increase our export sales as much as 20% in a relatively short period of time. We believe that we can compete effectively in world markets on the basis of the quality of our product, if tax advantages enjoyed by foreign competitors are neutralized.

Kaiser Aluminum & Chemical Corp. (*Oakland, Calif.*)—Would, no doubt, be an important consideration in formulating future foreign investment policies and would tend to serve to stimulate and increase our exports of U.S. manufactured products.

Lockheed Aircraft International, Inc. (*Los Angeles, Calif.*)—The DISC proposal represents, in our judgment, a significant incentive to foster the exportation of U.S. goods and services.

Chicago Rawhide Manufacturing Co. (*Elgin, Ill.*)—It will provide incentive for exporters to more aggressively seek out new export opportunities which can only result in a significant improvement in the foreign exchange position of the United States.

Weyerhaeuser Company (*Tacoma, Wash.*)—The proposed export incentive legislation involving the Domestic International Sales Corporation proposal, in my view is a tremendous step forward and we give it our enthusiastic endorsement.

Sillcox Air Conditioning Corporation (*New York, N.Y.*)—We are all for the DISC proposal—It is a beginning and would certainly be helpful. Firms like us require the support, representing as we do some 30 U.S.A. manufacturers helping to support U.S. labor and trying to increase the balance of payments by direct shipments from here. DISC would enable us to enlarge our overseas sales activities which we project would increase our export sales by a minimum of $1 million.

Socar Trading Co., Inc. (*Greenville, S.C.*)—Our complete capitalization and operational expenses are directly allied to the export effort for our principals and their products. DISC will free otherwise reserved monies for tax earnings to finance overseas importers, parent companies etc., to further the upsurge of exports from the United States.

Joseph Stanley Co. (*River Forest, Ill.*)—The American exporter is at a tremendous disadvantage for many reasons in comparison to the foreign exporters in Europe, Canada, Japan, etc. The creation of a domestic international sales corporation is a step in the right direction, and we heartily endorse this proposal.

American Micro-Systems, Inc. (*Santa Clara, Calif.*)—The DISC proposal, if it becomes law, would probably enable us to develop a participation in the European market earlier than planned as well as increasing our exports to the far east. We offer our support.

Cariboo-Pacific Corp. (*Tacoma, Wash.*)—The DISC program can become a vital factor in our country's ability to cope with its competitors in world trade. Top management in these companies has been alerted to the potential value of the DISC program, and has expressed hope that it will become viable in a relatively short time.

Soiltest, Inc. (*Evanston, Ill.*)—This type of arrangement would be very effective for our company. Would enable Soiltest to be more competitive in the international markets and to retain jobs for our employees in the U.S. and actually increase number of U.S. jobs.

Medica International, Ltd. (*Chicago, Ill.*)—The DISC legislation will benefit U.S. exporters and achieve the objective of an overall increase in U.S. exports despite the negative impact of inflation.

Van Waters & Rogers (San Francisco, Calif.)—American companies need this approach to compete more favorably agressively and profitably in the world market.

Superior Air Products Co. (Newark, N.J.)—We are getting much more competition from Germany and Japan because of their direct or indirect assistance to their exporters. We believe that we should have comparable assistance from our own government to allow us to continue to compete in the world market.

2. The following is a list of companies that have written to support the DISC principle, but the Treasury Department has not yet had an opportunity to obtain their consent to the use of paraphrases of their comments:

Hendrickson International Corporation (La Grange, Ill.)
Shure Brothers Inc. (Evanston, Ill.)
United Export Corp. (South Bend, Ind.)
Finnigan (Palo Alto, Calif.)
Pacific Airmotive Corporation (Burbank, Calif.)
Princeton Gamma-Tech., Inc. (Princeton, N.J.)
Merck & Company (Rahway, N.J.)
Commercial Solvents, Corp. (New York, N.Y.)
Atlas Chemical Industries, Inc. (Wilmington, Delaware)
Circuit Foil Corp. (Bordentown, N.J.)
Vaughn & Bushnell Mfg. Co. (Hebron, Ill.)
Kimberly-Clark Corp. (Neenah, Wisc.)
American Equipment Co. (Chicago, Ill.)
American Express Co. (Chicago, Ill.)
O.N.C. Motor Freight System (Palo Alto, Calif.)
Gilson Brothers Co. (Plymouth, Wis.)
Honeywell, Inc. (Minneapolis, Minn.)
The Anderson Company (Anco) (Gary, Ind.)
Dana World Trade Corp. (Fort Wayne, Ind.)
International Harvester Company (Chicago, Ill.)
Matheson Scientific (Chicago, Ill.)
Stewart-Warner Corporation (Chicago, Ill.)
Aeroglide Corporation (Raleigh, North Carolina)
Franklin Electric (Bluffton, Indiana)
don Rancho-California (Ontario, Calif.)
General Binding Corp. (Northbrook, Ill.)
Square D Co. (Park Ridge, Ill.)
Skokie International Inc. (Evanston, Ill.)
Collins Machinery Co. (Monterey Park, Calif.)
Borg-Warner Corp. (Chicago, Ill.)
Massey-Ferguson, Inc. (Des Moines, Iowa)
Akron Tire Supply Co. (Akron, Ohio)
The Vendo Company (Kansas City, Missouri)
Nuclear Data, Inc. (Palatine, Ill.)
John Oster Manufacturing Co. (Chicago, Ill.)
Mallinckrodt Chemical Works (St. Louis, Mo.)
Western International Trade Corp. (Palo Alto, Calif.)
John Fluke Mfg. Co., Inc. (Seattle, Wash.)
Gehl Company (West Bend, Wisc.)
Gelman Instrument Co. (Ann Arbor, Mich.)
Belshaw Bros., Inc. (Seattle, Wash.)
American Photocopy Equipment Co. (Evanston, Ill.)
The ARO Corporation (Bryan, Ohio)
Neslo Manufacturing Corp. (Doylestown, Pa.)
Northrup, King & Co. (Minneapolis, Minn.)
Helene Curtis Industries, Inc. (Chicago, Ill.)
Libby, McNeil & Libby (Chicago, Ill.)
GREFCO, Inc. (Los Angeles, Calif.)
Lamb-Grays Harbor Co., Inc. (Hoquiam, Wash.)
Dynatower Crones, Inc. (Lake Forest, Ill.)
Panduit Corp. (Tinley Park, Ill.)
Hewlett-Packard (Palo Alto, Calif.)
Carrier Corporation (Syracuse, N.Y.)
Kaempen Industries Inc. (Orange, Calif.)
Swift & Company (Chicago, Ill.)
Byerly & Associates (Houston, Texas)

3. The Treasury also received a number of letters from trade associations and chambers of commerce in support of the DISC principle, including the following:

Scientific Apparatus Makers Association (Wash., D.C.)
Minnesota World Trade Association (Minneapolis, Minn.)
World Trade Club of Saint Louis, Inc. (St. Louis, Mo.)
International Trade Development Assoc. (Doylestown, Pa.)
Institute on U.S. Taxation of Foreign Income, Inc. (N.Y., N.Y.)
Colorado Regional Export Expansion Council (Denver, Colo.)
Manufacturing Chemists Association (Wash., D.C.)
American Paper Institute (New York, N.Y.)
Federation of Rocky Mountain States, Inc. (Denver, Colo.)
American Cotton Shippers Association (Memphis, Tenn.)
National Constructors Association (Wash., D.C.)
National Foreign Trade Council, Inc. (New York(N.Y.)
Machinery and Allied Products Institute (Wash., D.C.)
National Association of Manufacturers (New York, N.Y.)
National Export Expansion Council
Foreign Trade Association of Southern Calif. (Los Angeles, Calif.)
Washington State International Trade Fair (Seattle, Wash.)
Council of State Chambers of Commerce (Wash., D.C.)
Labor-Management Industry Committee for Domestic Motion Picture Production

The CHAIRMAN. Mr. Woodworth reminds me that I want in the record, too, of today, those special provisions we have in the tax law, if you can find all of them, that insure to the benefit of the foreign operation that you are talking about.

Mr. NOLAN. We will give you an analysis of those, also.

(The information requested follows:)

TREASURY DEPARTMENT GENERAL SUMMARY OF U.S. INCOME TAX PROVISIONS AFFECTING TAX PLANNING FOR SALES IN FOREIGN MARKETS

The Treasury Department believes that the structure of United States and foreign tax laws promotes greater flexibility and tax advantages in the case of United States companies organizing foreign subsidiaries for foreign manufacture and sale of goods and commodities than in the case of direct export sales from the United States to unrelated foreign customers.

U.S. Taxation of Income from Direct Exports from the United States

A corporation incorporated under the laws of the United States, other than a Western Hemisphere Trade Corporation, is subject to full current U.S. corporate income taxes on all of its income from the manufacture and sale or purchase and sale of property produced in the United States and sold by such corporation abroad.

U.S. Taxation of Income from Foreign Operations

A United States corporation is not subject to current U.S. income tax on income realized in the following circumstances:

1. *Foreign manufacturing.* If the U.S. corporation creates a foreign manufacturing subsidiary, the income realized by that subsidiary on its sales, wherever they are made, is ordinarily not subject to current U.S. income tax on its non-U.S. source of income, either directly or on the basis of a deemed distribution. See IRC sections 881, 882, and 951 *ff*. Only when such income is distributed as a dividend by the subsidiary to the U.S. corporation does the U.S. corporation have taxable income. At the time of distribution, a foreign tax credit is given by the United States (up to the full amount of the U.S. income tax on the dividend) for any foreign income taxes imposed on the income of the subsidiary out of which the dividend is paid and for the foreign withholding taxes imposed on the dividend itself.

2. *Foreign sales intermediary.* If the United States corporation creates a foreign subsidiary, which handles the sales of products or commodities that were manufactured or produced by a related company in the United States or in a foreign country, the sales income received by such subsidiary on such products is not taxed currently by the United States if any of the following rules apply:

A. the sales are made in the country of incorporation of the subsidiary (IRC Section 954(d));

B. the manufacturing or production occurred in the country of incorporation of the sales subsidiary (IRC Section 954(d));

C. the sales of such products are made out of the country of incorporation of the subsidiary and the gross income from such sales (and other foreign base company income) is less than 30 percent of the subsidiary's gross income (IRC Section 954(b)(3)(A));

D. the subsidiary qualifies as a foreign Export Trade Corporation with 75 percent or more of its gross income from the sale of property grown, extracted, produced or manufactured in the United States, and the deferred income does not exceed the lesser of 1½ times the export promotion expenses of the export trade corporation, or 10 percent of its gross receipts for the year, to the extent the income is invested in "export trade assets" (IRC Section 970).

3. *Minimum distributions—combining foreign manufacturing and a foreign sales intermediary.* If a U.S. corporation establishes a manufacturing subsidiary or subsidiaries in one or more countries with relatively high foreign tax rates, the products of such corporations and those of the U.S. parent corporation, may be sold through a foreign sales intermediary based in a jurisdiction with minimal local income taxes. If the rate of foreign taxes on the combined manufacturing and sales operations approximates 90 percent of the U.S. tax rate, U.S. corporate tax on the sales company income is deferred until its ultimate distribution. IRC Section 963. The considerable utility of this provision was summarized by corporate tax counsel in a professional tax publication as follows:

"U.S. companies that at present do not have foreign subsidiaries operating in low-tax-rate countries can now consider creating such companies, certain in the knowledge that they will be shielded from current U.S. tax, even if these companies earn substantial Subpart F income, so long as the requirements of this section are met. U.S. companies which presently have foreign companies of this nature can now consider creating additional companies of this type." "How to Determine Eligibility and Claim Exemption for Minimum Distributions," in *Practical Problems of Taxation of Foreign Income*, published by the *Journal of Taxation Inc.* p. 120 (1965).

4. *Inter-company pricing.* Regulations under section 482 of the Internal Revenue Code apply a strict standard for arm's length inter-company pricing on sales by United States exporters to foreign affiliates, thus limiting the advantages of a foreign sales intermediary used for the distribution of U.S. exports. In comparison, inter-company sales between foreign manufacturing affiliates and related foreign sales companies are subject to foreign inter-company pricing rules which are often less strict than the U.S. section 482 regulations. The comparatively lenient foreign rules, in combintion with the rules discussed above, and the possibility of organizing a sales company in a low tax country, provide an additional impetus for foreign manufacture by U.S. companies.

The CHAIRMAN. Are there any further questions?

Mr. BYRNES. To what degree now in the Treasury do you have sort of a survey of what other foreign countries may be doing in the area of taxation?

Mr. NOLAN. We have been working on a compilation of the provisions of the tax laws of other foreign countries which bear on this problem.

Mr. BYRNES. You mentioned before, Mr. Nolan, there were a number of countries that provided certain tax advantages for export. I wonder if it would be helpful, if it is available in any tabulated form, to see just what some of these other trading countries do in terms of their tax policy vis-a-vis export business.

Mr. NOLAN. Let us submit an analysis with regard to the foreign countries and their tax laws as they affect export activity.

Mr. VOLCKER. This would be helpful, but this gets to be a very complex matter affected by private rulings as well as public laws.

Just a simple matter, as a country that permits this kind of arrangement to operate, say, through Switzerland or some other low-tax country, is in effect providing the equivalent in a slightly different direc-

tion, and you have to appreciate the nuances of which countries the subsidiary can be located in, and what their tax is in turn, to fully recognize the impact.

So it gets very complex, but we will certainly do what we can do.

Mr. BYRNES. I realize it can get complex, but to the degree we can have it in a concise form, even if it is generalized—we know some countries think the tax law operates out of the hip pocket of someone rather than in the law, but to the extent you can get it on the basis of what their law is supposed to be, anyway, maybe this can be of some help.

(The information requested follows:)

PROVISIONS IN FOREIGN DIRECT TAXATION LAWS AFFECTING EXPORT ACTIVITIES

On May 12, 1970, during the Treasury Department's presentation of its proposal for the Domestic International Sales Corporation to the House Ways and Means Committee, the Treasury Department was requested to submit information regarding the income tax laws and practices of other nations which operate to the advantage of export activities. The following description of foreign income tax law and practices is confined largely to other industrialized countries. It should be noted that in many foreign countries tax treatment favorable to export activities is frequently accorded on an informal, administrative basis and may, therefore, be difficult to identify.

This memorandum is intended to suggest some of the income tax provisions and administrative practices that can affect the export of products from various foreign countries. Some of the most significant provisions that would affect tax planning for export sales were not intended as export incentives when adopted but evolved from traditional theories of tax jurisdiction and taxation of foreign source income.

Devices having the effect of export incentives range well beyond income tax measures, including, among others, direct grants, government credit facilities, interest subsidies, insurance, guarantees, internal shipping subsidies, exchange control privileges, and tax measures other than those affecting income taxes. Some forms of government assistance may be available ostensibly for domestic as well as export activities, making it difficult to classify them solely as export incentives.

Rebates of value-added and other turnover taxes provide an export inducement to exporters in countries having such sales tax systems.

The following summary is not exhaustive nor has it been verified by counsel in each of the countries. It is nevertheless believed to be accurate and, except where specifically indicated, current. The summary consists of a list of seven specific types of provisions. Attached to the list are individual country summaries for 17 countries. It should be recognized that numerous U.S. corporations have established foreign subsidiaries which have benefited from the favorable treatment discussed in many of these countries.

The various laws and practices are as follows:

1. *Taxation of Foreign Source Income.* Unlike the United States, many industrialized countries impose income taxes on a territorial basis, which means that foreign source income is often wholly or partially tax exempt. Such exemption may apply not only to income from direct investments abroad, but also to foreign sales of domestically-produced products either through a foreign subsidiary or through a branch or dependent or independent agent.

In the case of most developed countries, exports can be made through controlled sales companies organized in low tax jurisdictions with a consequent tax shelter for the sales profits. For example, a manufacturing corporation, A, in country X, which may or may not be a subsidiary of a U.S. corporation may make its export sales through a related sales corporation, B, located in country Y where corporate taxes are minimal. To the extent Corporation B makes part of the profit that Corporation A would have made in direct sales, the tax burden is reduced.

While most countries have protective provisions in their tax laws that permit the local tax authorities to reallocate income between related entities, different countries have different rules as to such allocations, and considerable flexibility is often found in intercompany pricing. In at least some cases (as indicated below) it is understood that no reallocation would result from the prices charged

by Corporation A to B as long as Corporation A earned at least one-half of the combined profits.

In some cases foreign sales corporations can establish purchasing and coordinating branches in the manufacturer's home country without affecting the income tax exemption of the foreign sales corporation, while facilitating exports through the sales corporation.

2. *Specific Export Income Exemptions.* Some countries, such as Ireland, have income tax exemptions for export sales. Such exemptions are sometimes limited to products produced in free-trade zones or depressed areas. As indicated below some countries extend income tax exemptions or other benefits to companies locating in depressed areas, but in practice the benefits are offered largely to companies with a high export or import substitution potential.

3. *Accelerated Depreciation.* Several countries (e.g., Japan, France) permit or have permitted accelerated depreciation allowances for assets used in export production.

4. *Special Reserves (Market Development, Bad Debt).* Several countries, (e.g., Australia, France, Japan, Spain) have permitted special deductions for export market development or special bad debt reserves in connection with export credits.

5. *Special Deductions, Rate Reductions or Credits Related to Exports.* Australia reduces payroll taxes by an amount related to export increases. New Zealand permits a deduction from income taxes of 15 percent of increased export receipts. France permits deductions for the expenses of establishing foreign sales offices although income from such offices may subsequently be exempt.

6. *Favorable Inter-company Pricing Rules.* Either express rules or administrative practices frequently provide an additional incentive for export transactions through related foreign subsidiaries. In some countries, administrative practice permits considerable flexibility in inter-company pricing rules. In some jurisdictions, rule-of-thumb allocations permit 50–50 divisions of taxable income, even in cases where the foreign subsidiaries perform minimal functions.

7. *Discriminatory Allocation of Benefits Based on Export Production.* In addition to provisions related formally or informally to exports, there are often benefits (tax holidays, capital grants, investment allowances, interest subsidies, etc.) designed to attract new investments which are not always tied to exports in the legislative enactments, but potential exports are an important factor in the granting of such benefits. In some cases, the import substitution effect is also of importance in granting such benefits.

Not only are each of the devices listed above employed by one or more foreign countries, but the cumulative effect of these devices used by certain individual countries should not be overlooked. Thus, for example, Japan uses the following in combiation:

1. Accelerated depreciation based upon export performance;
2. A deductible reserve for the development of overseas markets;
3. Special deductions for a variety of activities producing foreign exchange;
4. Liberal entertainment expenses to promote export sales.

AUSTRALIA

Foreign Source Income

Income derived by a resident Australian company from foreign sources is exempt from Australian income tax provided that it is not exempt from tax in the country of origin. The income earned by a foreign sales subsidiary of an Australian company is not subject to Australian income tax until distribution to Australian shareholders.

Export Market Development Rebate

Australian law provides a tax rebate (credit) of 42.5 percent of an expenditure incurred for export market development and also permits the full deduction of the expenditure incured. The combined effect, as computed under the tax laws, permits a total tax saving of 87.5 cents for each dollar of expenditure. Qualified expenditures include among others: market research, overseas advertising, certain travel expenses, labels and packaging for export, protection of property rights, the preparation of tenders or quotations, and the supplying of technical data.

Payroll Tax

A refund of payroll taxes is made in the event of an increase in export sales over a base period.

BELGIUM

Foreign establishments and subsidiaries

Income from a foreign establishment of a Belgian company is taxed at a reduced income tax rate equal to one-fourth of the ordinary rate; provided the income was generated and taxed abroad.

The income of a foreign sales subsidiary is not taxed until dividends are distributed. Upon distribution, the net dividends received (after deduction of foreign tax) are subject to a 10% tax withheld by the paying agent in Belgium. The amount remaining after the foreign tax and 10% Belgian tax is entitled to a 95 percent exemption in determining the Belgian company tax. The company income tax therefore applies to an amount equal to 5% of the net foreign source dividends.

Development subsidies

The Belgian government provides incentives for investment in certain areas of Belgium. The current provisions have a termination date of June 30, 1970. However, a new law to extend the provisions has been proposed. The incentives currently offered consist of interest subsidies, loan quarantees, capital, allowances (with tax exemption for such allowances), and exemption from the registration tax. It is understood that export projections are included in the criteria for determining the granting of such incentives.

CANADA

Foreign subsidiaries

Canada does not presently tax currently the undistributed earnings of foreign sales subsidiaries. Dividends from a nonresident foreign corporation acting as a foreign sales subsidiary are exempt from Canadian income tax if more than 25 percent of the share capital is owned by the Canadian corporation receiving such dividends. A tentatively proposed Canadian tax reform would limit such exemption to foreign corporations in countries with which Canada has entered into income tax treaties.

Grants

Canada offers grants to companies, domestic or foreign, to locate in slow growth areas. These incentives are not expressly tied to export sales or import substitution. Most of the provinces also offer grants and loans to achieve the same desired objectives. The Province of Quebec has, however, an incentive program which is designed to aid companies who use "advanced technology" and "who are in position to supply world markets." Grants are also available to Canadian companies to encourage scientific research and development in Canada. To qualify for such assistance, recent amendments have required Canadian companies to be prepared to exploit the results of such research in Canada's export markets as well as in Canada. The grants are not available to companies excluded from selling to major export markets.

DENMARK

Foreign Permanent Establishment; Sales Subsidiaries

Where a resident Danish company has income from a foreign establishment, the proportion of total Danish tax payable with respect to such income is reduced. The reduction amounts to 50 percent of the Danish income tax applicable to the before tax net income of the foreign branch or other establishment.

A foreign sales subsidiary is not taxed currently on its sales profits. Dividends paid to a Danish corporation owning 25 percent or more of the shares of the subsidiary are taxed at a reduced rate of application for a refund with the reduction being computed in a manner comparable to the reduction for foreign branch income above.

FRANCE

Export Sales

Profits on sales of goods which are manufactured in France and shipped abroad by a French company are taxed only to the extent that they are realized through the allocable to operations in Franch ("enterprise exploitée en France"). Profits are treated as foreign source income and not subject to current French income tax where they are:

derived from establishments abroad (Conseil d' Etat. March 9, 1960);

derived from operations abroad of dependent agents (Conseil d' Etat. June 5, 1937);

derived from operations abroad which constitute a complete commercial cycle ("cycle commercial complet") (Conseil d' Etat, February 14, 1944). The territorial exemption applies to the foreign source profits when earned and when remitted to the French company.

Foreign Sales Subsidiary

Profits earned by a foreign sales subsidiary of a French company are not taxed currently in France. Upon distribution of a dividend from a foreign subsidiary to a French company, there is a 95% inter-company dividends received deduction. To obtain such deduction the parent must hold a minimum of 10% in the equity capital of the subsidiary or the cost acquisition of the participation must have been at least 10 million francs.

The 5 percent taxable portion of the dividends represents a lump sum deduction to cover business expenses attributable to the exempt dividends.

Distribution of Foreign Source Income to French Shareholders

The tax exempt foreign source income of a French corporation, including income exempt under the territorial rules or under the 95 percent inter-company dividends received deduction is not taxed until a distribution to shareholders. Upon distribution a French company must make a supplementary tax payment (*précompte*) equal to one-half of the dividend to the French Treasury with respect to profits that did not bear the normal 50 percent French corporate tax rate.

At the shareholder level, the shareholder is entitled to a credit equal to one-half the dividend, which is applied against his personal tax on the dividend grossed up by the credit.

Inter-company Pricing

Article 57 of the *Code General des Impots* provides that profits indirectly transferred to controlled enterprises outside of France through inter-company pricing are to be reallocated and that such adjustments may be based on comparison with the operations of similar enterprises operating normally. However, it is understood that, under administrative interpretation, Article 57 is not employed where exporting enterprises can establish that sales made by a parent French corporation to foreign subsidiaries at prices approximating cost do not have as their objective the shifting of income but are due to "commercial requirements."

Specific Export Incentive Provisions

1. A 1959 reform law provided that depreciable assets (other than immovables) purchased or manufactured between January 1960 and January 1965, were entitled to special accelerated depreciation in the case of "exporting enterprises." The accelerated depreciation is equal to the straight-line depreciation multiplied by 150 percent of a fraction, the numerator of which is the export production and the denominator of which is total production. (Article 39A *Code General des Impots*).

2. French enterprises are allowed a special deductible reserve for middle term (2–5 years) loans extended to foreign customers (Article 39–1–5 *Code General des Impots*). The reserve allowance is more generous than normal bad debt reserves.

3. Expenses for establishing and operating foreign sales offices during their first three years of operation may be deducted against domestic income, even though future profits may be tax exempt. (See Article 39 *Code General des Impots;* Article 34 of the Law of July 12, 1965).

GERMANY

A resident German corporation is taxed on its worldwide income.

When business profits are derived through a foreign "business establishment" they are deemed to be from a foreign source. This rule is applied to any fixed installation or facility which serves the business activity of the Germany enterprise. A permanent representative (whether dependent or independent) is included in this concept whether physical facilities are present or not. Broadly speaking, a foreign business connection is generally sufficient to create foreign source income.[1] Some German commentators have stated that domestic source income is limited to profits derived from deliveries of goods to foreign countries by German enterprises which have no business connection whatsoever in the foreign country concerned.

[1] Where there is no foreign connection, full German tax rates (without foreign tax credits) apply.

Foreign Tax Credit or Reduced Rate

Where a German company has foreign source income under the above rule, a tax credit is available for foreign income taxes imposed upon such income. As an alternative, German law authorizes the tax authorities to grant reductions of the German corporate tax with respect to foreign source income. A decree promulgated in 1959 provides for a flat rate of 25 percent on qualifying foreign source income. (Decree of July 9, 1959; BStBl 1959 II 132.) Sales profits derived through a foreign establishment qualify as foreign source income under this rule. This relief measure is applicable on request of the taxpayer and may be elected for specific foreign countries.

Exemption

Under its tax treaties, Germany ordinarily exempts the foreign source income allocable to a foreign permanent establishment as defined in the applicable treaty. Presumably such establishments have borne local corporate taxes. Recent amendments of the regulations permit foreign losses to be deductible from taxable income despite the potential exemption of future profits.

Foreign Subsidiaries

A German corporation may establish a foreign sales subsidiary and will not be subject to current taxation on the income of the foreign sales subsidiary, whether incorporated in a high or low tax jurisdiction. Dividends received from the foreign subsidiary are includable in the taxable profits of the German parent corporation. The parent may elect to have the dividends taxed at a flat 25 percent rate. Under certain circumstances, losses in foreign subsidiaries may be deducted by the German parent corporation.

Where a tax treaty is applicable. Germany ordinarily exempts the dividend income received by the German parent corporation from German tax. A 25 percent stock ownership is ordinarily required for such exemption.

IRELAND

Export Exemption

A corporation, whether or not incorporated in or managed in Ireland, having a manufacturing operation in Ireland can obtain a 15-year exemption from Irish corporate taxes on all export sales, plus a reduced rate of tax for a further 5 years. Dividend distributions out of such profits are themselves exempt from all Irish income taxes. Cash grants of up to 50% of capital costs of plant and machinery are also available.

There is a separate scheme for the Shannon Airport area, including tax exemptions for the importing, handling, and reexporting of goods.

ITALY

Foreign Branches and Subsidiaries

Foreign source income of an Italian company is exempt where allocable to a foreign branch having separate management and accounting.

A foreign sales subsidiary of an Italian company is not subject to current income taxation in Italy. A branch of such a corporation may be maintained in Italy if it does not sell in Italy. The non-Italian source profits of such a branch would not be subject to Italian income taxation.

JAPAN

Direct income tax incentives relating to exports fall under four general categories:

1. Accelerated depreciation
2. Reserve for development of overseas market
3. Export allowances, and
4. Entertainment expenses.

Accelerated depreciation in case of export sales

A. A corporation is allowed a tax deduction for accelerated depreciation based on export sales made in the immediately preceding year. The amount of additional depreciation is computed by applying the ratio of export sales over total sales to maximum ordinary depreciation available. In other words, if export sales are 30% of total sales, ordinary depreciation is increased by 30%. Ordinary depreciation is at generous rates in the first place.

B. The aforementioned increase in ordinary depreciation is further increased by 80% if the company is recognized as a type "A" export contributing cor-

poration or 30% if a corporation is recognized as a type "B" export contributing corporation.

If a corporation satisfies both of the following two conditions, such a corporation will be recognized as an "A" export contributing corporation if condition (1) is satisfied, but (2) is not, the corporation will be recognized as a "B" export contributing corporation:

(1) The first condition is that export sales for the immediately preceding year increased 1% or more over export sales for the year immediately prior to that year.

(2) The second condition is that the ratio of export sales to total revenue for the immediately preceding year exceeds such ratio for the year immediately prior to that year, or the increase in exports as a percentage exceeds ⅔ of the nation's increase in exports, also stated as a percentage.

In other words, the factor used to establish whether or not a company is entitled to the extra depreciation over and above that provided by merely having exports includes consideration for both the amount of the increase in exports and the ratio of exports to total sales.

For example: Assuming a percentage of export sales against total revenue of the preceding year of 80%.

	Rank of corporation		
	(A)	(B)	Other
Maximum ordinary depreciation	100,000	100,000	100,000
Rate of accelerated depreciation (percent)	128	104	80
Accelerated depreciation	[1] 128,000	[2] 104,000	80,000
Total	228,000	204,000	180,000

[1] 160 percent multiplied by 80 percent.
[2] 130 percent multiplied by 80 percent.

The "special depreciation reserve" must be restored to taxable income in each of the next succeeding ten years at a minimum rate of 10% of the amount credit to the reserve. Thus, the relief is a deferral of taxes and increased cash flow.

Reserve for development of overseas markets

A. A corporation is allowed a tax deduction for a reserve for development of overseas markets to the extent of 1.5% (in case export of goods purchased from other, 1.1% if capital is more than ¥100 million) of export sales in the immediate preceding year. The rates are increased from 1.5% to 2.4% for a type "A" export contributing corporation, and to 1.95% for a type "B". The same conditions as those mentioned previously govern the type "A" or "B" classification.

There is a decrease in these rates if the export is of goods purchased from others and an increase if the corporation is capitalized at less than ¥100 million.

B. The reserve is required to be restored to income, for tax purposes, at the rate of 20% of the amount originally provided, in each of the next succeeding five years. Thus, this provision represents a tax deferral mechanism. This reserve is not deductible for enterprise tax purposes.

Export allowance

A corporation may take an income deduction to the extent of the amount computed by applying various percentages to certain consideration earned in foreign currency during each qualified current accounting period. In most cases, the maximum deduction is 50% of taxable income for the period.

A. 20% of the consideration for rendering services regarding survey, and/or research, planning, advice, drawings, supervision or inspection for construction of manufacturing facilities, etc., which require scientific technical knowledge.

B. 30% of the consideration for transfer of motion picture films, copyrights and 30% of motion picture distribution revenue earned abroad.

C. 70% of the consideration for transfer and/or supplying of industrial technology, know-how, etc., created by a corporation.

D. 3% of the consideration for freight revenue on certain overseas export ship operations and repairing, processing or construction services.

Although deduction is not allowed for enterprise tax purposes, this item represents a permanent tax savings.

Export Related Entertainment Expenses

There is a generally severe limitation on the deductibility of entertainment expenses for tax purposes in Japan. Ordinarily a deduction is limited to about $11,000 per corporation plus ¼ of 1% of capital. The deduction for entertainment expenses in excess of this is limited to 40% of the expenditure. However, a reasonable amount of overseas and/or domestic travel and hotel expenses in Japan paid for non-resident visitors and entertainment expenses incurred abroad in connection with export transactions are not treated as entertainment expenses for purposes of determining the deductible amount of entertainment expenses, and are fully deductible for corporate income tax purposes.

THE NETHERLANDS

Foreign Establishments and Subsidiaries

Tax relief is granted to Dutch companies for certain foreign source income, including income derived through foreign branches and dependent agents and subject to foreign taxes. No minimum functions or payroll is required for the foreign establishment and the rate of foreign tax on such income is immaterial.

The undistributed income of a foreign sales subsidiary is not subject to Dutch tax currently. Dividends received from such subsidiaries are exempt in the Netherlands where the Dutch company owns at least 25 percent of the paid-in-capital of the foreign subsidiary.

NEW ZEALAND

Special Export Deductions

Certain expenditures incurred in promoting the export of goods and services, rights in patents, trademarks and copyrights, in addition to being an ordinary business deduction, qualify in certain circumstances for a further deduction of 50 percent additional to the actual cost.

In addition, 15 percent of the increase in a firm's exports of manufactured goods over a previous base period can be deducted from gross revenue for corporate tax purposes.

NORWAY

Foreign Branches and Subsidiaries

Income from operation of a permanent establishment abroad is reduced by 50 percent for purposes of Norway's income tax. The income of a foreign sales subsidiary is not taxed until distributed to Norwegian shareholders. A special election provision permits Norwegian shareholders to be taxed currently on 50 percent of the earnings of a foreign subsidiary with the dividends from such subsidiary being exempt from Norwegian tax.

Export Market Development Reserve

A tax-free reserve of up to 20 percent of taxable income each year may be established for purposes of future market development abroad to assist Norwegian exports. No similar reserve is allowable for domestic market development. The taxpayer must show evidence to the authorities that the allocated amount has been used for approved measures within 5 years from the date of allocation.

SOUTH AFRICA

Foreign Source Income

Foreign Source income from a foreign permanent establishment or foreign subsidiary is exempt when received by a South African corporation.

Exporters Allowance

An extra deduction from income of a percentage of market development expenditures is permitted for exporters. The percentage varies from 50 percent to 75 percent. Qualifying expenditures include market research, advertising, solicitation of orders, providing samples and technical information, preparing tenders and quotations and to certain sales commissions and fees. The foregoing expenditures are entitled to deduction as ordinary expenses and the additional percentage is also permitted as a deduction whether or not there were any exports; if the current year's exports exceed those of the preceding year, the percentage is increased.

EXPORTERS' ALLOWANCE PERCENTAGES

[In percent]

Tax year	If no increase in turnover	If current year's export turnover exceeds preceding year's turnover— By more than 10 but not more than 25 percent	By more than 25 percent
1963-67	25	37½	50
1968	37	50	62½
1969	50	62½	75
1970	50	62½	75

SPAIN

Export reserve

Spain permits the creation of an export reserve to which between 30 percent and 50 percent of the profits derived from exports may be transferred. Income taxes on such reserve are deferred as long as the amount is invested in machinery and equipment and other assets and activities related to exports.

SWITZERLAND

Foreign subsidiaries and establishments

The earnings of foreign subsidiaries of Swiss companies are not subject to current income taxation and dividend distributions are exempt from Swiss Federal income tax and from most cantonal and local income taxes.

A foreign branch of a Swiss company is also exempt from Swiss Federal income taxation on income allocable to such branch, although the rate of tax is determined on the basis of the total profits of the company including its foreign branches.

Cantonal arrangements

Certain cantons offer export incentivies under their cantonal tax laws and certain cantons offer export trading companies reduced tax rates on a negotiated basis. Intercompany pricing arrangements are also subject to agreement on a basis favorable to exporters. As a result, Switzerland has become a leading center for export sales companies which are subject to nominal taxes on export income.

UNITED KINGDOM

Foreign sales subsidiaries

The income of foreign sales subsidiaries of U.K. companies is not taxed until distribution to a resident U.K. shareholder.

Investment grants

Under the Industrial Development Act of 1966 cash grants are made in respect of capital expenditure on new plant or machinery for use in Great Britain in the manufacturing, extractive and construction industries. The rate of grant is 20 percent. If the investment is in a "development area" the rate becomes 40 percent. The investment grant scheme is administered by the Board of Trade, which may accord additional incentives for industry in the designated "development areas." Tax exempt grants have been received by U.K. manufacturing affiliates of U.S. companies presumably manufacturing for sale not only in the U.K. but in the EFTA trade area and elsewhere.

Overseas trade corporation (1958–1966)

In 1958, the U.K. adopted an Overseas Trade Corporation provision in its tax laws which exempted qualifying corporations, incorporated in and managed from the U.K. from tax on their retained "trading profits," as distinguished from investment profits. Essentially, this provision was intended to defer the tax on earnings arising principally from export sales. Upon distribution to British shareholders, the profits were taxed in the same manner as other dividend profits. This legislation was repealed in 1966 as part of a general tax reform.

VENEZUELA

Exemption of foreign source and export income

Foreign source income of a Venezuelan corporation is ordinarily exempt from income tax in Venezuela. Export sales of Venezuelan manufactured products may be exempted by agreement for a period of 10 years. To obtain such agreement, the exporter may be required to reinvest profits on such exports in Venezuela.

Rate reduction in exports of extractive industries

A special provision provides for a reduction of .25 percent of taxable income for each one-percent increase in gross income from the exportation of minerals or hydrocarbons and related products over the average of the preceding two years. This reduction is limited to a maximum of two percent of taxable income in any year, with a three-year carry forward.

The CHAIRMAN. Without objection, the committee is adjourned until 10 o'clock in the morning.

(Whereupon, at 6:15 p.m., the committee adjourned, to reconvene at 10 a.m., Wednesday, May 13, 1970.)

TARIFF AND TRADE PROPOSALS

WEDNESDAY, MAY 13, 1970

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

We are pleased this morning to have as our next witness the Secretary of State, the Honorable William P. Rogers.

STATEMENT OF HON. WILLIAM P. ROGERS, SECRETARY OF STATE; ACCOMPANIED BY PHILIP H. TREZISE, ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS

The CHAIRMAN. This is your first appearance before the Ways and Means Committee as Secretary of State. We warmly greet you and appreciate your being here. You are recognized.

Secretary ROGERS. Thank you, Mr. Chairman. I am very pleased and honored to be here and to have the privilege of testifying before you, Mr. Chairman, and the other members of the committee.

I

I want to begin by saying that I strongly support the Trade Act of 1969. In doing so, I realize that I am acting in the tradition of all Secretaries of State since 1934, when Cordell Hull proposed that we lead the world in reducing barriers to international trade. The reason for this constancy is simple. An affirmative trade policy is an indispensable part of an effective foreign policy.

We learned from the bitter experience of the 1930's that protectionism was self-defeating economically, and the breakdown of international trade was a large factor in the breakdown of international order during that unhappy period. Accordingly, in the postwar period we took the lead in developing trading rules that were internationally agreed and embodied in the General Agreement on Tariffs and Trade. In a series of trade negotiations culminating in the Kennedy round, all the major trading nations reduced their barriers to international commerce. The result has been an unprecedented expansion in world trade and the longest period of sustained and rapid income growth in history.

The trade policy we have been pursuing raises our real income. It enables us to procure abroad goods that others can produce more eco-

nomically than we. We are a rich country but our resources are limited and the competing claims on them—the claims of the cities, of the disadvantaged, of the environment, of defense, and our external responsibilities—can be satisfied only by increasing our income. We cannot afford to forgo the addition to our national income that comes from an expanding international trade.

The policy we have been pursuing widens the opportunities for our exports. When technologies were simpler, firms could produce profitably for sale only for the home market. With the burst of new technologies in the postwar world, more and more firms—even in our continental economy—look to the world market, to exports, to support the costs of innovation and the optimum scale of output. We cannot retreat from a liberal trade policy without sacrificing the opportunities for our high productivity, high wage exports.

I recognize that our trade surplus has declined in recent years. Rapidly increasing imports in response to inflationary pressures have been a major factor in this decline. As we bring our inflation under control, we will reduce this artificial stimulus to our imports and drag on our exports. But, if we are to regain and maintain a trade surplus of the magnitude we need, we must also get trade barriers down. It is clear that restricting imports is not the answer, for that would lead to offsetting curbs on our own exports. With world trade spiralling down, all the numbers would be less, including our trade surplus—if, indeed, we could achieve a trade surplus at all in a contracting world trade environment.

In short, a liberal trade policy serves our national economic interests. It also serves the interests of other trading nations. It has been a major factor in the growth of a healthy world economy. To abandon it now would be shortsighted and foolish.

Because of the size of the United States in world affairs—we account for 40 percent of the world's gross product—any movement by the United States away from its historic trade policy would have adverse consequences around the globe. The United States is the largest single trading nation. We must act responsibly. A turn toward restrictionism would be fundamentally disruptive of the kind of world we have been trying to build since the end of the Second World War.

This does not mean that we should sacrifice our economic interests to the requirements of foreign policy. We must insure that others, too, follow an open policy, permitting us to export as freely to them as they to us. The dismantling of trade barriers has been and must continue to be a reciprocal effort, from which everyone can gain.

We need an expanding open trading system not only because it will contribute to national and international prosperity—which it will—but also because it will help to make a more open and more cooperative world in which we can have greater hopes for peace. Keeping the peace rests on cooperative relations among nations. And cooperative relations have an economic dimension. I would hope that in the days ahead, looking down the road, that that economic dimension will increase.

Our trade policy has encouraged the habit of consultation among sovereign nations, the peaceful resolution of conflicting interests, and the rule of law.

An affirmative trade policy promotes the economic well-being of our own people; it also best serves our abiding interest in a peaceful world.

II

The proposed Trade Act of 1969 is important for the furtherance of our trade policy and foreign policy objectives. It is not intended to be a landmark. It is, nevertheless, a necessary forward step.

The act gives the President authority to negotiate minor tariff reductions. This is the first time since 1934 that a President has entered office with no latitude to negotiate reductions in tariffs. Without such authority, the President cannot offer a tariff reduction on one product in compensation for an increase in the tariff on another. Such tariff increases might occur, for example, if an escape clause action resulted in increased tariff rates for a product.

The Trade Act will help maintain the movement toward freer trade by providing the basis for reduction of nontariff barriers to trade. The key to progress on this issue is elimination of the American selling price system of customs valuation. Action on this proposal will implement agreements, negotiated during the Kennedy round, that will provide additional benefits to our chemical industry as well as to the automobile and other industries.

But even more importantly, it will be a signal to the world, and particularly to the Europeans who have taken a keen interest in elimination of ASP, that the United States is willing—and ready—to negotiate on other nontariff barriers. The repeal of ASP is essential if we are to get on with the business of reducing nontariff barriers that hurt our exports.

The Trade Act will also be of aid in moving to freer trade, by providing better cushions for the shocks that growing trade can cause. It will do this by clearing away some of the legal obstacles that have limited the effectiveness of the adjustment assistance escape clause relief provisions of the Trade Expansion Act. If we are to resist pressures for import restrictions that would hurt us all, we need effective administrative remedies to help those who are hurt.

Finally, the Trade Act will be a sign to the world that the United States will continue to exercise leadership in this important area, that we are not abandoning the policy that has served us and the world so well.

III

I turn now to H.R. 16920, a bill that would place quotas on imports of textiles and leather footwear.

As Ambassador Gilbert and Secretary Stans have informed the committee, we believe the Congress should defer action on the bill. We seek deferral not because we are insensitive to the very real difficulties facing the textile and shoe industries. On the contrary, we are fully aware of their problems and anxious that suitable action be taken to help them.

We seek deferral because we believe that alternative means now being actively pursued in the executive branch will provide the necessary help and relief without the need for legislation that might bring harm to other parts of our national economy. Specifically, we are hopeful that negotiations with major suppliers of textiles will lead to a satisfactory voluntary solution of the textile problem. And the administration will shortly announce a program of measures to help the footwear industry overcome its difficulties.

IV

I would like now to refer to the administration's proposal to extend the International Coffee Agreement Act of 1968, from its present expiry date of September 30, 1970, until September 30, 1973, in order to allow the United States to fulfill its international obligations under this agreement.

I strongly urge the Congress to pass this measure. Coffee is of overwhelming importance to the economies of many poor countries, particularly in Latin America and Africa. Prior to the agreement, green coffee prices fluctuated sharply. Violent fluctuations in volume and price disrupt the economies of the developing countries. Boom and bust in commodity markets—economies buoyant one year, depressed the next—has its own political fallout. It heightens unrest, exacerbates tensions, and unseats governments.

The coffee agreement has introduced some stability into this market and supplies have been adequate at prices fair to producers and reasonable to consumers. The United States takes almost half the world's coffee exports. A termination in our membership would destroy the agreement and have very serious effects on the economies of the 41 producing countries.

V

Let me turn now to a subject which is not yet on your committee's agenda. That is the question of special tariff preferences for the poor countries.

Expanding trade is vital to the developing countries. Even under the most optimistic assumptions as to what may be possible to improve and stabilize earnings from commodity trade, it is clear that the poor countries must diversify their economies and increase their exports of processed and manufactured goods, as they are beginning to do in varying degrees. But their fabricated goods face a formidable array of tariff and quota barriers in the markets of the advanced countries.

It makes neither economic nor political sense to help the poor countries modernize their economies and then refuse to buy their wares. As the President made clear late last year in his speech or Latin American policy, we will seek adoption of a liberal system of tariff preferences for the manufactured exports of all the developing countries—excepting only certain sensitive products—as part of a general arrangement in which all advanced countries would open their markets to all the poor countries without seeking reciprocal benefits for themselves.

We are currently consulting with these countries—both the advanced and the developing countries—in an effort to work out a general understanding. We have, of course, made clear that our participation in any such arrangement will require approval by the Congress. I anticipate that we will be consulting with the Congress and specifically with this committee on this subject at a very early date with a view to submitting legislation in early 1971.

VI

Finally, I am aware of the misgivings and concerns about trade policy that are held by important business and labor interests. The

international economic environment is changing. Business is internationalizing, with corporations establishing producing and marketing subsidiaries in all parts of the world.

Competition is more intense as other industrial countries have forged ahead and become strong, vigorous, and aggressive economic powers. The European Community, already the largest single trading entity, will in due course embrace most of Western Europe and will present new problems and issues for our foreign economic policy.

It is time to have a careful and detailed look at the implications for our national interest of these new developments and trends in the world of trade, investment, and larger regional groupings. The President is appointing a Commission on International Trade and Investment Policy to examine the entire range of trade and investment issues, to analyze the problems we are likely to face in the 1970's, and to prepare appropriate recommendations for policy and legislation.

I cannot anticipate the findings of the Commission. I can, however, express my personal conviction, grounded in my experience as a citizen, that in the broad choice between the retreat to protection and the advance to a more open world economy, the Commission must inevitably choose the latter, as 18 Congresses and six Presidents have done since 1934.

The CHAIRMAN. Thank you, Mr. Secretary, for a very interesting statement. I know it will be helpful to us.

I find myself in agreement with most everything you have said about the desirability of continuing a liberal trade program, a freer trade program, throughout the world, and the benefits that accrue to all of the participating countries in the process.

You will recall that in 1962 the House of Representatives passed the legislation that enabled the Kennedy round to come into existence, perhaps the most far-reaching extension of the reciprocal trade program that Congress had enacted since its inception.

It is my recollection that it was considered by the Congress in a completely nonpolitical manner in that the Membership of the House, on both the Republican and Democratic sides voted by a large majority for that legislation.

The total vote was, I think, greater for it than at any time in the past. That, to me, demonstrated a feeling on the part of the Congress, on the part of the executive branch of Government, evidently reflecting the feeling of the American people, as to what we wanted and what we hoped to obtain.

I thought that was really the culmination, in a way, of the expression of the United States of its sincere desire to lead in the direction of freer trade.

Since that time, I have become somewhat concerned, not about our own attitudes as much as I have about attitudes of some of our friendly trading partners with respect to this ideal. Have we actually, as you say in your statement, carried on or had other nations carry on reciprocal arrangements or reciprocity in relation to us in our efforts to be reciprocal in what we do?

Are you convinced that we have accomplished that, that the other countries have shared with us in that reciprocity to the extent that they should have?

Secretary ROGERS. Mr. Chairman, I think my answer would be that, by and large, it has worked quite well. By and large, there has been a good deal of reciprocity. But I think anyone would have to acknowledge now that there are certainly areas where there is some doubt about whether reciprocity or the spirit of reciprocity exists. We in the Department of State are quite conscious of that.

We are going to do what we can to change that attitude on the part of some of our friends and allies.

The CHAIRMAN. Pardon me for interrupting you, Mr. Secretary, but why do we have to go to the trouble, actually, with these nations with which we carry on trade, this colloquy of trying to convince, in the light of what we have done? That is the thing that disturbs me. We have demonstrated our desires.

Secretary ROGERS. I think that is right. I think it is a valid point.

First, I think everyone always feels that his side is right. We start out thinking we are right.

The CHAIRMAN. I just don't feel that way. I know we have done the right thing insofar as our leadership is concerned in trying to demonstrate what should occur in this whole area.

I say again, no country has ever gone as far as we did in that legislation. We even said we would give the President authority to reduce rates of duties to zero. It never came about because Great Britain has never been admitted to the Common Market.

We said we would give authority to the President on those articles that represent 80 percent of the free world's export to go to zero, if they would, with respect to the duties on those particular articles. We also agreed to zero with respect to the duties on articles that were produced in the tropical areas, the underdeveloped areas of the world. We gave that authority.

But every time I talk to an American businessman, I find that some new impediment is put in his way by this or that country of the world that holds itself out as being a believer in more liberal trade.

That, to me, is not reciprocity.

I am almost at the point of becoming weary of trying to have to convince people all over of the virtues of this when they, themselves, have access to what is here, perhaps the only open market in the world, on most of what they produce.

Everybody has some restriction on us; we have very little restriction on anyone else.

Secretary ROGERS. I think that the views you have expressed are the views that a lot of Americans have. I think it would be quite easy, in view of that, to enter into a trade war. I think that past history indicates that that would be very unfortunate.

The CHAIRMAN. I agree with you. I don't want that. I want to get rid of these irritants.

But the irritants are not all on our part toward them. Yet, when we talk to people who represent interests abroad, I seem to get the impression that they think that all of the irritants are on our part toward them. They overlook what appears to be quite an irritant to us.

Secretary ROGERS. I think that is going to be particularly true in the future of the Community, too, because as it is enlarged there are going to be additional irritants that we are going to be faced with.

I suppose some of them will be inevitable. We have indicated a willingness to pay a price for a more integrated Europe, but we have also indicated to the Community that it shouldn't be a very high price, that they have to take into consideration the very points that you are making.

We have had discussions with several of the members of the Community about it. One of the things we are going to try to do is work out a regular arrangement so that we can consult with them as these developments occur, to see if we can avoid some of these irritants.

There is no doubt that that will be a natural result from the enlargement of the Community.

The CHAIRMAN. But the point with me is this: Even though we are the world's largest trader, individual trader, in international affairs, still, so far as our own country is concerned, foreign trade represents a very small part of our total activity, whereas most of the counrties of the world trade represent a far greater part of their total activity.

It looks to me like they would have more interest, than I think they do have, in trying to be reciprocal in their treatment of us.

I am talking about reciprocal treatment, not discrimination.

Secretary ROGERS. I think we have a responsibility in the State Department to make them look up to this. There is no doubt about it that trade will assume a greater importance in foreign policy in the years ahead.

In order to have Americans understand and be willing to engage in free trade we have to have reciprocity. We are quite conscious of that.

We are working on it and we will continue to. I hope that maybe next year we will have some progress that we can report to you.

The CHAIRMAN. I hope we won't go to the GATT with hat in hand and let them think we are trying to beg them to do something.

Frankly, I think the time has arrived when the people of the world must recognize that we are just not going alone, by ourselves, up this trail, that they have to go with us.

I don't think they feel the compulsion to do that to the extent that is required to maintain this program, and the continuation of this program. I don't want to see it fall. That is why I am so concerned about the situation here. And neither do I want to see the American market the only open market. Neither do I want to see us have to be the recipient of the excess production of all of the countries of the world when we have excess production here, the exports of which are restricted in most areas of the world to a far greater extent than we restrict any of their products.

My whole purpose is to try to stimulate our own people here and to stimulate people abroad into recognition of this very fundamental fact. I have talked to a number of people from the European Common Market who are quite well aware that irritants exist today that if not reonciled will lead to greater problems that can take us completely off this track that we are on today.

They are very anxious that we sit down, that we talk man-to-man in a very self-interest type of talk.

I am not blaming anybody. You haven't been in office when all of this happened. President Nixon was not in office when all of this happened.

Very frankly, I think we have been outsmarted and outtraded.

I congratulate those that can do that to us. They have done it.

But what worries me now is that we are going to have to sit down and bargain with them to get rid of restrictions and we have nothing left to bargain with.

Well, there is the American selling price, and we have bargained that away if the Congress gives it up. But that is infinitestimal to the restrictions that are placed by other countries on us.

I don't have any love of the American selling price. I don't feel one way or the other about it.

Secretary ROGERS. I don't want to leave the position that we don't have a bargaining position. I think hearings of this kind are helpful. There is an awareness, particularly in the Common Market, that this feeling is growing in the United States, that there has to be more reciprocity.

I don't want to name names, but some of the people who are leaders of these nations I have talked to are quite aware of it. They are quite aware of the danger that exists in the future for the Common Market if they don't take this more fully into account.

I don't think any nation of the world thinks we have lost our bargaining position. I think maybe we can be faulted for not pressing hard enough. Maybe, as you have suggested, we have been out-traded, but I don't believe we have lost our bargaining position.

The CHAIRMAN. I understand our tariffs are lower, by and large, on the average, than the tariffs of most any of the other countries of the world. They have far more impediments that are not in the nature of tariffs than we do.

If we have to go to Greece and bargain with Greece to change the highway safety regulations to the extent of permitting one of our middle-size cars to be driven on the highways in Greece, how do we go about bargaining? What do we give them in return?

If the cars we make here do not meet their standards by a few inches, they are too long and, therefore, dangerous on the highways, and we can't sell them—they would like to have General Motors put a big factory in over there, of course, then they would probably change their standards. How do you go about dealing with a situation like that? On what basis do you negotiate? That is not a tariff matter.

It may have been changed, but the chairman of the board of General Motors within the last 3, 4, or 5 years, told me that they couldn't sell a car made by General Motors in Greece because of these safety standards, but that the standards were such that any European car could be sold there.

Secretary ROGERS. I am not familiar with that, Mr. Chairman.

The CHAIRMAN. I say, though, that if it is a fact, and I think it is, how do you go about bargaining away something like that, getting it out? That is their safety law. I think we would probably be better off here if we had some safety laws of our own that would keep some of these automobiles equipped with a lawnmower-type motor from darting in and out of the lanes and making it almost impossible for a Member of Congress to get to work without getting run over. But that is not the jurisdiction of this committee.

I could go on and on, but I think you and I are pretty much in accord.

Secretary ROGERS. Yes; we are.

The CHAIRMAN. We said yesterday to Secretary Stans that we would hear him toward the end of our public hearing and get a report from him on the progress that he has made up to then about a voluntary arrangement on textiles that he has been working so diligently to accomplish in the last several months. Probably the hearings will end the second week, we hope, of June. That is almost a month. It looks to me like if people are willing to settle differences and get down to the elimination of irritants, it could be done within that period of time.

Certainly, we would hope so, because I don't want to legislate quotas any more than you do. Neither do I want to have Secretary Stans come back a year from now and tell us that we have lost another 50,000 or 60,00 employees in the textile industry, and that our shoe people are working, in place of 3 or 4 days a week as they are now, 1 or 2 days a week.

We have our own interests here to protect. If we can't get the cooperation of those that are causing us these problems, then we just have to do the best we can.

Secretary ROGERS. I think, too, Mr. Chairman; there is another matter of concern as far as we are concerned. The fact that we have spent so much time on this particular issue of textiles, has in effect, I think, put into the background some of the other trade barriers that we should be involved with and discussing.

The CHAIRMAN. Actually, the voluntary arrangement on steel was a 3-year situation. We don't know whether or not there will be any willingness to continue that as there should be for a longer period of time.

I pointed out yesterday that our increases in imports of machinery and things of that sort, both electrical and nonelectrical, have very materially increased, authomobiles and everything else you can think of having increased, too.

There is a decided change, apparently, in the attitude of people who belong to the unions, the working people involved in this. They were always along with the farm population about the strongest advocates of this program.

If we don't accomplish the result of eliminating the fears that exist here in the United States through something, then we lose large blocks of support for a program that will make it in time impossible for Congress to enact a continuation of that type of a program.

It is just that simple to me. It is what I don't want to see happen, and I know you don't want to see it happen.

I think the greatest service that any of us can render our country today is to see to it that our friends abroad understand our problems sufficiently to where we get their full cooperation in the elimination of these irritants before it gets to the point that they have become a trade war.

I am sorry to take so much time.

Mr. Byrnes.

Mr. BYRNES. Thank you, Mr. Chairman.

Mr. Secretary, I do appreciate your appearance before us. I think we all do.

I must say that what concerns me, and I think it is the same thing that concerns the chairman, is that through our 18 Congresses and six

Presidents since 1934, as you point out, we have taken a basic policy and basic attitude toward freeing up trade.

I wonder whether this history hasn't put us in a position where we are taken for granted in world trade. It seems we have left little doubt as to whether we are going to be Yankee traders, as far as our interests are concerned.

This certainly is not an attempt to try to lecture you, but it is an attempt to give you my viewpoint. I don't get a chance to see you very often, knowing you are so busy, so I will take this opportunity to try a little communicating.

The thrust of your remarks as Secretary of State is that we hardly dare to harden our attitude; that any move which attempts to harden it will be interpreted as a step toward a restrictionist policy.

It seems to me if you are going to have freer trade, other traders have to stop taking us for granted and we have to harden our attitude.

We are always warned that there will be a trade war if we take a restrictionist attitude. But isn't it about time that we tell the other countries, "If you are going to take a restrictionist view," which we know some of them do, "we can be restrictionist also, and we can harden and we will have to harden."

It seems to me they leave no alternatives. I think we do an injustice if we constantly tell them they can do almost anything they want, that we will continue to keep this almost completely open market here even though they close theirs.

What I am doing is repeating, to some extent, I am sure, what the chairman he said. But this point has been concerning me all along, that we were moving too much on a unilateral basis, even though we called it multilateral.

Let me ask this about the Common Market, Mr. Secretary. We were told that this was going to be a great outward-looking trade group, when it was first presented. Yet, don't you find numerous evidences that it is quite inward looking in its trade policies and tariff policies?

And won't its enlargement, which you envision, simply be an enlargement of an inward-looking group rather than an outward-looking group?

Secretary ROGERS. I think there is a lot to that. It is true especially, I think, in agricultural products. I think at least some of the members are quite aware of that. In their discussions with me they say they have tended to look inward too much and they have to change their attitude. They can't follow that path. I think it is a very real danger.

I would like to come back to the first part of your comment because I think I should tell you that I didn't, by my statement, intend to suggest that we were going to take sort of an apologetic position or a weak position in our discussions on these trade matters.

I phrased the statement the way I did because I think it is a very easy thing for us, because what you said I think is correct, to get so annoyed we sort of decide let us give it up, let us change the direction of our policy.

I think that would be a mistake. I felt sure when I came here that this committee would give me enough ammunition so that I could use it in negotiations we are going to have.

I don't think there is any lack of understanding on the part of some of the nations we are dealing with that there is a growing feeling in

this country that they have to do a lot more, and that we have done a lot expecting reciprocity and we haven't gotten it.

I don't want you to think that we don't agree with you. I just hope that we don't change our policy because of these very valid points that have been made and examples of the past. I hope we can, by strong negotiation, by, in some ways, even tough negotiation, get others to reciprocate for the very open market that we have in this country.

Mr. BYRNES. You raised the point that I was going to raise, frankly. The end depends, I think too much, on the Congress being the force that gives you the ammunition.

Secretary ROGERS. Helps us.

Mr. BYRNES. I can see some evidences of that, for instance, in the so-called agreement on textiles. Apparently, there is some indication, at least there were indications given to us yesterday by Secretary of Commerce Stans, that an agreement may be near.

I think it has to be recognized that this change comes from the fact that the Congress' attitude has, perhaps, caused a change in attitude on the part of the Japanese, particularly.

Until Congress got into the act, there wasn't even a willingness, apparently, to talk about whether there was anything to talk about.

Secretary ROGERS. That isn't quite.

Mr. BYRNES. And the Diet passed a resolution saying, I gather, that this wasn't a matter that should be discussed even with representatives of the U.S. Government.

There is, apparently, some yielding in that attitude. There is at least a willingness to talk. Now, apparently, there may be a potential for some kind of agreement.

As I wondered aloud yesterday, what happens after we act on what the administration has recommended?

Do we just fall back into the old pattern, in effect saying, "My goodness gracious, this is just a bunch of conversation, we don't have to worry about it; they are not going to take any hardening policy. All we have to do is just yell that they are being restrictionists and they are changing their policy."

I don't think it necessarily indicates a change of policy if you harden your attitude and adopt a greater insistence on reciprocity. We have good evidence that too much reliance, Mr. Secretary, is placed on the assumption that "Congress will evidence a hardening of attitude and the rest of us can be pleasant with them."

Secretary ROGERS. I don't think that is right, but I am the first to admit that Congress deserves some of the credit. I mean, it is obvious that that is the way the system works.

The other nations of the world are quite conscious of Congress and its important role in this picture. They know there is a very strong sentiment for the utilization of barriers.

I don't think the fact that we refer to this growing public opposition and the fact that Congress, itself, is concerned is any indication of weakness on our part when we bargain.

One of the things that you have to keep in mind when you are talking about Japan, for example, is they have to consider the Diet and their attitude just the way the Executive in this country has to consider the attitude of Congress.

I agree with you that we ought to be as aggressive and as forthcoming as we can to try to eliminate some of these barriers.

I don't agree that we just use Congress as sort of a weapon and then don't follow through on it.

Mr. BYRNES. I don't think you should be quite so reluctant, then, to see us take some actions which show a sincerity on the part of Congress, and show that we don't just schedule hearings on legislation for window-dressing purposes.

Secretary ROGERS. I don't think there is any question about your sincerity.

Mr. BYRNES. Yet, you suggested that we better hold off on what some people have recommended to the committee that we do.

Secretary ROGERS. I think it is very easy, if you go back and look at the history of trade wars, to get them started, and we just hope we don't have one started. That is all. We like the support Congress is giving us. We don't think it is necessary at the moment to ask for legislation, but we recognize——

Mr. BYRNES. Excuse me. The point is, Mr. Secretary, I think we better try to get ourselves in a posture where hardening our attitude to the point that an insistence on reciprocity is consistent with the policy of increasing mutual, freer trade, and that it is not a step backward.

Yet, every time we talk about something that has to do with an insistence on reciprocity, then it is interpreted in various quarters—and I almost get the feeling that you so interpret it from what you say in your statement—as a basic change in policy and a movement toward restrictions as opposed to freer trade.

Yet, what we are aiming at here is the principle that, if our policy of freer trade is going to be meaningful, it has to be on a reciprocal basis, and we are just going to insist on reciprocity. I can't see how that can start a trade war.

Secretary ROGERS. No; I don't think that can. But I can also see why if we start saying we insist on reciprocity and, therefore, "We are going to erect trade barriers to show you are not reciprocal," they, in their legislature, can say the same thing, and say, "We are going to retaliate, too," and you have a trade war.

I agree with you that there comes a point where maybe we have to legislate trade barriers. We hope we haven't reached that point yet.

Mr. BYRNES. I am not so sure that we don't have to do some legislating in order to give you some bargaining power to get rid of some of the restraints that have been imposed against us.

We are really without too much to give, if we are going to get rid of the nontariff barriers by way of negotiations.

This is one of the things that, quite frankly, goes through my mind, that maybe some restraints would be valuable if imposed by Congress on the theory that they would give us a chance and a bargaining position to get rid of these restraints on the other side, which are imposed only because of an unwillingness to practice reciprocity.

Secretary ROGERS. That could very well be. I just don't think the time is right now, but it might well be sometime down the road.

Mr. BYRNES. Thank you.

The CHAIRMAN. Mr. Watts will inquire.

Mr. WATTS. Mr. Secretary, I would like to comment that the statements of my chairman, Mr. Mills, and Mr. Byrnes, are about the finest statements that I have heard in a long time in regard to our trade policy and what has occurred in our trade policy.

My view of the thing is that we do now have a trade war going on in which we have remained neutral or surrendered.

This country of ours adopted, as Mr. Mills pointed out, a very liberal trade policy, being willing to do most anything to further free trade, or close to free trade.

And since we have taken that attitude, I would say that we are worse off so far as the people we trade with than we were before we took it. There have been more barriers erected.

I don't know of anything that the State Department—I am not blaming you but the whole State Department—or our administration has ever been able to do anything about it.

Maybe you have a few barriers, but they are a small few. It would appear to me that while we have an undeclared trade war in which they are doing all the barrier-erecting and throwing all the impediments they can in the way of carrying out the policy that this Congress and administration have enuncited, that all we are doing is sitting still like a bunch of patsies.

They say to us and say to you when you try to do something with them, "Well, let us listen to them but they have given up every time so far, so we don't see any change in their philosophy.

We do have one little gimmick left, and that is the American selling price.

This legislation is intended to do away with that. That will satisfy somebody but we will get not a thing in return for it. I agree thoroughly with Mr. Byrnes that maybe we need to give you some legislation with some teeth in it where you can do something, or somebody can do something, to force some of these people to realize that we are not going to lay down on the job and just let them run over us and sell everything they want to in this country, and put all the restrictions in the world against anything that goes abroad.

I don't want to do away with our policy, but I certainly don't want to expand the policy that has been unworkable.

This bill tends to expand it. Every time we meet to reduce tariffs they put up some other gimmick that gets them more money than they lost by the tariff.

I don't want to abandon a policy that I think is essential. I think it is a wonderful policy. I agree that it ought to be carried out, but it ought to be carried out in a two-way manner rather than a one-way manner.

I haven't seen any evidence that the State Department, and I am not blaming you, or anybody else trying to do much about it.

We have had Ambassadors of trade negotiations. I have often thought—and I will excuse you because you have not been in office very long—that our State Department was organized and paid for by the Federal Government to further foreign trade of other people, not the United States.

That is a harsh statement to make, but I have felt that way about it. I hope that you, Mr. Secretary, will get a little backbone in you, which I know you have if you will just get it up, and talk a little tough to these people, because our people are getting tired of being run over.

Secretary ROGERS. I certainly agree with most of what you say. On some of it I would as soon not comment.

I think the State Department certainly tries hard. I must say that I am very much impressed by the people that I have come in contact with in the State Department. I think you are right.

First, I agree with the chairman, I agree with Mr. Byrnes, I agree with you, that probably we have failed to be as hard as we should in some of these bargainings.

On the other hand, I think in fairness, we have to look at the total picture. If you look around the world, the United States is such a powerful Nation, we have done so well in trade, and when you go anywhere there is no nation that you travel to that doesn't complain about the fact that we are so strong and so pervasive.

We have a trade balance we expect this year, a favorable balance, of about $2.3 billion. It isn't working as well as it should, and we agree with that.

I must say that I think on the whole our trade policy in the past has been pretty good. There have been a lot of weaknesses, as you point out. We are going to do what we can to correct some. But I don't think that that should be a reflection on the whole trade policy or those who have been working on it. They are very dedicated people who have been working a long time to accomplish what we have accomplished.

We are by far the most successful traders in the world. There is not question about that.

Mr. WATTS. Mr. Secretary, I don't mean to make any bad references to anybody, and I am satisfied that our folks have worked hard.

But I think they have worked in the wrong direction a lot of time. I am sure you are going to correct all that. The only thing I had to say was I don't see much use in giving away a lot more until we get something in return. We have given away this and that, we have done this and that, and we get no consideration in return for doing it.

It looks to me like the people we trade with ought to show a little consideration toward our trading before asking us to grant more and more and more.

I realize they realize we are a big, powerful nation. They also realize that we are supposed to be a very rich nation. They have taken the attitude, "That is a big, rich goose. Let us pluck him."

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. Mr. Secretary, I am sorry I wasn't here to be able to hear your statement. I assure you I will read it when I have the opportunity.

I want to associate myself with the position the chairman and Mr. Byrnes have taken. I don't want to prolong the discussion.

I have just one question that I would like to pursue and hope that it might be relevant.

I want to ask you what is the role of the State Department when it really comes down to final decisions as to relief of an industry that is injured by imports?

Secretary ROGERS. Mr. Trezise handles this. On the specifics, I suppose he is better able to answer that precisely.

Mr. TREZISE. Congressman Betts, we are one of a number of agencies with interest in our foreign trade. Naturally, the Commence Department, the Agriculture Department, the Labor Department, and others have real and important interests in trade.

In addition, under the provisions of the Trade Expansion Act we have Ambassador Gilbert as Special Trade Representative who serves as coordinator and negotiator on many of the matters. So we are a part of an executive branch group.

We try to have our full input into trade policy and trade negotiations, and we do, but we are there with other agencies seeking to do the best we can for our national interests.

Mr. BETTS. Are you saying that Ambassador Gilbert is associated with the State Department?

Mr. TREZISE. No, sir.

Mr. BETTS. I am sorry. I thought you said that.

Mr. TREZISE. Ambassador Gilbert reports to the President.

Mr. BETTS. He has no connection with the State Department?

Secretary ROGERS. None except as part of the administration, of course.

On these things it isn't any one department that has the primary responsibility. It is sort of a joint effort. I think it is a natural thing, just because this has happened over the years, if something goes wrong they blame the State Department.

But the decisions are decisions made by the administration, not by any one department.

Mr. BETTS. I understand that. What I am trying to do is pick out the responsibilities of each of the departments. I am just interested to know what the role of the State Department is when the chips are down and the decision is to be made as to whether or not an industry, which the Tariff Commission says has suffered injury, is entitled to relief.

What part or what role does the State Department play in helping to make that decision?

Secretary ROGERS. We advise the President on that and he makes the decision.

Mr. BETTS. I know, but what do you advise him? Do you advise him as to the consequences of a decision with relation to other countries that may be importers of this particular product?

In other words, do you get into the diplomatic field, or do you accept the decision or the finding of the Tariff Commission that there is injury and let it go at that?

Mr. TREZISE. Congressman, we can't advise the Tariff Commission as to whether it should or should not find injury. In fact, we never do. But once the Tariff Commission has made a recommendation to the President, we advise the President on those matters that have a bearing on our foreign affairs.

Mr. BETTS. That leads to the problem I have in sort of rationalizing all this. We come up with a bill and say we are going to give relief to an industry if there is a finding in which imports are proven to be the primary cause. Is that correct? There are different tests. It is primary cause in one place and substantial injury in another. Assume there is that test to be met, then the Tariff Commission finds there is injury and imports are the primary cause.

Why is there any reason for any other decisionmaking process? You have met the test that the law lays down. I am just wondering from then on what the role of the State Department is that would change a finding that the Tariff Commission has made.

If it doesn't change the finding, why does the State Department, and the other departments, enter into it?

Mr. TREZISE. We have no authority to change a finding of the Tariff Commission.

Mr. BETTS. You can make a recommendation contrary to the finding, can't you?

Mr. TREZISE. We may advise the President on the recommendation as to action that he should take, but we can't change the fact of what the Tariff Commission has found as to injury.

The law wouldn't permit it.

Mr. BETTS. You can recommend that the findings of the Tariff Commission be overruled; is that it?

Mr. TREZISE. No, sir. If the Tariff Commission finds injury, that is the Tariff Commission's decision and there is nothing we can do about it. All we can do is advise the President as to what remedy can be provided.

Mr. BETTS. Would you advise him not to take the recommendation of the Tariff Commission?

Mr. TREZISE. The Tariff Commission may recommend, sir, that the tariffs be increased, or that quotas be applied, or that tariff cuts that had been scheduled not be carried through. Each case is somewhat different. We, along with the other executive branch agencies, will advise the President which course we think is appropriate.

Mr. BETTS. Leave out the other branches of Government. Let us say the Tariff Commission has made a recommendation and finding that there should be tariff relief.

Can you advise the President not to follow that recommendation?

Mr. TREZISE. We might advise the President that we believe adjustment assistance would be more appropriate and more useful, or that a quota may be a better approach. I don't think there is any general rule, Congressman.

Mr. BETTS. What I am getting at is this: You said all these departments enter into making the final decision of the President. Can you advise him, though, and have there been instances where there has been advice from other departments, not to follow the recommendations of the Tariff Commission?

Mr. TREZISE. We haven't had very many escape clauses in recent years, so the record is not very full. But I think our recommendations have not been so very different from other parts of the Government.

The President's decisions are in the end his decisions. I don't believe the Department of State has any unique position in this.

Mr. BETTS. Maybe it isn't unique, but you said, and I don't want to belabor the point—well, what I am trying to get at is you come up here and ask in proposed legislation that a certain test be followed so far as determining whether or not a particular industry is injured.

That test, maybe, is primary cause or substantial injury, whatever it might be. Then it goes to the Tariff Commission. The Tariff Commission makes a finding that there is injury and there is a recommendation for relief.

What bothers me is, and I have asked all the other witnesses, is if that is what you intend to do in the legislation, to make a finding of primary cause, why do you have to have a lot of other departments come in and recommend whether or not the President should find that,

go along with the Tariff Commission finding? That is what I was getting at.

It seems to me there has been a lot of delay in tariff relief. Big industries probably can weather the storm, go along with the delay. A lot of little industries couldn't.

I am interested in trying to make this as simple as possible. After all, trade is a commercial matter. If we can make some finding on the basis of whether or not it is really injuring an industry here, and make it as short, quick, and brief as possible, so there won't be any delays that will cause further injury, that is what I would be interested in finding.

That is the reason for my asking the question.

Mr. TREZISE. If I may, Congressman Betts, let me cite a recent case on pianos, where, as I remember, the Tariff Commission suggested in one of its recommendations that the Kennedy round reduction be discontinued for the time being. That was the decision taken by the President, as I remember, and as I remember this was pretty much the unanimous view of all the agencies. This is the process.

The Tariff Commission itself is not always unanimous. In fact, it rarely is. The recommendations are not always clearcut. That is, there may be several recommendations. There isn't any simple answer to the question, I am afraid.

Mr. BETTS. Just to repeat, and, I will not, as I said, belabor the point, it seems to me that trade is more or less a commercial activity.

Congress has set up the Tariff Commission as its board of experts to make findings. I think they probably are accepted as the last word, whether you agree with it or not, as to whether or not there is injury.

It seems to me when you go on from there you get into what we talked about yesterday, political or diplomatic considerations which don't go to the very heart of the question as to whether or not there should be relief from a commercial basis.

That was my only reason for asking the question.

Mr. TREZISE. I should say the statute puts the responsibility on the President for deciding what should be done about the Tariff Commission recommendations.

Mr. BETTS. That is my question, whether or not you should, after a determination has once been made at the Tariff Commission level on the test that you have set forth in your proposed legislation.

As I say, I was questioning whether or not you should go beyond that with further delays and the possibility to inject further considerations.

As I say, I am not criticizing you particularly, because I know it has gone on for years and years. But this is a matter which I have been concerned about.

Thank you.

The CHAIRMAN. Mr. Ullman will inquire.

Mr. ULLMAN. Mr. Secretary, both Ambassador Gilbert and Secretary Stans have indicated a rather high degree of optimism with respect to the negotiations of a voluntary agreement on textile imports, both wool and manmade fibers.

You are a little closer to that situation than they are. Do you sincerely share that optimism?

Secretary ROGERS. I rather hesitate to use the word "optimism" in my job. I find that when I do I regret it later. I don't want to make any predictions. I would hope that we could work something out.

Mr. ULLMAN. Mr. Secretary, the bill before the committee, H.R. 16920, which you are recommending, does provide for negotiation of voluntary agreements on textiles.

It would seem to me that it would, therefore, follow that enactment of this legislation, would significantly strengthen the U.S. bargaining position in achieving a negotiated solution to the textile import problem.

Wouldn't you think that would help your bargaining position?

Secretary ROGERS. Our position, as you know, the position of the administration, is that we would not favor legislation now. We would hope that in the meantime we could work something out. We think at the moment that is the position we want to maintain.

Mr. ULLMAN. But you would not disagree that the enactment of that bill would strengthen your bargaining position?

Secretary ROGERS. I don't want to indicate that it would help or hurt at the moment.

Mr. ULLMAN. I think I can recognize your position. I don't want to put you on the spot. The chairman and a number of the members of the committee have already registered the concern of this committee as to somehow establishing a stronger position.

Let me turn very briefly to the matter that concerns me with repect to what our more liberalized trading position is doing on a country-by-country basis.

Looking at the figures of what has actually happened in the last few years, we see that our trade position is rapidly deteriorating in the highly industrialized countries of Japan, Germany, and Canada, whereas, we have a more favorable balance with the less-developed countries of the world.

Doesn't this give you some cause for concern because of your responsibilities in the whole world area, particularly the aid to underdeveloped countries?

Secretary ROGERS. Yes; it does. I suppose it is inevitable, in a sense, because the things that the more developed countries manufacture are the things that Americans would like to get. But I think it is a matter of concern, and I think that one of the reasons we would hope for trade preferences for the less-developed countries would be to offset this imbalance.

I think it is important for us to have more active trading with the less-developed countries and open up our markets to them. Of course, opening our markets to the less-developed countries is a very small percentage of our trade. It wouldn't really have much impact on us.

Mr. ULLMAN. How can we liberalize our position with the underdeveloped countries or the developing countries when our trade balance with the industrialized countries has deteriorated?

It would seem to me it would continue to deteriorate.

What we are doing now is trading off the unfavorable balance with the industrialized nations against the favorable balance with the developing nations.

Secretary ROGERS. I don't think the figures show they are deteriorating now. You always have some fluctuation. You never have trading

exactly the same. When you have fluctuations they may be temporary. I think Mr. Trezise can give you recent figures.

Mr. TREZISE. Of course, Congressman, you are quite right.

In 1968, we had a very sharp reduction in our trade surplus. We made a recovery in 1969, quite a respectable recovery.

This year, on the present projections, our trade balance will be in the surplus, in the order of $2.3 billion to $2.5 billion. With the European Community, which is, of course, the primary industrial area, our surplus should be in the order of $1.8 or $2 billion.

With Japan, the improvement is slower but there is some evidence of improvement. We are in balance with the Federal Republic of Germany for the first time in some years.

All in all, the trend at the moment, at least is in a favorable direction.

Mr. ULLMAN. Wouldn't you agree that a proper national policy on the part of not only our Nation but the developed nations of the world should be an effort to maintain a balance and prevent imbalances?

Wouldn't that be proper national policy between industrialized nations in the world?

Mr. TREZISE. Congressman, I think our national requirements and interests are in having a substantial surplus in our trade accounts because of our commitments, obligations, and responsibilities otherwise abroad.

We have more tourists than any other nation. Somehow we must find the revenues to finance the wishes of our people to travel. We have military and other obligations which must be financed.

So I think it is not an unfair position for the United States to take, as we are taking, that it is necessary for us to run a substantial surplus, which means we need access to other people's markets.

As I say, fortunately, this year we seem to be moving back into a more satisfactory position, but we have some distance to go.

Mr. ULLMAN. I certainly am very happy to hear that as a statement of policy.

Do you endorse that statement?

Secretary ROGERS. Yes. But I didn't know there was a doubt about it. This has to be the policy of our Government in view of, as Mr. Trezise says, the tourism plus our military, expenditures abroad. We have to have a favorable trade balance.

It seems to me our policy stated generally has to be that we favor open markets everywhere and we are willing to compete anywhere erected by some other countries that we think are unfair to us. Those are the things that we were talking to the chairman and Mr. Byrnes about.

Mr. ULLMAN. But when you look at the country-by-country breakdown, don't your red flags go up when you see the kind of situation we have had, particularly with Japan and Canada this past year?

Secretary ROGERS. Well, of course, we don't like it, but we can't be in the position of telling every country in the world that we insist on having a favorable trade balance with them regardless of anything else.

We like to compete and we like to do it successfully. I think in the case of Japan especially, and maybe to a lesser degree Canada, they

are matters of concern, and we are actively negotiating with the Japanese about it.

It is not because of the trade balance itself, but it is because of the trade barriers that we think cause the imbalance.

Mr. ULLMAN. I want to go back to your statement. Of course you can't dictate a favorable trade balance when other factors are equal. But I think you would be the first to admit that there is not an equal trading situation with respect to the Japanese market and with respect to the American market. There simply is not a fair trading situation.

Secretary ROGERS. Yes; that is correct.

Mr. ULLMAN. We can't get into the Japanese market in commodity after commodity. That is why we should be concerned, because it is a matter of national policy.

The same is true to a large degree with Canada. We passed automobile import legislation a few years back which have directly dictated the imbalance that we have with Canada. I think we should be giving it some thought.

Secretary ROGERS. What I was saying was that you just can't look at the trade balance and say a nation is unfair. Maybe they are outcompeting us. But if the trade balance results from trade barriers which are unfair, that is another matter. We do recognize that. We have acknowledged that.

In other words, I was just saying that you can't look at a trade balance and say because it is unfavorable it is undesirable.

Mr. ULLMAN. That is right, except the two nations we are talking about are Japan and Canada and there are very specific reasons why there is an imbalance, and it should be a matter of national concern.

You, as the Secretary of State, should be very directly concerned. Somehow or other we have to get the situations back into balance. There is no question about it.

If you add our tourist dollar on top of our trade deficit, I would like to have those figures, if you have them. I would like for you to make them available for the record with respect to Germany, Japan and Canada.

Secretary ROGERS. Surely.

Mr. ULLMAN. And add in the trade balance to the tourist deficit that we have.

(The information referred to follows:)

U.S. TRADE AND TOURISM BALANCE WITH CANADA, GERMANY, AND JAPAN
[In millions of dollars]

	1968	1969
Canada:		
Merchandise:		
Exports	$7,936	$8,956
Imports	8,925	10,390
Balance	−989	−1,434
Tourism:		
Receipts	638	811
Payments	820	890
Balance	−182	−79
Combined trade and tourism balance	−1,171	−1,513
Germany:		
Merchandise:		
Exports	1,688	2,081
Imports	2,720	2,603
Balance	−1,032	−522
Tourism:		
Receipts	44	(1)
Payments	111	(1)
Balance	−67	
Combined trade and tourism balance	−1,099	
Japan:		
Merchandise:		
Exports	2,924	3,462
Imports	4,056	4,888
Balance	1,132	1,426
Tourism:		
Receipts	51	67
Payments	60	73
Balance	−9	−6
Combined trade and tourism balance	−1,141	−1,431

[1] Not available.
Source: Department of Commerce data.

Mr. ULLMAN. In addition, I object to the way we compute our imports because I don't believe they give a fair picture of the actual situation by attributing the value at the foreign source.

A fair picture would be valuation at our shoreline. That would give us an indication of the impact upon our balance of trade much more accurately.

Wouldn't you agree? They are brought in by foreign bottoms. I think the amount brought in by American bottoms would be almost negligible in the case of our imports. Isn't that right?

Well, at any rate, I am very concerned about the problem of the developing nations, and I hope that you will come back to us with some proposals in this regard.

Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Chamberlain will inquire.

Mr. CHAMBERLAIN. Mr. Chairman, I would like to add my voice to the others in the hope that in our negotiations with our friends abroad we would make some very forceful arguments as to the predicament we are in, tradewise.

Mr. Secretary, one of the things I feel our foreign neighbors should be reminded of in these negotiations—and I have in my hand a letter that Members of the Congress received from Congressman Passman,

who is our authority on foreign aid in the Congress—is that during the years 1946 to 1969, Mr. Passman computes our total net disbursements to foreign nations in foreign aid as in excess of $122 billion.

Secretary ROGERS. I have seen this calculation several times when I have testified before Mr. Passman.

Mr. CHAMBERLAIN. I see no reason why our friends shouldn't be reminded that these were funds that the American taxpayers put up to help other nations get back on their feet.

Of course, this aid we gave was borrowed money and added to our national debt. Mr. Passman computes it has cost us $60 billion in interest. That makes a total of $182 billion that the American taxpayers have paid to help other countries get reestablished.

Mr. Passman further says in his report that during the period 1950 through 1968 we have had a net deficit in our balance of payments of some almost $37 billion.

I don't have before me what our national debt was in 1940 or what it is today, but I think all of us will concede that it has gone up astronomically.

This is the obligation that our American taxpayers have undertaken to help the world economy.

More specifically, in our most recent publication of Automobile Facts and Figures, as one example, Japan in 1967, exported to this country some $73 million worth of automobile vehicles.

Our exports to Japan that same year were $8 million worth.

In 1968, the imports from Japan more than doubled. I don't have the 1968 figure for our exports.

It seems to me that when we have done all that to help other nations, this ought to be a two-way street. It was just a few years ago, Mr. Secretary, that we amended the foreign aid bill to require that vehicles given to foreign countries would have to be manufactured in this country.

At that time, the Japanese complained that we wanted to give away our own vehicles instead of giving away theirs.

It seems to me that it is time for a little firm talk, not only in the Japanese area but with some of the European countries, too.

The American taxpayer has paid the bill far too long.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Burke will inquire, Mr. Secretary.

Mr. BURKE. Mr. Secretary, I realize that we don't have the problem with Canada that we have with some of these other countries.

I think there is an area there of interdependence on one another. They have a higher wage scale than other countries we are talking about.

I would like to ask you how this Government of ours can justify in good conscience subsidizing investments of very wealthy fat cats who are exploiting human beings in a country like Korea.

According to the testimony of Maurice Stans. Secretary of Commerce, yesterday, on page 4, he points out that in Korea the hourly wage in textiles for men is 13 cents an hour and for women it is 7 cents an hour.

This is unconscienable. This is an unconscienable situation whereby wealthy people go into these so-called undeveloped countries that we

are hearing so much concern about, and I understand they have the fattest cemeteries in the world in those areas; that they live until the age of 30 or 35 and it is a long life—how can we justify any type of exploitation of this type, having little boys and little girls, 10 and 11 years old, working 10 hours a day, getting paid less than the amount of money that would buy them a bowl of rice exploiting this type of labor and then coming in here and making a charge of protectionism?

I think the protectionism here is on the shoulders of those people who exploit this type of labor.

How can this administration, and how can the American people, justify such an exploitation of human beings under the guise of a free trade?

Secretary ROGERS. Mr. Chairman, I don't think I can answer that at the moment. I would be glad to check into it and submit a letter.

(The information requested follows:)

DEPARTMENT OF STATE,
Washington, May 21, 1970.

Hon. WILBUR C. MILLS,
Chairman, Ways and Means Committee,
House of Representatives

DEAR MR. CHAIRMAN: The Secretary has asked me to respond to the questions raised by Congressman Burke, during the hearings on trade legislation before the Ways and Means Committee, about the very low wages received by Korean textile workers.

I am informed that:

1. The low base pay of Korean factory workers is normally supplemented by allowances, often in kind. These allowances for meals, company housing, transportation, medical services, and recreation facilities are a means of meeting workers' subsistence needs.

2. There is social legislation on the books. Thus in almost all occupations, children may not be employed under the age of 13. Youngsters between the ages of 13 and 16 may be employed up to six 7-hour days weekly or 42 hours a week. Overtime is generally prohibited beyond the 7-hour day, as is night work. The Korean Labor Standards Law also provides specific protection for female employees, as well as standards for workers generally with respect to hours of work, night work, overtime premiums, paid leave, holiday premiums and so forth.

It is not clear how effectively the Labor Standards Law and other basic labor legislation is enforced. As a general matter, the larger firms and foreign-owned enterprises adhere more carefully than small local employers to labor legislation, and are more readily accessible to labor inspection.

3. The National Textile Workers Union, affiliated with the International Textile and Garment Workers Federation, has been growing. As of mid-1969, its membership was more than 56,000 workers, about 90% female, and accounted for about 20% of all employees in the Korean textile industries.

4. Earnings of production workers in manufacturing in Korea have been rising rapidly, well adhead of the increase in prices. Thus in the past five years, real earnings in manufacturing rose more than 46 percent. The textile industries employ about one-fourth of the labor force engaged in manufacturing.

There is no question that Korean textile workers' earnings, even including supplementary allowances and fringe benefits, are low by our standards. But the fact is that Korea is a poor country. Wages are low primarily because national productivity is low. More than half the labor force is engaged in agriculture and the return to peasants is even lower than in industry. As in most poor countries, there has been a rapid influx into the cities as young people especially seek to escape the restricted life and impoverished conditions in the village communities.

The encouraging fact is the economic progress Korea has made and is making. National income has been rising and real wages have been rising as well. I would expect the standard of living of Korean workers to continue to rise as the process of industrialization continues.

Sincerely yours,

DAVID M. ABSHIRE,
Assistant Secretary for Congressional Relations.

Mr. BURKE. You don't have to have statistics to know that there is exploitation of human beings when they are being paid 7 cents an hour.

Secretary ROGERS. Right.

Mr. BURKE. I would hope that we would get a more responsive answer from you and other people who come in here and raise a cry of protectionism.

Secretary ROGERS. I would be glad to.

Mr. BURKE. On top of that, the exploitation of labor on that side results in unemployment in this country and the closing down of plants.

So in order to protect the earnings of those people who profit by this type of inhuman slave labor we are asked not to put through any type of legislation here that might control it.

Don't you think it is a responsibility on our Government to try to get these countries to raise their wage conditions, their working conditions. Fifty years ago in this country they enacted laws against firetraps and against child labor, and put restrictions on the hours that a man could work. Yet, this Government of ours is encouraging a system over in Korea, in Taiwan, and in Hong Kong that continues this slave labor condition, and then come around here parading, potificating, about their great concern about the undeveloped countries.

I am concerned about the undeveloped bodies of those human beings who are suffering from malnutrition, tuberculosis and other ills to build up fat profits for a few.

We expect a little better answer than we have been receiving here so far today.

I doubt if the American people in this country, if they knew the facts on how this labor was being exploited, would ever tolerate it.

Mr. LANDRUM. Will the gentleman yield?

Mr. BURKE. I will yield.

Mr. LANDRUM. Mr. Secretary, yesterday, we heard from Secretary Stans and today again we hear from you in the Department of State that the administration requests a deferment of consideration of this part of the bill relating to textiles and the imposition of quotas, legislative quotas.

A few weeks ago, just a very short time, as a matter of fact, such negotiations as had been carried on between this Nation and Japan seemed to have broken down completely As a matter of fact, one of the trade papers quoted Secretary Stans, and I read it to him yesterday, a statement from Hot Springs, Va., that the negotiations had broken down and there was no prospect for resuming.

Now a question similar to what I put to Secretary Stans yesterday. Is this request by the administration to defer action on this part of the bill based on some recent move, some recent indication on the part of the Japanese, that they are willing to enter into some voluntary restitution?

Secretary ROGERS. There are negotiations underway. As I indicated a moment ago, I hesitate to make comments about whether I am optimistic about it or not.

We do think there is a possibility of working out something by negotiations. We recognize the validity of the points of view that have been expressed here this morning. We are going to try to do all we can to work something out.

We have reason to think it is possible, but I don't want to sound too optimistic.

Mr. LANDRUM. Mr. Secretary, are you in a position to tell us who is in charge of these negotiations?

Secretary ROGERS. Well, actually, Mr. Stans has been conducting most of the negotiations.

Mr. LANDRUM. I understand that he has been conducting them. Will he continue to do so?

Secretary ROGERS. As far as I know he will, yes.

Mr. LANDRUM. Would you agree, Mr. Secretary, that in the process of negotiation, in light of what was said here yesterday and today, that quota limits, allowing annual increases in proportion to our growth would be a fair solution? Would that be fair?

Secretary ROGERS. Are you speaking now about the textiles?

Mr. LANDRUM. Yes.

Secretary ROGERS. I am not sure I want to get involved in what we can accept. I do apologize for not knowing your single-mindedness.

Mr. LANDRUM. Let us get over, then, to this business of a favorable balance of trade.

Isn't it true, Mr. Secretary, that the limited surplus we enjoy results mostly from the manufactured machinery and transport equipment that we are able to export?

Secretary ROGERS. That certainly is a large part of it; yes.

Mr. LANDRUM. Isn't it true that even that surplus or advantage is beginning to disappear because of the fact that those countries to which we have been exporting are now manufacturing more and more of their requirements?

Secretary ROGERS. I think it is hard to generalize. Our airplanes are more competitive than ever. As Mr. Trezise has pointed out, there has been a favorable trend in the last year. I don't believe you can draw any general conclusions.

Mr. LANDRUM. Let me put the question in another way: Is our favorable balance being reduced considerably because our importers, the people who import into this country, are bringing in completely manufactured goods which result from three or four labor stages, all of which are below our average labor market over here?

When we import these manufactured goods all finished at lower wages than we have over here, as opposed to importing the raw materials, aren't we directly contributing to the reduction of this favorable balance of trade that we want to maintain?

Secretary ROGERS. I suppose that is right. I would like to say, though, that the first part of your question suggested that the balance is becoming more unfavorable.

As we pointed out, the trend is the other way this year. Is has improved.

Mr. LANDRUM. The trend is the other way, but it is the other way because of some special trade in high yield fields. That doesn't nearly offset the fact that we are suffering tremendously in this field of textiles about which I am so concerned.

We are having our consumer market in textiles and wearing apparel simply gutted, if you will excuse the expression, by not doing anything, and by seemingly being afraid to face up to the prospects that a favorable balance of trade sounds good to the executive department,

is sounds good to the sophisticated legislator and executive, it sounds real good to the sophisticated businessman, but it doesn't sound worth a damn, if you will excuse that expression, to the man who has to depend on the textile wage to send his children to school and to feed them.

Secretary ROGERS. Yes. Well, we agree on textiles.

Mr. LANDRUM. Would you agree, then, that the quota limits, assuming you get a voluntary agreement, would you agree that quota limits would be all right if we could just get it fixed so that they would get an increase each year according to our consumer growth?

Secretary ROGERS. In view of the fact that Mr. Stans is negotiating on this right now, I would rather not get involved in what we think would be acceptable terms.

Mr. LANDRUM. You are already involved. You are up here asking us to defer action on it.

Secretary ROGERS. Yes; but he is in the process of negotiating now. I don't want to suggest what we think would be acceptable.

I am sure he would be glad to talk to you privately about it.

Mr. LANDRUM. You don't thank he needs another gun in his hand or do you think he needs a gun in his hand?

Secretary ROGERS. I think the attitude of this committee will be very helpful to him, and I think he appreciates that.

Mr. LANDRUM. Just briefly, I want to concur in what the distinguished chairman and ranking member of the minority have said to you in their remarks this morning.

As Mr. Watts stated, I am encouraged more than I have ever been about the attitude of this committee and this Congress on this question of imports. These able gentlemen this morning have articulated what I think the sentiment is.

In your colloquy with Mr. Byrnes, I think I recall that you said in regard to his comment on Japan that the Japanese executive has to consider the Japanese Diet just as we have to consider our Congress. That may not be an accurate quote, but it is substantially right.

Secretary ROGERS. That is substantially right.

Mr. LANDRUM. If that is the case, that means that the Japanese executive is being prevented by the actions of the Japanese Diet from entering into a voluntary agreement with this country.

Isn't it just about essential that you have legislation in order to face up to the challenge of the Japanese Diet?

Secretary ROGERS. I didn't mean to suggest the Japanese Diet was the obstacle. I just said that that is how their system works, just the way it is how our system works in this country.

When you talk about voluntary quotas, you have to consider the attitude of the Diet, the Prime Minister, and so forth. But, as I say, I don't think we need legislation now. We are trying very diligently to work out an agreement.

Our judgment is we don't need legislation now.

We do appreciate your point of view and we hope you appreciate ours.

Mr. LANDRUM. I am grateful that you appreciate our point of view, but I must in candor say to you, sir, that it is difficult for me to appreciate your point of view when, as knowledgeable as this Government is, and as sophisticated as you gentlemen who share up the execu-

tive department are, as much as you know about the economy of the shoe industry, the textile industry, and other industries of so-called relatively low technology, that you would continue to say, while they are eating into our market, domestic market daily, that you would continue to say we don't need anything.

I would express the hope, Mr. Secretary, that you use every resource at the command of the State Department and the executive department as a whole, including the Commerce Department, in getting some sort of satisfaction, not just an agreement that says nothing, some sort of satisfactory agreement in here about this before we close the hearings.

I am inclined to agree and I appreciate the extent to which you said you need a free hand. I want to be of help. I don't want to be an isolationist. I want to keep this open.

I want to keep the markets of the world open to our products. But, it is getting a little frightening to see so many of our own people have their job opportunities reduced simply because we are afraid to stand up and face up to the challenge of these importers of foreign-manufactured goods.

While I would agree with Mr. Mills, Mr. Byrnes, and Mr. Watts—who said he didn't blame you but wanted to excuse you—I want to excuse you, too, but I don't want to excuse you to the extent that I would not recognize that environment has a terrific influence on what a man does sometime.

You have moved into an environment down there that has sometimes taken some very strange actions in regard to the textile industry.

Secretary ROGERS. I don't like to interrupt, but Mr. Stans is conducting these negotiations. The idea that we haven't been trying to accomplish this isn't correct.

Mr. LANDRUM. I don't say you haven't been trying. I recognize that.

Secretary ROGERS. We are just as anxious about this as you are.

Mr. LANDRUM. I recognize that you have been trying. Mr. Stans has done an excellent job, Mr. Secretary. He has done one of the best I have ever seen. But it just sort of provokes me to have you come at this point and say, "Let us quit. Let us stop this effort and let us go along and see if we can't smooth this thing out some other way."

Secretary ROGERS. I am not saying "Let us quit." I think Mr. Stans said the same thing. This is just the position of the administration, that we think it is preferable now not to enact this legislation at the moment. Mr. Stans took the same position. I am just repeating it.

The fact that it differs from your point of view doesn't seem to be so surprising.

Mr. LANDRUM. I am grateful, Mr. Secretary, for your indulgence.

Mr. Burke has asked me to yield and it is his time. I yield back to him.

Mr. BURKE. I would like to make this observation: Reports in the newspapers indicate that Mr. Stans will not be with us too long.

Secretary ROGERS. I don't believe that is true, Mr. Burke. I certainly hope not. He is an extremely capable man. I haven't seen that report.

Mr. BURKE. I am not talking about his capability. I am talking about how long he is going to be with us.

Secretary ROGERS. Where did you see that?

Mr. BURKE. It was in the papers last week in a couple of the columns.

Secretary ROGERS. Which column?

Mr. BURKE. I can't identify it right now, but the report was that he was not going to be around too long.

Secretary ROGERS. I would hope this committee doesn't rely on all these gossip columns.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Secretary, we have been having a very interesting exercise this morning. I think you are well aware that this commentary has been perhaps more than rhetoric but indicative of the malaise felt by the committee and the Congress generally in this area, which has not been one that we have been very active in in recent years.

I think you are well aware, Mr. Secretary, that the activists in Congress at this point are interested in some degree of protection.

The talk that has been directed at you about a more aggressive point of view on the part of the State Department and so forth I think reflects the kind of malaise we feel about Congress in this area, also.

We are very well aware of the tremendous special interest pressures that build up on something of this sort, particularly at a time of rising unemployment.

We are well aware that such an operation is likely to turn into a kind of log-rolling exercise because everyone has his own hangups in the field of trade, and these relate to our constituencies to a substantial extent.

I don't think you should take personally the feeling of concern that has been expressed about the aggressiveness of the State Department. Frankly, as in many other areas, the role of executive leadership here is likely to be considerably more effective than the role of 435 men functioning in the broad legislative arena that we must necessarily follow.

Secretary ROGERS. I appreciate that. I hope you haven't misunderstood. I don't take offense at anything. I was a little surprised that Congressman Burke thought a Cabinet officer was going to leave the Cabinet because of something he saw in a gossip column.

Mr. BURKE. Can you give us the assurance he will be around?

Secretary ROGERS. Can I make a call?

Mr. CONABLE. I am concerned about where we are heading on this thing. It seems to me there are many implications that must be explored by this committee as we go down the road.

We have an obligation not to commit ourselves too instantly to any particular panacea in any particular area because of the nature of our legislative process, and the fact that inevitably, once you open Pandora's box, all sorts of things are likely to come out.

I am interested in the support the State Department and administrations of the past several years have given to Britain's entry into the Common Market.

I am wondering what effect this is likely to have on our balance of trade. We have heard references earlier today to the fact that EEC is essentially an inward-looking group. They have the problems of political as well as economic integration.

We have strongly supported Britain's entry into the Common Market, apparently on the assumption that this was necessary if Britain

was to achieve a degree of stability that would be consistent with our hopes for a prosperous future for Britain.

I am wondering, though, if it may not have some rather serious side effects, her entry into the Common Market, in terms of our trade with Britain, and particularly if in the agricultural field we won't have bad troubles as a result of efforts to integrate Britain's agriculture with that of the low countries.

Secretary ROGERS. I think that is right. I think it is a matter of concern for us and we have to watch it very carefully. Of course, it depends on what kind of a deal they make. We don't know yet what the arrangements will be in connection with Britain's entry into the market.

I do think the points that you make are very valid. The balance of payments problem is a very serious one. We will be watching very closely the type of arrangement that is made in the Common Market, with the very thoughts in mind you have expressed.

Mr. CONABLE. What kind of support do you think this committee can best give Secretary Stans as he tried to work out some sort of a voluntary agreement in the textile field?

Secretary ROGERS. I think the support that the committee has already given——

Mr. CONABLE. Do you mean simply holding these hearings?

Secretary ROGERS. Holding the hearings, expressing the points of view that have been expressed, and we would hope deferring the legislation until we see what can be worked out.

Mr. CONABLE. I am interested, sir, to see if you feel that this is going to be an area, the area of trade and competition, of increasing concern, or do we have special problems now which are likely to make it a more dormant area in the future?

Secretary ROGERS. No; I think that it is going to be a matter of concern, of active interest. I think that people are going to be discussing, as we are this morning, for many years to come the same problems, just as they have for many years in the past.

I think the whole problem of world trade is one of the most complex and dynamic parts of foreign affairs. I think it will continue to be.

The point is, though, that the United States has such a tremendous lead and we are so powerful, economically, that whereas at the end of the Eisenhower administration we were quite concerned about the ability of the United States to maintain its economic position in the world, I think it is less so now.

Our situation vis-a-vis the Soviet Union has improved tremendously in the last 10 years.

Mr. CONABLE. Isn't the purchasing power of the rest of the world likely to grow faster than the purchasing power of the American market?

Secretary ROGERS. That could be.

Mr. CONABLE. That is because there are more people there and they are less developed.

Secretary ROGERS. That is right.

Mr. CONABLE. Therefore, shouldn't we be putting our emphasis on reaching out? Isn't it likely that the competition of the future is going to be more for the foreign markets than it is for the American market, at least in terms of growth?

Secretary ROGERS. That could be, but that is down the road a good bit, I think.

Mr. CONABLE. Is there any danger of the United States becoming the Westchester County of the world if we don't have some type of trade barrier to maintain our low labor intensive industries?

Are we likely to wind up producing only computers and have all things like textiles and shoes made elsewhere? Is this the end product of absolutely unvarnished free trade over the future?

Secretary ROGERS. I wouldn't think so, no. I think that maybe there will be some trend in that direction. I think a country like the United States obviously has a predominant position in technology and advanced manufacturing methods.

But I don't think that is something we have to be concerned with in the immediate future. I think we manufacture a lot of textiles in this country. We manufacture a lot of shoes in this country.

We probably will continue to for some time. I don't mean by that that we shouldn't be concerned about the trend that we are speaking about this morning, but I am not very gloomy about the future. Everybody seems to be. I am not.

I think that having served in the Eisenhower administration and remembering all the dire predictions that were made in 1959 and 1960 about the strength of the United States, and particularly vis-a-vis the Soviet Union, and looking at the United States now realistically and seeing what has happened in the last 10 years, I think we have to say we have done very well. I am not gloomy or depressed about the future in the slightest.

Mr. CONABLE. That is all, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Fulton.

Mr. FULTON. Mr. Secretary, in your opening paragraph you comment about Cordell Hull and free trade. I represent an area a few miles from the home of Cordell Hull. We are proud of Cordell Hull and the contribution he made not only to our State but to the world, his name is invoked in political speeches as much as Andrew Jackson's is. As proud as we are, however, I would find it very difficult under the present conditions to run a campaign for reelection in support of the free trade policy.

This is almost a 100-percent turnaround, particularly for my area. I just thought I should make this observation and give you and those in the administration the benefit of the fact that it would be almost politically disastrous with the temper of the people at this moment with reference to our present imbalance due to the heavy influx of imports.

That is all.

Secretary ROGERS. Thank you.

The CHAIRMAN. Mr. Corman will inquire, Mr. Secretary.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Secretary, concerning the American selling price, as I understand it, that is one of the most irritable nontariff barriers when you talk to other countries.

Are you suggesting that we repeal it by statute? Would you be better off if we merely give you the ability to negotiate it away in exchange for getting rid of some of the other nontariff barriers that we face?

Secretary ROGERS. I will refer that to Mr. Trezise.

Mr. TREZISE. Congressman, I think we need your assent to complete the negotiation we undertook in 1967 when we, on a contingent basis, agreed that we would ask the Congress to amend the law to repeal the American selling price in return for trade concessions from the European Community and the British. So we have a bargain which we need your help to complete.

Mr. CORMAN. Do you have a whole packet of concessions that are awaiting our repeal of the American selling price that will go into effect if we repeal the American selling price?

Mr. TREZISE. That is correct.

Mr. CORMAN. What are they, please?

Mr. TREZISE. Well, we will receive reductions in duties on our chemical exports to the rest of the world, and we will receive benefits for our tobacco exports in the United Kingdom, and benefits involving the special taxes on automobiles on the Continent of Europe, specifically in France, Italy, and Belgium. That is the package in general. It is a fairly complicated affair, but that is the essence of it.

Mr. CORMAN. It is sort of sealed by agreement, and our act will implement that agreement?

Mr. TREZISE. It will permit us to finish it; that is right.

Secretary ROGERS. But there will be a peripheral benefit in that every time we discuss trade barriers with other nations they throw this in our face and say, "Here is a trade barrier."

So in addition to completing the bargain which we have already made contingent on this legislation, it will also remove one of the talking points that some other nations use when they talk with us about trade barriers.

Mr. CONABLE. Will the gentleman yield?

Mr. CORMAN. I do.

Mr. CONABLE. If Britain comes into the Common Market, does that present a further obstacle in terms of the tariffs on nonbenzenoid chemicals, the ones not covered by the American selling price?

Mr. TREZISE. I believe you are right. The British tariffs on chemicals are somewhat higher than the others. It would suggest a reduction, but I don't have the details.

Mr. CONABLE. You don't know how significant the figures would be, but there probably would be some further bonus if England comes into the Common Market?

Mr. TREZISE. Yes. In fact, British duties generally are somewhat higher than those in the Common Market and somewhat higher than our own.

In that sense, the British entry would do that; yes.

Mr. CONABLE. Presumably, Mr. Stans will have that information for us when he returns.

Thank you.

Mr. CORMAN. Mr. Secretary, could I ask what effect the "Buy American" Acts of the various States have on you and your negotiations with other countries when you get to that point of discussing nontariff barriers?

Mr. TREZISE. Congressman, the "Buy American" Act, the Federal Act, and actions by some of the States are considered among those elements that would go into a discussion of nontariff barriers with other countries.

The "Buy American" Acts by States raise some constitutional problems. I am not sure they fit into a negotiation with other countries.

Secretary ROGERS. Actually, it doesn't arise very often in discussions with other countries.

Mr. CORMAN. Do you know how many of the States now have "Buy American" Acts for their own purchases?

Secretary ROGERS. I don't know.

Mr. TREZISE. I don't know how many States; New York failed to pass their bill recently, but there are State or local statutes from time to time that we hear about.

Mr. CORMAN. On the escape clause, the changes anticipated in this legislation, if, for instance, we get no satisfactory agreement on quotas for textiles, or even if we do if we have a critical problem, would you anticipate that the textile industry as an entire industry would come in to qualify for relief under the escape clause, or would it be a firm-by-firm effort?

Mr. TREZISE. I think, Congressman, that would be up to the industry to decide how it would proceed.

Secretary ROGERS. I don't think we can answer that.

Mr. CORMAN. Would they have a forum to come in as an industry to attempt to establish that they needed relief under the escape clause?

Secretary ROGERS. Yes.

Mr. CORMAN. The other thing that worries me is as I understand it, the Tariff Commission makes the decision as to whether or not there is qualification, but the Tariff Commission does not know at that point what kind of relief may be granted.

They might be more lenient in granting relief under the escape clause if they thought that relief was going to be adjustment assistance rather than tariff assistance.

Is that a fair concern?

Mr. TREZISE. I would be a little careful about trying to decide what goes on in the minds of the members of the Tariff Commission, Congressman.

The statute makes it clear that the Congress considers that tariff relief or quota relief or adjustment assistance are approaches which the executive may use, and it doesn't give us any clear guidelines as to which ones.

Mr. CORMAN. But should not the Commission consider the potential relief when they are determining whether or not there should be relief under the escape clause?

That is a fair statement, is it?

Secretary ROGERS. Yes.

Mr. CORMAN. Thank you.

The CHAIRMAN. Just a moment. The Tariff Commission not only is charged with the responsibility of determining whether there is injury as a result of imports, but it also invariably recommends a course of action to the President to follow.

He may or may not follow that course of action. He may do less than the Tariff Commission says is necessary to eliminate the injury. But they do point out to the President what, in the opinion of the Tariff Commission, is required to eliminate the injury.

Is that not true?

Secretary ROGERS. That is correct. But I think the finding they make is just based on the evidence and not any other considerations.

The CHAIRMAN. Absolutely. They have to base their finding upon their evidence that is either presented in the course of the hearing or that they develop in the course of study.

Mr. CORMAN. Mr. Chairman, could I ask this on that point?

If the Tariff Commission recommends adjustment assistance only, the President, I assume, still has the jurisdiction to grant tariff relief, too, even though the Tariff Commission did not recommend it.

The CHAIRMAN. If I may interrupt again, actually, the Tariff Commission does not consider the question of adjustment assistance unless, in the course of the application pending, submitted either by the employer or the group of employees, a request is made for adjustment assistance. It has to be requested.

Mr. CORMAN. I was working on the assumption they were going to ask for everything they might be able to get.

The CHAIRMAN. That isn't always the case.

Mr. CORMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we appreciate so much your coming before the committee. You have been very helpful.

Without objection, the committee will recess until 2 o'clock this afternoon, when we will hear Secretary Shultz and Secretary Hardin.

Secretary ROGERS. Thank you very much.

(Whereupon, at 12:10 p.m. the committee recessed, to reconvene at 2 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

We appreciate having as our first witness this afternoon the Honorable George P. Shultz, who, as all of us know, is Secretary of Labor.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF LABOR; ACCOMPANIED BY HON. GEORGE H. HILDEBRAND, DEPUTY UNDER SECRETARY OF LABOR; AND HERBERT N. BLACKMAN, DEPUTY ASSISTANT SECRETARY FOR TRADE AND ADJUSTMENT POLICY

The CHAIRMAN. It is not your first appearance before the committee, so we will welcome you back.

Secretary SHULTZ. Thank you, Mr. Chairman. I am beginning to feel right at home with this committee.

I am impressed with the volume of work that you turn out, having participated in a little of it, and having seen how hard you work at it.

The CHAIRMAN. That is on the record, remember.

Secretary SHULTZ. Well, it is a bipartisan comment.

Mr. Chairman, I welcome this opportunity to appear before this committee in support of the proposed Trade Act of 1969, introduced as H.R. 14870. Though I intend to concentrate in my statement on the adjustment assistance features of the legislation, I would like to offer some general comments to place them in perspective.

During the past 5 years, our total volume of international trade rose from $48 billion to $73 billion and our merchandise trade balance dropped from $5 billion to slightly more than $1 billion in 1969. The factors influencing these changes include the growing economic strength and technological progress of our major trading partners, developments in international monetary and fiscal policies, intensification of worldwide trade competition, increased personal income, and heightened domestic demand stimulated by inflationary pressures which in themselves tend to build up imports while checking the expansion of exports.

Trade policy is, of course, only one tool in the arsenal of measures that seek to promote the national economic and social well-being. Fundamentally, the control of inflation and our continued real economic growth lies in the field of basic fiscal and monetary policy. Economic growth itself is a process of dynamic change and involves the adjustment of individuals to that change.

We require policies and programs to anticipate these problems of adjustment—steps to prevent dislocation when it can be foreseen, and to provide remedies where advance actions are impossible. In particular, we must be concerned about the individual problems which arise as a consequence of actions which result in gains for the entire community. In short, within the framework of the legislation before this committee, adjustment policy and trade policy go hand in hand.

The proposed Trade Act, and its provisions for liberalized adjustment assistance and escape clause relief programs, should help make trade policy a valuable component in the array of measures aimed at noninflationary economic growth. A key purpose of such growth is providing a rising standard of living for our people. Employment and the standard of living in this country will, I believe, be maximized by a trade policy which brings about effective price competition, enlarged markets for our goods, a greater choice of products for our citizens, and simultaneously provides adequate safeguards and assistance for workers who may be affected by shifting patterns of international trade.

We recognize that when imports increase rapidly—either because of an expansion of the economy, or developments abroad, or a reduction in trade barriers—certain economic changes or dislocations will occur. Where imports contribute to the displacement of workers over short periods of time, our trade and manpower programs should provide the means for appropriate correctives.

One of the central tasks of manpower policy is to cushion the shocks of both temporary and structural displacement by providing adequate methods for adjustment. It is in that sense that adjustment policy and trade policy must go hand in hand.

We recognize that some imports may cause dislocation. As the President stated in his message on this bill:

> Freer trade brings benefits to the entire community, but it can also cause hardship for parts of the community. The price of a trade policy from which we all receive benefits must not fall unfairly on the few—whether on particular industries, on individual firms or on groups of workers.
>
> As we have long recognized, there should be prompt and effective means of helping those faced with adversity because of increased imports.

That is why we urge liberalizing the adjustment assistance criteria to deal more effectively with employment displacement resulting

from import competition. That is why, in speaking to the National Foreign Trade Council last November, I called upon the private sector to participate actively in the adjustment process.

The Congress recognized the problem by including adjustment assistance provisions in the Trade Expansion Act of 1962, to help firms and workers adversely affected by the increased competition from imports. This law was the first American effort of this kind in the area of foreign trade.

Assistance available to workers now includes monetary payments to tide them over between jobs; training to help prepare for alternative employment; job counseling and referral; and if necessary and where the workers are willing, relocation to places where jobs are available.

For a firm or its workers to be eligible to apply for adjustment assistance under the 1962 act, the Tariff Commission must determine that increased competitive imports are the result in major part of trade agreement concessions. That is a very important sentence. The Commission must further determine that these increased imports have been the major factor in causing or threatening serious injury to the firm or unemployment or underemployment of the workers.

These provisions have not worked as we believe the Congress intended and as was expected by U.S. workers and firms. Experience has shown that the criteria have been too stringent. They have not worked adequately. We believe that the modifications of both the criteria and procedures proposed in H.R. 14870 will produce a program which is both realistic and equitable.

We propose elimination of the requirement that tariff concessions must be shown to be the cause of increased imports. The increase in imports should not have to be related to a tariff concession. We also propose that adjustment assistance for firms and workers should be available whenever increased imports have been a substantial cause of serious injury to a firm or unemployment or underemployment of the workers.

The important consideration is that some Americans have been harmed by a situation that benefits the Nation as a whole and we cannot expect the few to bear the entire cost. Since the first Trade Agreements Act was passed in 1934, the United States has continuously followed a basic policy designed to enlarge world trade and U.S. exports together by mutual reciprocal reductions in tariffs and other trade restrictions. Under this policy, duties have been reduced one or more times on almost everything we import.

The relationship between increased imports and the multiplicity of duty reductions and other factors affecting trade patterns makes it exceedingly difficult to demonstrate clearly that tariff concessions have been the most important factor causing the increased imports. As the new bill recognizes, the key issue is whether increased imports are causing dislocation of workers, not the reasons for such increase.

To maximize the opportunity for firms and groups of workers to obtain adjustment assistance and at the same time maintain a link to an increase of imports as a cause of serious injury, the administration considers that the showing that such imports have been a "substantial cause" of injury is appropriate and desirable.

The test that increased imports be a "substantial cause" of injury would mean that they be an actual and considerable cause, not neces-

sarily greater than that of all other causes, or greater than any other single cause. This not as strict as the existing criterion of "major factor." Also, it eliminates the necessity to determine the relative order of importance of the separate causes at work.

It is the intention of the administration that adjustment assistance be extended to firms and groups of workers when appropriate. In contrast to tariff adjustment relief for entire industries, such decisions do not have nationwide or international impact. Adjustment assistance is concerned with the problems of individual towns, cities, communities, plants, and groups of workers. They do not directly affect international trade relations of trade patterns.

Finally, we propose that determinations of eligibility for firms and workers to apply for adjustment assistance be made by the President instead of the Tariff Commission. However, the Tariff Commission would continue to gather and report on the required factual information. The same procedure has been used successfully in carrying out the adjustment assistance provisions of the Automotive Products Trade Act of 1965.

Under the act, the President delegated the responsibility for making determinations as to eligibility to apply for adjustment assistance to an interagency board. We assume that a somewhat similar procedure would be adopted under this legislation.

Our purpose is to make a clear distinction between escape clause and adjustment assistance findings. Industrywide escape clause findings impinge directly upon our international trade relationships. It is therefore appropriate for such findings to continue to be made by the Tariff Commission, and be subject to Presidential review taking into account the entire international picture.

The administration's bill would not change the conditions that individual workers must meet to receive assistance. For example, workers who are members of the group certified as eligible to apply for adjustment assistance, would still be required to meet State standards regarding availability for work; to have been gainfully employed for at least half the preceding 3 years; and to have worked for an adversely affected firm for half the previous year.

The proposed changes in the criteria and procedures contained in H.R. 14870 are all in keeping with the objectives of the adjustment assistance program. They will insure speedy and effective relief to individual workers and their employers. That such changes will work can be seen in the results of the Automotive Products Trade Act of 1965. There the criteria and procedures were designed to reflect the particular nature of the United States-Canadian Automotive Products Agreement and the industry involved.

Under the terms of that act, between 1965 and 1968, certifications were issued in 14 of 21 cases, covering approximately 2,500 workers. Of the certified workers 75 percent applied for and received benefits. The average benefit period for these workers was 20 weeks. The total cost over 3 years was about $4 million. The special provisions for filing adjustment assistance petitions under that act expired June 30, 1968.

It is difficult to estimate the case load that would develop under the standards proposed in the Trade Act of 1969. The pattern of increase in imports and the impact of these imports on individual firms and workers is influenced by many factors including the general level of economic activity. Our best estimate is that about 15,000–20,000 workers will apply for adjustment assistance in the first year of operation under the proposed new criteria.

Currently in the Department of Labor we are starting several programs to improve our ability to assist adversely affected workers quickly and efficiently. An "early warning" system to pinpoint problems and adjustment is being developed so that we can alert officials at both the local and national levels about industries from which applications for relief are likely to come.

The more we can anticipate problems, the better we can mobilize the manpower services necessary to insure the speedy reemployment of displaced workers. Early notice will also help involve the private sector more deeply in the adjustment process. I believe strongly that private enterprises can do much by providing talent and energy to the task of solving, or preventing, dislocation problems. Those firms with important stakes in foreign trade have special concern to help improve the adjustment process. The problem of adjustment calls for concentrated joint efforts to effect the quick and permanent reemployment of displaced workers.

We plan to supplement the early warning system by the use of adjustment teams. These teams would include representatives of the State employement service, of the workers' last employer, and of the workers. As soon as we become aware of an import-generated layoff at a plant, we would send an adjustment team into action with the object, among others, of involving private enterprise and the community in assisting in the readjustment of the workers. It would employ all resources and techniques on behalf of the workers. These would range from advance registration, job banks, and individual reemployment plans, to specially designed training and assistance programs.

The administration bill would amend the Trade Expansion Act to provide that sums appropriated for adjustment assistance for workers may be used to pay the cost of training provided to adversely affected workers to the extent that training resources provided under any Federal law would not otherwise be available.

I would also propose, in furtherance of the programs to assist adversely affected workers, that the act be amended to provide for various supportive assistance and services to such workers as would facilitate their prompt return to suitable gainful employment. These services would include minor remedial medical or dental assistance, job coaching, educational services, and other services to aid the individual workers. The services would be provided in the same manner as these services are provided under other manpower programs.

We will be submitting to the committee and its staff language covering our proposal.

(The following letter and attachment were received by the committee:)

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, June 17, 1970.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: When I appeared before your Committee in support of the Administration's proposed Trade Act of 1969, introduced as H.R. 14870, I also proposed that, in furtherance of our programs for adjustment assistance to adversely affected workers, the Trade Expansion Act of 1962 be amended to provide for various supportive assistance and services to such workers as would facilitate their prompt return to suitable gainful employment. At that time, I stated that we would be submitting language covering our proposal.

Attached herewith is the text of an amendment to Sec. 304 of the bill, for this purpose.

The Bureau of the Budget advises that enactment of the proposed amendment would be in accord with the program of the President.

Sincerely,

GEORGE P. SHULTZ,
Secretary of Labor.

H.R. 14870

Amendment proposed to Sec. 304.

On page 10, strike out all of lines 23 through 25 and insert in lieu thereof the following:

(a) The second sentence of section 326(a) of the Trade Expansion Act of 1962 (19 U.S.C. 1951(a)) is amended to read as follows:

"To this end, and subject to this chapter, adversely affected workers shall be afforded, where appropriate, the testing, counseling, training, and placement services provided for under any Federal law, as well as supportive assistance and services, such as health and educational services, job coaching, transportation, and other special services found to be necessary and appropriate to facilitate their prompt return to suitable employment. In providing such supportive assistance and services the Secretary of Labor, to the maximum extent feasible, shall assure that they are provided in such manner, through such means, and using all authority available to him under any other Act (and subject to all duties and responsibilities thereunder) as will further the establishment of an integrated and comprehensive program of adjustment assistance to workers and will make minimum use of existing manpower and manpower related programs and agencies."

(b) Section 337 of the Trade Expansion Act of 1962 (19 U.S.C. 1977) is amended by inserting after the words "adjustment assistance" a comma and the following words:

"Including training and other assistance and services provided for in section 326 not otherwise available,".

Secretary SHULTZ. We recognize that in some situations a community may be almost completely dependent upon a single plant for its economic existence. If the adjustment assistance programs for firms and workers are inadequate to keep the community healthy, this administration will undertake coordinated efforts to help it.

All departments and agencies will cooperate to supply the expertise and the resources that will enable the community to undertake requisite development activities.

EMPLOYMENT AND TRADE

We must be responsive, through adjustment assistance and related techniques, to problems which may arise from time to time as a consequence of U.S. trade policy. However, as best we can judge, U.S.

foreign trade means more, not fewer, jobs and job opportunities for Americans.

The measurement of the relationship between employment and trade is very difficult. In a dynamic and swiftly moving competitive economy such as ours, there are inevitably numerous factors other than, or in addition to, trade which influence employment in any given industry or the availability of job opportunities. For example, movements in productivity which reflect changes in technology, capacity utilization, and the allocation of resources all affect the employment picture as does the general state of the economy and the thrust of domestic and international competition.

U.S. merchandise exports and imports each represent in value, less than 4 percent of our gross national product, and as such are important but not dominant influences on the economy.

It is worth nothing that in 1968 and 1969, when imports reached new high levels, total employment also reached new highs and unemployment new lows.

Bearing these factors in mind, the Department of Labor has tried to develop data, which at a specific point in time, might give us some order of magnitude of the relationship between trade and employment—assuming, of course, that other relevant factors remain unchanged.

On the export side the Bureau of Labor Statistics has estimated that 2.7 million jobs were involved in producing the goods which were actually shipped out of the country in 1969. This estimate includes the direct employment necessary to produce the exported goods, and also the indirect labor necessary to produce the exported goods, and also the indirect labor necessary for all supplies, material, and services incorporated in the exported item. The labor involved in the transportation and handling of the exported item is also included. Almost 4 percent of the total number of jobs in the private sector is represented by these export-related jobs.

In addition, there are a number of foreign trade-related jobs involved in the handling and processing of imported goods. This would include activities of longshoremen, customs brokers, coffee processors, and so forth.

It is harder to present a realistic picture of jobs related to, or affected by, imports than for exports. There are, for example, some imports which we do not produce domestically, coffee, chromite, cocoa, tea, bananas, and others for which domestic production is not sufficient to meet our domestic needs also bauxite, asbestos, and sugar.

Imports of such goods supplement rather than displace domestic supplies and do not raise issues of possible job displacement.

The largest part of our imports represents goods which are also produced in the United States. In 1969, if we had attempted to produce domestically goods equivalent in value to such imports, the Bureau of Labor Statistics has estimated that we would have needed 2.5 million additional workers, and the facilities and equipment for these workers to use. It is reasonable to assume that in 1969, unless there had been a concerted effort to transfer resources to this end, we would not have found that number of people with the requisite skills nor the necessary facilities to produce these goods.

Rather, the attempt to replace a substantial amount of such imports by domestic production would have placed additional strains on the economy and heightened even further the inflationary pressures. I should add, of course, that if we were to attempt to replace these imports with domestic production, retaliation by our trading partners would follow, and some considerable part of our 2.7 million export jobs would be lost.

I do not want to suggest by this analysis that there are not particular cases and particular industries in which the volume and composition of imports do in fact create problems of job displacement for workers and difficulties for producers. Instead, my point is that the mechanisms of the escape clause and adjustment assistance, as proposed in this bill can, in the main, deal with such problems as do arise from time to time.

My colleagues are dealing extensively with the other provisions of H.R. 14870. I would like to express my view that the bill, as a whole, is a forward-looking response to the economic realities of the world of the 1970's. The President, in his message, has stressed that world economic interdependence has become a fact along with heightened worldwide competition.

The bill is framed in recognition of these facts. It provides modest tariff reduction authority for the President to permit this country to continue to make minor adjustments which are required from time to time in our trading relations with other countries. Since the GATT is the main forum through which these relationships are conducted, the legislation provides authorization for our necessary financial support for that organization.

The bill would repeal the American selling price system carrying out agreements developed in the Kennedy round which will operate to the advantage of the American chemical industry and its workers and remove one of the major obstacles to a concentrated attack on the nontariff barriers of other countries.

The bill recognizes the importance of nontariff barriers of other countries as impediments to our trade and provides authority for the President to respond appropriately when other countries place or maintain unjustifiable restrictions against U.S. products whether industrial or agricultural.

Finally, as I have noted, the legislation would liberalize in a sound an reasonable way the access of industries to the escape-clause procedures, long a necessary and desirable safeguard in U.S. basic trade legislation. The changes proposed for the escape-clause complement the changes in adjustment assistance procedures which I have discussed at some length.

In my view, the Trade Act of 1969 represents a consistent continuation of the Nation's reciprocal trade agreement program. This kind of trade policy holds the best promise for expanding employment opportunities in the wide range of industries involved in international trade.

Thank you, Mr. Chairman.

The Chairman. And thank you, Mr. Secretary, for a very interesting statement.

Mr. Burke will inquire.

Mr. BURKE. Mr. Secretary, on page 12, you refer to the high levels of employment and the low levels of unemployment. I think what our concern here today is, since this act will take a year or 2 years to put into effect, is if the President is able to carry out his promise to end the war in Vietnam, and defense work is cut down drastically, defense spending is cut down, where are these people going to get the jobs that will be lost as a result of imports?

Secretary SHULTZ. I think that question goes to the problem of the management, you might say, of the economy as a whole.

I believe that we have the tools and the knowledge to handle that kind of an adjustment and do it in a manner, after we go through the transitions that are involved, that is perfectly consistent with very high employment levels.

There is no necessity, in order to achieve high employment, to have high expenditures, for example, on military goods.

Mr. BURKE. Your wartime economy is the reason for these jobs being in existence that we find today.

Secretary SHULTZ. No; I think the wartime economy essentially robs us of our ability to produce things that we desperately want for our civilian economy.

Mr. BURKE. I happen to represent a district that has employed thousands and thousands of shoe workers, thousands of people in the textile and other industries who have lost their jobs over the past 10 or 12 years as a result of the accelerated imports.

True, they are able to be picked up by the defense industries that have come into our area, but now it looks like this war in South Vietnam might end if the President is able to carry out his promises.

Secretary SHULTZ. We all hope and pray that is going to happen.

Mr. BURKE. Yes; and I do, too.

These 10,000 jobs that were lost in my district, and when they cut down on defense work we will more than likely lose another 20,000 or 30,000 jobs, which will mean 40,000 to 50,000 people unemployed—these industries that formerly employed them in defense work being cut down—where will the Department of Labor find jobs for 40,000 people to work out of a population of 465,000?

Secretary SHULTZ. We have seen in New England these problems of adjustment many times before and have seen the recovery that has been made there. I would point to the recovery that New England has made from the loss of the textile industry as an example. Or, to take a more specific case—I remember this vividly because I followed it very closely—I remember the shutdown in Nashua, N.H., of the Nashua Manufacturing Co. mills.

Do you remember that? Textron bought them and closed those mills.

Mr. BURKE. Yes; I remember that.

Secretary SHULTZ. The community couldn't have been more distressed. I remember the Senate committee came up and held hearings. People were crying on the witness stand and so on.

Royal Little, the head of Textron at the time, made the statement that it was a very healthy thing for the town of Nashua. I believe most citizens of that town would now agree with him.

Here was a town that had become totally dependent on those big textile mills and whenever anything happened adversely, for whatever reason, to those mills, the town was just on the bottom.

Now they have a much more diversified structure of industry there. I think on the whole it is a healthier community.

I just give that as an example of a community that did make a transition. I think we could multiply that example all around the country.

Mr. BURKE. I am very familiar with Nashua, N.H., and I am familiar with Fall River, Mass., Haverhill, Lawrence, and Lowell, and the other textile communities.

It took them almost 30 years to get up off their backs. I wonder whether or not this Nation of ours can afford to wait 30 years to get on their feet again.

Secretary SHULTZ. I think in the case of Nashua, it was quite prompt.

Mr. BURKE. I think our whole problem here is that there is no real promise of assistance for these industries that are being hurt, and I don't believe that there is any real assistance being given to these people who are losing their jobs. You talk about the adjustment and the training of these people. Up in my area most of the shoe workers average around 50 years of age. I don't know what you are going to train them for. Possibly you might have something in mind.

The electronic industry that we looked forward to with great future—the President closed down the NASA installation in Cambridge and this has resulted in reaching out into the whole area of Route 128 where all the electronic firms were, and now we find imports coming in in the electronic field. The outlook there isn't too good.

I can't see in this whole proposal by the administration anything really specific that is going to be done to either help these industries out or to assist the workers. I think we are going to be faced realistically, when the defense work stops, with a terrifically high rate of unemployment, so much so that we will be in a real recession.

I am a little bit apprehensive about the northeast section of this country, one of the oldest sections in the Nation that had its problems in shoes, textiles, sporting goods, everything else, that has been wiped out up there, and just where the economic cushion is going to be that the people can fall back on during a peacetime economy.

I don't think anybody from the administration, or anybody else, has come up with any answers yet. Everybody has generalized over this adjustment and all these things they are going to do. But these are the same promises we had back when we voted for the trade bill in 1962. They were going to do everything.

We finally found out that a few steel workers got a few extra weeks in compensation.

Now, specifically, what would a worker get under the provisions of your bill if he lost his job and it was established that it was lost as a result of imports?

Secretary SHULTZ. I would like to go through in detail the sorts of things that would be available to a worker in such an instance so that you could see.

We will assume as an example that the bill were in effect now and what would be the case right now in these particular instances.

Assuming the worker were eligible, he would be eligible, first of all, for payments for up to 52 weeks. These payments would be at a rate of 65 percent of his earnings up to a maximum, the maximum

being determined by looking at the average wage in manufacturing in the prior year and taking 65 percent of that. That is the method of determining the maximum amount.

If you looked at that in terms of 1969, the average wage in manufacturing was $129.51 per week, so that would make the weekly payment for which this person would be eligible $85. That would be the ceiling.

Sixty-five percent of whatever that person's wage was would be what that person would get. That could go on for up to 52 weeks.

If the person were in an approved training program and if that program were certified as continuing with that individual so that he had to take more time to perform the training, the payments could go on for an additional 26 weeks. That is a year and a half of payments that would support a person while that person was taking training and seeking to adjust himself or herself.

I might say, at the same time, a worker who is 60 years old or more would be eligible, of course, for the 52 weeks, and then for an additional 13 weeks. So there would be a total of 65 weeks of payments on this scale.

Beyond that, we provide explicitly, and have extended somewhat in language that I said in my statement I would give to the committee—for appropriations to cover the wide range of things that help a person in reemployment, not only training but minor medical assistance, counseling, job coaching, and so forth.

Those would be available. We have made explicit provision or are requesting authorization explicitly for those costs. If we were to go to a particular place where adjustment assistance was needed, and it was seen that all of the available training slots under MDTA were spoken for and there wasn't any training money left under that program, we would have training money in here explicitly for people displaced as a result of imports. Those facilities would be there.

Beyond that, and this is something that we have experimented with, as you know, under MDTA, but have not had any programmatic response such as is proposed here, a person would also be eligible to a relocation allowance if there is no appropriate job in the community and a job can be found that the person can do and is qualified for, in some other community. That is, we would pay the person's expenses and his family's for making the move, including moving their furnishings. We would also provide a cash allowance, a relocation allowance, that is computed at the rate of 2½ times the average weekly manufacturing wage in the prior year or, to go back to the example of 1969 as the base, a cash relocation allowance of $324.

So those are things that he would be eligible for in terms of flows of money and in terms of types of support directed toward reemployment.

Or in the case of the older worker I suppose, you would say directed toward some sort of a bridge as that person moves toward social security payments.

I think it is very important to note—and I agree with you completely—that in 1962 the committee felt and everybody felt, in looking at this pioneering step that you took, that there would be adjust-

ment assistance available. By and large, we would have to say that it didn't become available.

The reason, as we see it, was that the criteria through which a situation had to pass in order for people to be eligible were too strict.

We have changed those criteria. We have removed the requirement that the import rise be related to a tariff concession.

We have just said that the thing we are interested in is whether there is a rise in imports or not. Then we have removed the requirement that the rise in imports be the major, dominant, overwhelming cause, as is the case in the present law, to saying that it has to be a substantial cause.

The criteria have been loosened here so that the kinds of cases that I think we all expected perhaps would get through that sieve and the kind of payments for support that I mentioned could become available.

There is a lot that comes onstream here and it gives time and resources for use for people to make readjustments.

Mr. BURKE. These funds will be taken out of the unemployment compensation; will they?

Secretary SHULTZ. No, sir. We would ask for annual appropriations in the Department's budget explicitly for this purpose.

Mr. BURKE. The Department of Labor budget?

Secretary SHULTZ. Yes; to go into the Department of Labor budget, for this part of it.

Mr. BURKE. How much do you estimate you will have to ask for the first year?

Secretary SHULTZ. Our estimate that we have been thinking about for the first year runs on the order of $40 million to $45 million.

Mr. BURKE. How about the second and third year?

Secretary SHULTZ. It is hard to estimate, I think, just what obligation is being incurred. I wouldn't want to put that number that I have mentioned out and stand or fall by it. We don't know, but we think that is something on the order of magnitude that would be expected.

I should note that this is the gross figure. I think it is important for the committee to understand this, since I know we are all concerned about commitments to expenditures.

This is a gross figure, and when a person is drawing this allowance he or she is not drawing unemployment insurance. You might say if it weren't for this allowance the person would be eligible, in the cases defined here, for unemployment insurance in most instances.

So that is being saved, so to speak, and if we are looking at this broadly, in terms of the social cost, we would have to net out those unemployment insurance payments and run to, say, half of these.

Mr. BURKE. You feel that $45 million in the first year will be sufficient without touching any unemployment funds, to take care of 52 weeks of payments to these workers?

Secretary SHULTZ. This is built on the estimate of something on the order of 15,000 to 20,000 workers.

Mr. BURKE. I have in mind in my State, just during the past year, three or four firms have gone out—Goodrich Rubber, Victory Shoe—and some firms in Haverhill have gone out of business, totalling about 5,000.

How much do you think that it would total to take care of that unemployment in that little area?

Secretary SHULTZ. It is hard to estimate in any precise way. You can see some of the things that would affect how much it would cost.

Mr. BURKE. Let me put it this way: Fifty-five shoe firms closed in the last 18 months. I believe the average group of employees in each firm is around 450.

Do you think your money would be sufficient just to take care of those employees, approximately 25,000, who were in those 55 firms who lost their jobs?

Do you think $45 million would take care of it?

Secretary SHULTZ. I think, first, one has to be alert to the fact that what is going on in the shoe industry right now is a complicated thing. It isn't simply as though the industry is going along and all of a sudden there are imports and that is the only factor. There are a lot of other things that are involved. We have made a study of that.

Mr. BURKE. I don't want to sound like I am just interested in shoes. There are other industries that are affected. I am merely pointing out that in 18 months, 55 shoe companies of the country have gone out of business, closed down their doors.

There are hundreds of others that have cut their employment in half. I am wondering whether or not, just in this little area, $45 million would be sufficient. That is why I am asking the question.

I am asking whether or not we are getting the same promises, promises we had back in 1962 here in 1970 about the assistance that is going to be given to these unemployed workers.

I think $45 million would be wonderful if that is all we will need. But if imports continue to accelerate at their present rate, I don't see how $45 million can even be a drop in the bucket.

Secretary SHULTZ. We have some bits of experience to look at. In the auto case we had that kind of experience, with provisions more similar to this. There the payments ran on the order of $2,000 to $2,500 per individual worker.

Mr. BURKE. Those people were able to go into a defense industry, most of them. The jobs were available. I am talking about a peacetime economy.

Where do you find the jobs for them? They pointed out yesterday that one bill would cost $600 million, and then they are going to lower the tariffs.

Then the Labor Department is going to come in and spend $45 million.

I wonder how far we have to go and how far we can go, and how many industries are expendable in this country.

Secretary SHULTZ. I don't think it is a question of industries being expendable.

Mr. BURKE. Do you think the shoe firms in the country are expendable?

Secretary SHULTZ. No; I love the shoe firms. As you perhaps know, I lived a long time in Massachusetts.

Mr. BURKE. I know that.

Secretary SHULTZ. I studied, not so much the Haverhill area that you are referring to, but down around Brockton and through there, the men's shoe industry. That is a fine industry and I think it has a long-term contribution to make.

Mr. BURKE. We have lost the textiles. We lost the granite industry. We are practically losing the entire shoe industry. Now the electronic industry is going out.

I wonder how an older section of the country like New England is going to stand up and what economic cushion this administration or any administration will have for plans to get the diversified industry in there like they did in Nashua, N.H. Of course, it took a long while to do that when Mr. Dumane closed the Amoskeag mills up there, I believe back around 1946 or 1947. That was only recently.

I wouldn't be surprised if the defense work that is going on hasn't helped that community. I am talking about when the defense work drops.

For instance, a shipbuilding company in my district employs about 10,000 people, and when they stop employing shipworkers—they are the highest employer of residents of the city of Brockton—when that company cuts its employment in half, which means that the employment of those residents of Brockton will be cut in half, where are these people going to get jobs?

The shoe industry won't be there. The few textile or garment workers we had won't be there. The electronics are being cut down.

Where are we going to get the jobs?

Secretary SHULTZ. I think the answer to that is twofold. First, it lies in having a strong, growing, healthy economy generally throughout the whole country. That does more for employment in any region of the country than any single thing. I think that is the first and foremost objective.

That is the best kind of adjustment assistance of any kind that anybody can have.

It was in the light of the strong employment conditions, at least, in 1969, that I tried to point out we had high imports, and we also had very high employment. These two things are perfectly consistent with each other.

I think that maintaining a strong and healthy economy by proper tax measures, proper expenditures, proper monetary policy primarily, as well as other kinds of policies, is the first and primary thing.

Beyond that come programs that may be directed specifically at a particular community or industry to help that industry or to help the workers involved, or to help the community.

You mentioned, for example, the problem of shipbuilding. I say this without being able to be highly explicit about it, but the administration has introduced a strong maritime program that calls for a considerable amount of shipbuilding. I don't know where those ships will be built or whether you gentlemen will enact that bill.

But if it is enacted, then you see there a considerable amount of shipbuilding activity. I just give that as an example.

I have been away from Boston a long time, after having lived there for many, many years. I was amazed in going back in the last few years to see the change in that city. It is a different city. It has a new spirit, a new life.

That is the sort of thing that happens, I think, that makes communities revive and prosper.

Mr. BURKE. We are not really building up industries up there. We have a lot of service companies and a lot of things going on because of the war.

My concern is when the defense drops. I think in my district we must have about 40,000 people employed in defense work. When that is cut down and we look around and say, "Now we have to fall back on these domestic industries which are the old standbys"—they are not there.

I hear all these wonderful things you are talking about here, but I don't see anything really specific being promised, some real answer to the problems.

Railroads have been discontinued north of Boston. Freight lines are being abandoned. Railroads are being abandoned. We are in some real trouble up there. I can foresee it.

I don't expect to be around here 10 or 20 years from now, but I am just wondering what future that area of the country has. Of course, there are other areas like in the South, with the textile firms. Where will they get the industries?

As you point out, Nashua was a one-industry town, but most of these firms are the one industry in the town, and when you close that industry down, what do you do to train those people, and what job is going to be available in that town to train them for?

If you have a shoe factory in a town of 4,000 and it employs, say, 400 or 500 people and it closes, where do you find 400 or 500 people in that community a job if they are 30 or 40 miles away from the nearest city?

Are you going to send them all into New York City and put them on welfare? They have over 10 percent up there on welfare now.

The chairman informs me it is 18 percent. Pretty soon there won't be room in New York for all the unemployed coming in there.

I think we have to come up with some answers here, and I think your Department particularly will have to come up with some answers far better than proposed in this administration bill.

I dislike very much to quarrel with you because I think you do have an understanding of the problems of New England.

The former trade negotiator, former Governor Herter, former Governor of our State, when the textile mills and shoe factories began to meet with him on these problems, didn't get the answers then, either.

We didn't get the answers under Mr. Roth. We haven't had them under Ambassador Carl Gilbert. He thinks we should open the gates wide and let everything in here. But I don't think the shoe industry, textiles, and others are in a position for that. I don't think the economy of the northeast part of our country, and I am the representative from that area, can stand this type of action.

I think you will have to come up with far better recommendations than 1-year unemployment payments at 65 percent, because at the end of that year that fellow then goes onto welfare. We have to have a little better outlook for that person than 1 year of unemployment payments at 65 percent.

I think there has to be something done for industry. I think we should come in here and make some outright grants to these people.

If the Government is going to spend $600 million for the promotion of the DISC program, there is no reason why they can't spend $600 million for the promotion of the shoe, textile, and other industries being affected by imports.

These are the things that I expect the administration to come in with recommendations on, something with substance to it, not the generalities we are hearing today.

If we give the administration blanket approval for lowering the tariffs again, we don't even know what items they are going to lower them on. Industry does not know what the items are going to be. We do not know what they are going to do.

I pointed out that more than 6,000 items where the tariffs were lowered in the GATT agreements. I believe it would be safe to say that 50 percent of those firms didn't even know they were being affected. Some of them know it today. Their doors are closed. The fellow has gone into bankruptcy and the employees are out of work. They know it now.

I think we have an obligation to these people to let them know what to expect about the lowering of these other tariffs and exactly what items are going to be involved. You don't lock the door after the horse is stolen. That is what you are asking here, to allow the negotiators to go in and give them a blank check, lower the tariffs, come up here and tell us we have to give them something to get something back.

We gave them something. We gave them almost $6 billion in the drop of our trade balance. Six billion dollars is a lot of money. If we continue on the present trend, by 1975, we will have an imbalance of almost $4 billion to $5 billion.

I don't know whether the economy can stand that. I think these are some of the answers we have to know, some of the answers I would like to have beforehand of what they expect to do, how far they expect to go, and what specifically they are going to do for industry and for the unemployed worker.

So far, this 65 percent for 12 months doesn't answer any problems for me because I can see at the end of the year their going off that type of compensation and then going onto the local welfare rolls.

The CHAIRMAN. Would the gentleman yield for a moment?

Mr. BURKE. Yes, Mr. Chairman.

The CHAIRMAN. I don't live in New England but I have to take issue with you about the future of New England.

The minds of the people in New England are so much more fertile than your soil you don't have to raise anything. I know that you are underestimating the fertility of thought of the people of that area, their ingenuity.

Goodness alive, I know in my country, people thought the world was coming to and end when you couldn't sell wagons anymore. People manufacturing wagons went out of business. They thought of something else.

The first thing you know, some professor at MIT, Harvard, or Yale, or one of your other fine schools, will come up with a vehicle that doesn't have to use wheels or anything like that. You will do something.

Mr. BURKE. Some of them are coming up with some wonderful ideas today.

The CHAIRMAN. Yes.

Secretary SHULTZ. Travel on cloud 9.

The CHAIRMAN. If I felt as certain about the rest of the United States not sinking as I do New England, I would be very happy.

Mr. BURKE. Some of those people, unfortunately, they are intel-

lectuals, very brilliant, but some are educated beyond their commonsense.

The CHAIRMAN. I am talking about those that are not.

Mr. BURKE. I am talking about those who are getting the headlines today.

The CHAIRMAN. All right.

Mr. Byrnes will inquire, Mr. Secretary.

Mr. BYRNES. Mr. Secretary, first let me assure you of my high regard for you and your competence.

The CHAIRMAN. We all share that, Mr. Secretary. We think a great deal of you. Now be careful.

Mr. BYRNES. Well, I do worry about asking you or any Secretary of Labor to do more than it is really humanly possible to do.

You have addressed your remarks to adjustment assistance, and an integral part of that is sort of an extension of manpower training and job development.

We have had a manpower training program since 1962, I believe, and it took on certain responsibilities in this area of structural unemployment.

When we started out the idea was to take care of the problem of anybody, really, who was caught in the structural unemployment problem, whether it involved the shift of a defense plant, new technology—no matter what—and trade was also at one stage part of this whole picture.

So we started up a program that was generalized.

Then we came along with the Canadian Automobile Agreement.

We had adjustment assistance in the Tariff Act of 1962, when we said, "Give a little preference and some other benefits in structural unemployment resulting from trade."

We have just passed, on the House side, the new family assistance program, which puts its big emphasis on getting people off welfare and into the economic mainstream with training and jobs.

I wonder if anybody has taken an inventory of the people we are talking about in all these various categories in which we are asking the Secretary of Labor to take action with respect to training and jobs. What have we asked you to do in terms of the volume and kinds of jobs involved?

Frankly, I don't think the problem is so much a matter of training. I think we can give people better and additional skills. But that will not do a bit of good if, at the end of that training, there isn't any job.

I think you will agree with me on that; won't you?

Secretary SHULTZ. Yes, sir.

Mr. BYRNES. And yet in some of these cases, and this is true on imports that are disruptive, it isn't just that they eliminate certain skills that are needed, but they eliminate certain jobs.

The thing that bothers me, really, is what has happened in our trade picture.

Yesterday, Secretary of Commerce Stans emphasized it to a degree. We are still dominant in the field of competition. We can compete readily in those areas where the product has a high degree of technology or sophistication.

But where we have our problem is with items that have a high labor content, and most generally those involve unskilled and semi-

skilled types of jobs. That is where we are getting our competition from imports. That is where we are getting the basic disruption.

Yet, those are the very kinds of jobs that we also say we have to create for the family assistance and other programs.

I think we talked in terms of some 2 million jobs that have to be developed.

I am not suggesting that we eliminate imports, but I wonder whether we have things in balance if we are thinking of sacrificing to the proposition of free trade those industries that can furnish the basic type of work that we have to find for people in programs such as family assistance.

Doesn't it worry you that we are piling an awful lot on that manpower program of yours, not just in training, but ultimately in the jobs you have to find for these people.

Secretary SHULTZ. I think that is a fair point, and it is to meet that point that we have been working so hard. Of course, there have been developments before I came into the picture here, but since I have been in the picture—we have been working hard to develop the capacity of this manpower system from the standpoint of how it is organized, from the standpoint of the technology that is attached to it in the form of our job banks, in the form of the legislation which we hope the Congress will act on in the Manpower Training Act. We think this will make the whole thing more effective, in terms of the systems, of the employability teams that are out in the field in the employment offices, in developing our contacts with industry through the Job Corps program and others, and trying to get this manpower network into place.

I think in some ways it is well to recognize that the types of people we are talking about when we are in the area of adjustment assistance are quite different from many of the people that we are talking about in our manpower programs, which have been directed, and I think properly so, toward the disadvantaged worker.

A great deal of our emphasis has been put there.

This is a different category of person. This is a gainfully employed person who has been in the labor force. He is not disadvantaged, particularly. That person has been holding a job, by definition, for quite a period of time, and has acquired a skill. He must have the ability to acquire a skill in order to do that.

So this is a person that is probably easier to work with in many cases than some of those that we have been working with, and probably represents—of course, none of these things are easy—an easier job of managing the transition than the job of digging out the really hard-core person and getting that person interested and into the labor force, and so on.

I don't want to sound Pollyannish or sound as though this is an easy thing to do. I agree with you. I agree with Congressman Burke. There are a lot of problems here.

But it seems to me this is the road beyond and we do need to develop this manpower system.

I think this can be a helpful piece in the whole picture. It, obviously, is not going to solve the whole problem, but it will help solve the problem.

Mr. BYRNES. One thing that worries me, as it worried me back in 1962—and I expressed my concern at that time along with other members of the committee in some additional views that we filed in connection with the committee report—is the reliance that was going to be placed on adjustment assistance to take care of what our negotiators might consider to be expendable industries and expendable jobs. This relaxed the requirement on them to be careful n ot to lower tariffs or duties to the degree that it might create a noncompetitive situation, giving the market, in a sense, to the imports.

We expressed concern then that this was a crutch which would take certain responsibilities off the negotiators.

It is quite clear now that our basic import problems are in those areas where the labor content is unskilled or semiskilled, and that these are the kinds of jobs you will have to fill as far as the adjustment assistance is concerned. I don't think, for example, that you would call run-of-the-mill textile workers highly skilled, would you?

Secretary SHULTZ. I think that is correct.

Mr. BYRNES. They are semiskilled or low skilled. The same thing is true in the footwear industry.

Secretary SHULTZ. That is correct.

Mr. BYRNES. In my area, we have shoe plants in which many women work. And a number of these women are trained within a period of 2 or 3 months.

Of course, these jobs do require a certain degree of skill, but I don't think we would call this a highly skilled industry. It would be a relatively low skilled industry in many respects.

Secretary SHULTZ. It varies by task.

Mr. BYRNES. It seems to me we are getting into a conflict if we disregard the idea that skilled jobs are the only kinds we should worry about when it comes to trade, if we put too much reliance on our great capacity in highly skilled areas, if we consider as expendable the kinds of jobs we really need if we are going to have people working rather than on welfare, on unemployment compensation, on extended adjustment assistance, and so forth.

I am flabbergasted, quite frankly, at this figure that you give us from the Bureau of Labor Statistics with respect to the workers who are involved as far as imports are concerned.

I just can't understand this. We know that our exports, as we look at exports and our export trade, are basically in commodities with low labor content. We know our imports involve high labor content.

I don't think there is anybody who questions that. Part of the problem of our competition is the wage level. That is why importers have access to this market and are able to put some of our industries in jeopardy.

We know that our exports and imports, dollar-wise, are practically in balance.

Where are those conclusions or assumptions wrong, that we can have more jobs involved in exports than in imports, taking the mass?

I am not suggesting that we can cut off all imports. But how can the Bureau of Labor Statistics come up with this figure?

I would like to know in more detail how these figures are arrived at, because they just do not relate to anything I have been told as to where our problems are in terms of imports and what we are basically exporting.

Secretary SHULTZ. I believe that the assumption that we export mainly in the low labor content areas and import in the high labor content areas is not a completely valid assumption. I think that is one point.

Perhaps the most useful way for me to deal with this would be to have the BLS prepare for us, and submit to the committee, a detailed exposition of how they derive that figure, in which case, they could list the industries and you could see what industries, where, and so on, and how this estimate was compiled.

We can then show you how that was derived. By the same token, we can look at the effort made to derive an estimate of the number of people who would be necessary in order to produce the things that we import.

You would look at that and I think come to a better judgment on this point.

On some of your earlier comments, let me just say that the administration bill gives only limited tariff change authority.

(The following material was received by the committee:)

EXPORT-IMPORT EMPLOYMENT RELATIONSHIP

The procedures employed by the Bureau of Labor Statistics in developing the employment related to exports and imports can be summarized by the following steps: First, value of exports are grouped according to the industry of manufacture. To get the value of production both directly and indirectly associated with our exports, calculations were made using an input-output table. An input-output table classifies the goods and services produced in an economy into a number of homogeneous industries; it is so constructed that it is possible to determine each industry's purchases and sales from and to all other industries including final consumers. Thus, the total output represented by exports covers not only the final stages of production but also the production of industries which supply the raw materials, parts, services, transport and distribution of the product exported. These production requirements are translated into employment levels by using industry productivity measures, that is, a measure of the output per employee in each of the industries.

In deriving the employment associated with imports, the first step is to revalue the imports from the value at the foreign ports to the U.S. port value by adding the cost of transportation, insurance and import duties. Then imports are separated into three categories: (a) those not produced in the U.S., (b) those supporting U.S. production, and (c) those comparable to U.S. products. Imports comparable to U.S. products are grouped into the U.S. industry most comparable and translated into employment, direct and indirect, by the same procedure used for exports, that is, by using an input-output table and industry productivity measures.

In 1969 our export-related employment is somewhat higher than the employment which would have been required to produce in the U.S. those imports comparable to domestic products. There are two main reasons why export employment is higher than the hypothetical import employment. First, we export more agricultural products than we import and agricultural products, despite the consistently high increase in agricultural productivity, require proportionately more labor than a similar volume of manufactured goods. Second, all imports are not considered in the calculation of employment needed to produce such goods. There is a net job deficit in the manufacturing sector when one compares export-related employment and he employment which would be required to produce imports comparable to U.S. products.

A more detailed description of the procedures employed and a summary of the results is attached.

EMPLOYMENT AND FOREIGN TRADE

Estimates of employment related to the merchandise exports of the U.S. and the employment that would be required to produce in the U.S. imported commodities most nearly comparable to domestic products have been prepared in

the Bureau of Labor Statistics, U.S. Department of Labor. The estimates were developed through the use of interindustry employment tables which are derived from input-output tables for the U.S. prepared in the Office of Business Economics, U.S. Department of Commerce.

Data and Methods

An input-output table classifies the goods and services produced in an economy into a number of homogeneous industries. The tables take the form of a rectangular array where each industry is represented both by a row and a column. Reading across a row, the numbers tell how much the industry of that row sells to every industry in the economy, including itself, and to the components of final demand, i.e., consumption, investment, government expenditures, and net exports. Reading down a column, the entries tell how much the industry of that column buys from every industry in order to produce its own output. The information in the column on purchases of specific materials, parts, fuels, business services, etc., is used to derive input-output ratios which define the basic relationships between industries.

An input-output table can be used to measure the impact of a change in demand for an industry's output on all of the immediate supplying industries. For example, if the demand for automobiles increases or decreases by a certain amount the column of that industry will indicate the proportionate effects on the steel, aluminum, glass, textile, rubber, plastics, trade and transportation industries. Each industry in turn has its own supplying industries. Thus, when an increase in demand for automobiles increases the demand for steel, the steel industry will require additional coal and iron ore. The coal and iron ore industries will need other items such as fuel to run the mining machinery and repair parts for equipment. By linking all the input-output relationships together in a consistent and integrated set of calculations, it is possible to trace the impact of a particular demand—that for automobiles for example—in each industry back along the production process.

The complex and sequential relationships among industries are encompassed in the total (direct and indirect) requirements table, also called the Leontief matrix.[1] The Leontief matrix is expressed in terms of the output required per dollar of final demand, i.e., demands for consumption, investment, government expenditures, and net exports.

With an additional set of calculations the total dollar requirements table is translated into employment requirements on the basis of productivity factors (employment/output ratios) appropriate to each industry. This interindustry employment table may be used to explore potential impacts on the industrial composition of employment which may result from various demands upon the economy, e.g., consumer demand or the demand for U.S. exports.

The tables used in these calculations were prepared by the Office of Business Economics for the year 1958 with the economy classified into about 90 industries.[2] A modified version of those tables have been developed by the Bureau of Labor Statistics for 1965. The productivity factors necessary to translate total dollar requirements into employment requirements also have been prepared for most of the years from 1958 through 1966.

Estimates of employment related to exports, by detailed input-output industries, have been published by the Bureau of Labor Statistics for the years 1960, 1965 and 1966.[3] Also available at that level of detail are estimates for 1964–66 of the employment required to produce in the U.S. imported commodities most nearly comparable to domestic products. For more recent years the data necessary to estimate the employment related both to exports and imports are not available in the full industry detail of the input-output system. However, estimates have been made at more aggregative levels for 1969 of employment requirements related both to exports and imports in order to facilitate comparisons with earlier years. These estimates were prepared by moving broad categories of exports and imports by the 1966–69 change in value adjusted for prices and incorporating the productivity changes which occurred during this period.

In order to translate U.S. exports into employment using the input-output technique, exports are grouped according to the industry, as defined in the

[1] Named for its originator, Professor Wassily Leontief of Harvard University.

[2] Morris R. Goldman, Martin L. Marimont, and Beatrice N. Vaccara, *Survey of Current Business*, November 1964, and National Economics Division, *Survey of Current Business*, September 1965.

[3] Daniel Roxon, "Domestic Jobs Attributable to U.S. Exports," *Monthly Labor Review*, December 1967 and Charles T. Bowman, "Report on Employment Related to Exports," *Monthly Labor Review*, June 1969.

input-output system, in which the item was produced. When U.S. exports for any year, properly classified, are applied to the interindustry employment table for the same year, estimates of the direct and indirect employment related to those exports will result.

In order to estimate the number of jobs that would be required in the U.S. to produce the equivalent value of U.S. imports, several steps are required. First, imports are categorized into three groups: not produced in the U.S., supporting, and comparable to U.S. products (these categories are discussed in more detail later). Next, for items comparable to domestically produced goods, the values are converted from foreign port value—the usual level of import valuation—to domestic port value by adding the cost of transportation, insurance and import duties. After revaluation these imports are classified further into the appropriate input-output industry. Finally, employment estimates are derived by the same procedures involving an interindustry employment table used in estimating export employment.

Summary of Results

The number of jobs attributable to the export of merchandise in the U.S. economy is estimated to have increased from about 2.5 million in 1966 to nearly 2.7 million by 1969. The estimates of employment related to the export of merchandise, in total and by major types, for 1966 and 1969 are presented in table 1. The estimates of jobs attributable to exports include both the direct employment necessary to produce the item exported and also the indirect labor necessary for all supplies, materials, and services incorporated in the exported item. The labor involved in the transportation and handling of the exported item from domestic plants to U.S. ports also is included. Not included in the estimates is the employment related to nonmerchandise exports. These exports include sales of transportation and other services to foreigners, receipts from foreign travel in the U.S. and income returns from foreign investments. The last item, however, does not create domestic employment and thus does not affect the estimates.

From 1966 to 1969 the employment attributable to exports of merchandise increased by an estimated 200,000 jobs. As a proportion of total jobs in the private sector (excluding households), export related jobs remained steady at 3.8 percent during the 1966–69 period. During this period, however, there was a significant shift in the distribution of export related employment attributable to the major types of merchandise exports for which estimates were made. The number of jobs related to exports of nonagricultural goods, particuarly manufactured items, increased substantially from 1966 to 1969 while the number of jobs related to the export of agricultural goods declined. The decline of nearly 31 percent in export jobs in the agricultural sector during this period is due both to a decrease of 19 percent in the value of agricultural exports and the agricultural components of nonagricultural exports and a 16 percent increase in productivity in the agricultural industries.

It is far more difficult, both conceptually and statistically, to estimate the level of employment related to imports. In relating employment to exports, the task is to measure those jobs involved in producing the exported goods. Imports, on the other hand, are not demands upon the U.S. economy and there are no domestic jobs involved in producing the goods. Of course, since imports in the U.S. are the exports of other countries, the employment effect in the other countries could be estimated in the same way that the employment effect of U.S. exports have been estimated, provided the proper data were available. But the effect of a reduction in imports on employment in the U.S. is altogether a different matter. The method used by the Bureau of Labor Statistics is to estimate the domestic employment that might take place, assuming other factors are constant, in the event that these imports were produced in the U.S. In this approach, imports are treated as if they constituted demands on the U.S. economy in the same manner as exports.

Another complicating factor is that not all imports are of the same character. First, there is the fact that some imported products are not produced in the U.S., e.g., coffee, cocoa, chromite, and tea. Conceivably, with a sufficient expenditure of effort and resources, it might be possible to produce some of them domestically, but the amount of employment created is a speculative matter of no practical interest.

Next, there are imports of certain types of goods that are comparable to domestic goods but are in short supply in the U.S., such as asbestos, bauxite, and

newsprint. To expand production of these items sufficiently to replace these imports, again, would require a very large investment of capital and labor. It is not at all clear that the real costs of their production—in terms of the labor and other resources required—would be equivalent to their present real costs. For if the costs of expanding domestic production to replace such imports were higher, their prices would also be higher and the utilization of such more costly goods might be reduced substantially. Hence, the number of jobs that theoretically might be created in the U.S. by the reduction or elimination of this type of imports is not easy to estimate. Any estimate that simply assumes present costs to remain the same is certain to be seriously in error.

Finally, in a third category of imports are those items most nearly comparable to domestic products.[4] Some of these imports are necessary to supplement domestic production, e.g., wood pulp and iron ore; others are more directly competitive, e.g., wool cloth and sheet glass. Conceivably, the imports of these items could be replaced by domestic output. Prices probably would be somewhat higher and utilization somewhat lower, but an assumption that costs, prices, and utilization of these products would remain the same as if they were imported is not so unrealistic as in the previous categories discussed.

In considering the possible jobs required to produce imports, the Bureau of Labor Statistics has considered only those items most nearly comparable with domestic products.[5] On this basis, it has been estimated that about 1.8 million jobs would have been required to produce such imports in the U.S. in 1966 and about 2.5 million in 1969, with two-thirds of the increase during the period concentrated in the manufacturing sector. The estimates of employment which would have been required to produce such imports in the U.S., in total and by major types, are presented in table 1. As with exports, the employment estimates include both the direct employment necessary to produce the item and the indirect labor necessary for all supplies, materials, and services incorporated in the imported item. As noted above, imports were revalued from foreign port value to domestic port value so that their cost would be more nearly comparable to domestically produced goods. The estimates of employment required to produce these imports domestically are higher than if imports had not been revalued.

The estimates do not take into account jobs which are dependent on imports, such as longshore activities in unloading imports, movement of imported goods on U.S. cargo vessels and processing of imports of crude materials. Since the elimination of imports would eliminate these related jobs, the net effect of employment would be smaller than is indicated by the figures above. Estimates of the net effect are not available. Nor are estimates available for the number of jobs that would have been required to furnish the value of import-related services such as those provided to American visitors abroad or payments by Americans to foreign transport carriers.

In any event, it is important to keep in mind that any estimate of the hypothetical number of jobs that would be required to produce a given value of imports does not represent jobs lost or jobs which would exist in the absence of such imports. For example, without a concerted effort to reallocate resources which would be necessary to produce imports domestically, the U.S. would not have found the number of people with the requisite skills, nor the necessary facilities, in 1969 to produce such goods. Rather, the effort to replace imports with domestic products would have placed additional stress on the economy and heightened even further the inflationary pressures. An additional factor limiting the substitution of domestic products for imports is the preference of consumers for certain imported items, e.g., cognac and French perfume.

A further complication in measuring the employment effects of replacing imports with domestic products is that some imported items have embodied materials or components which are exports of the United States, e.g., the automobiles imported from Canada which incorporate automotive parts exported from the U.S., imported transistorized appliances which include exported electronic components, and imported textiles which contain exported cotton. The employment

[4] Although most imports can be classified into one of the three categories described in the text, a few items cannot be allocated properly to any of these categories. Included in this group are such items as U.S. goods returned without processing, low value items (less than $250), and original paintings and antiques. The combined value of the items in this group is about 4.5 percent of the total value of U.S. imports for consumption.

[5] But excluding any of the limited number of nonallocated items discussed in footnote 4 which might be considered comparable to domestic products.

that would be created by the domestic production of imported items which contain U.S. exports would be offset, in part, by the loss of employment related to the exports of the materials or components. Thus, while an overall guide to the probable employment effects of a change in imports can be obtained from estimates of the type presented here, any conclusion as to job loss would require information on all of the factors affecting employment opportunities in a specific industry or location.

Some tentative conclusions can be drawn from a comparison of the estimates of employment related to the merchandise exports of the U.S. and the estimates of employment required to produce domestically items substitutable for U.S. imports. In 1969, the total employment attributable to merchandise exports is slightly greater than the employment that would be required to produce such imports in the U.S., although the difference has sharply diminished since 1966. The near balance between the employment estimates in 1969, considered in light of the nearly equivalent values of merchandise exports and imports substitutable for domestic products in that year, indicate that total employment requirements—direct and indirect—do not differ significantly on the average between exports and imports. This is true even though exports and imports have different industry structures.

With respect to employment related to foreign trade in the agricultural sector, the U.S. holds a distinct advantage; only about 5 percent of the total U.S. agricultural labor force would have been required to produce imports of items comparable to domestic products in 1969 while over 9 percent was related to U.S. exports. The high labor content of agricultural products relative to manufactured goods, in combination with the overall trade advantage of the U.S. in agricultural goods, provides a large net margin of jobs which more than offsets the net job deficit in the manufacturing sector in 1969. However, while the level of employment related to these agricultural imports was only about one-third that of exports in 1966, it has shown and increase over the 1966–69 period while export related agricultural employment peaked in 1966 and has declined.

In manufacturing, the employment which would have been required in the U.S. to produce comparable or substitutable imports in 1969 is somewhat higher than that related to U.S. exports—1.6 million as opposed to 1.4 million—and represents a reversal of relative positions since 1966. Jobs in the manufacturing sector attributable to exports and those required to produce comparable imports domestically both increased over the 1966–69 period, but the rate of increase was substantially faster for employment related to imports.

Finally, in the nonmanufacturing area, the jobs related to exports were somewhat higher than those which would be required to produce substitutable imports. However, for both exports and imports, the related employment comprised 2 percent or less of total nonmanufacturing employment.

Employment estimates of this type, of course, cannot indicate the number of workers actually displaced because of imports nor the number that would become unemployed if exports ceased. The development of exact numbers would require a disentangling of all the factors which contribute to employment change, such as change in demand, technology, productivity, occupational shifts, and geographic relocation of industries. In addition, neither the estimates of employment related to exports nor the estimates of employment required to produce imports domestically include the employment necessary to replace the capital depreciated in the production of exports and imports. On the other hand, the estimates do provide some insight into the current balance between the jobs gained as a result of merchandise exports and jobs which would have been created if imports of products comparable to items produced domestically were made in the U.S. The estimates indicate that, in the aggregate, the number of export related jobs have exceeded the job equivalent of substitutable imports but the margin has been narrowing until, in 1969, the difference was about 130,000 jobs.

TABLE 1.—EMPLOYMENT RELATED TO FOREIGN TRADE, 1966 AND 1969

[Employment in thousands]

	Employment related to merchandise exports				Employment required to produce imports [1]				Total private employment (excluding households)	
	Number		As a percent of total private employment (excluding households)		Number		As a percent of total private employment (excluding households)			
	1966	1969 (preliminary)	1966	1969	1966	1969 (preliminary)	1966	1969	1966	1969 (preliminary)
Total	2,464	2,663	3.8	3.8	1,824	2,538	2.8	3.7	65,183	69,498
Agricultural	471	327	11.9	9.1	159	187	4.0	5.2	3,963	3,584
Nonagricultural	1,993	2,336	3.3	3.5	1,665	2,351	2.7	3.6	61,220	65,194
Manufacturing	1,203	1,432	6.1	7.0	1,124	1,600	5.7	7.8	19,602	20,455
Nonmanufacturing	790	904	1.9	2.0	541	751	1.3	1.7	41,618	45,459

[1] Only those items most nearly comparable with domestic products.

Note: Export employment estimates are based on the value of U.S. domestic exports at U.S. ports. Import employment estimates are based on the value of U.S. imports for consumption adjusted to domestic port value.

Source: Foreign Trade Reports, U.S. Department of Commerce, Bureau of the Census. Employment includes wage and salary employees, self-employed, and unpaid family workers.

Mr. BYRNES. I understand that.

Secretary SHULTZ. It carries through on the obligations going back to the Kennedy round on the ASP system, and then it has a major concentration on two things that do fit in, it seems to me, to the sort of concerns you have expressed, namely, the adjustment assistance on the one hand and making the escape clause a more workable mechanism on the other.

So I think that the bill is an effort to maintain the basic flow of our attitudes toward free trade, but to adjust that by making the mechanisms that we have relied on, perhaps unwisely, workable.

Mr. BYRNES. I have no quarrel with the fact that the President has to have some authority with respect to the change in duties.

My main point is—and it was my point back in 1962—that I hope we don't rely entirely on adjustment assistance; that we do recognize we are putting an awfully big load here, if we rely on that.

Instead of relying on adjustment assistance only we should keep in mind the necessity for having an appropriate competitive position in the home market at least for some of the job opportunities we have. We don't have a lot of job opportunities to give away abroad.

If one looks at the trend line of certain manufactured commodities, the percentage of imports is going up much faster than our exports are increasing.

I will not go into the details, but they are alarming. I don't think we are going to get back to the old $7 billion or $8 billion trade balance, or not very soon, at least.

Now we are talking again about a great reliance on adjustment assistance. We know, as the gentleman from Massachusetts mentioned, that there will have to be some conversions as far as the defense area is concerned, when this war, that we all hope will end, does end, and shortly.

We are dealing here, it seems to me, with a subject that is an integral part of this whole matter of jobs.

I think we have to be a little cautious that we don't depend too much, Mr. Secretary, on you or the Department of Labor to be able to wave a magic wand and not only train all these people but find jobs for them.

Mr. PETTIS. Will the gentleman yield?

Mr. BYRNES. Yes.

Mr. PETTIS. I would like to ask the Secretary, in the light of what you have just said, this question:

Is anything being done within your Department at the moment to commercially utilize the some 12,000 patients that have come out of the space program in the last 2 or 3 years?

I read an advertisement of the Lockheed Co. the other day in the Los Angeles Times advertising for manufacturers of sophisticated equipment that was not in line with their particular activity.

I was thinking that there probably are thousands of jobs that lie in this area of sophisticated manufacture.

Secretary SHULTZ. I think it has been hoped, and I think the hope has been realized in some part, that there would be spin-offs from the NASA research or other research done that would result in employment.

We don't have a major program of trying to get at that in the Department of Labor.

Although I don't know this for a fact, my guess would be that the Commerce Department would be working on that.

Going back to Chairman Mills' comment on Mr. Burke's pessimism about New England, many people from other parts of the country have looked at New England and its scientific eminence and have said that is an ideal place to take those spin-offs and create new companies to develop them.

At least as I have understood it, leaving the defense-type production out of it completely, all around the route 128 area around Boston you do have exactly that sort of thing taking place.

I think it flourishes in an area where you have a base of science in the industry and in the university community.

Mr. PETTIS. I thank the gentleman for yielding.

Mr. BYRNES. I wonder, Mr. Secretary, if you would get the information and put it in as part of your remarks.

Secretary SHULTZ. Yes, sir; I will.

Mr. BYRNES. I want the estimate not of what you believe you can do in a given year, but what the potential needs are in terms of manpower training and jobs generally covered by the manpower training program, the family assistance program as it passed the House, and what you would anticipate as a requirement for a preference under the adjustment assistance that is envisioned in this bill.

Secretary SHULTZ. We can try to get those estimates. The problem of estimating the number of people who would become eligible under this for adjustment assistance is very hard to do. We have given this first-year estimate. It may not turn out to be that. It is hard to say.

(The following material was received by the committee:)

While I share your concern regarding the limits to the Department of Labor's ability to serve additional numbers of individuals, I am confident that we can effectively serve the modest number of workers who will require trade adjustment assistance. There are three reasons for my confidence:

First, we anticipate that the number of workers who would be affected by imports and trade adjustments would be in the 15,000–20,000 range. This amount would be less than 1½ percent of the total number of individuals we expect to serve in our manpower programs—approximately 1,500,000.

Second, I am confident that we can cope with this additional workload because, as a group, these workers are highly motivated—they have a strong attachment to the labor force and they have demonstrated their ability to perform in the competitive labor market. We do not expect the bulk of these workers to require the same kinds of intensive, sustained, remedial manpower education and supportive services required by the vast majority of the clients in our other manpower programs.

Third, the flexibility which is built into the worker adjustment provisions of the Administration's bill would enable us to move immediately to implement an employability plan to be jointly developed by a readjustment team and the affected worker. Under the bill, if amended as I have proposed, any employment related service required by a laid-off worker which was not currently available, on a free or reimbursable basis, from the appropriate public agency could be promptly purchased from the private sector.

I am also confident that these workers will have better than average reemployment prospects. It is our objective under the bill to assist the workers in such a way that they can secure jobs comparable to those they previously held. In addition, to assure employment stability, we will make every effort to train them in occupations for which there is a continuing and growing demand. We plan to provide these workers with high quality training so that they can qualify for the higher skilled jobs for which there is a persistent demand. The trade adjustment benefits should make it somewhat easier for such workers to maintain themselves while undertaking this training.

A detailed estimate of our total manpower training capability in 1971 is shown on the attached chart "Manpower Training Capabilities."

CHART 13.—MANPOWER TRAINING CAPABILITIES

	1969	1971
Institutional: 10,000 schools—public and private, 70 skill training centers, 40 correctional institutions, 96 opportunities industrialization centers	323,000	462,000
On-the-job: 22,700 participating companies, 640 regular contractors	140,000	234,000
Work support/experience: 1,500 project sponsors	558,000	538,000
Family assistance add-on		[1] 225,000
Total	1,021,000	1,459,000

[1] Includes 75,000 upgrading positions.
Training capabilities are diversified and elastic—they can be expanded to accommodate more people and can be geared to the needs of family assistance recipients.

Secretary SHULTZ. There is a sense in which, and I think the committee must be obviously aware of this, that the adjustment assistance provision is kind of an open-ended proposition. It is like unemployment compensation in the sense that if somebody is eligible for that benefit, presumably the Government is obligating itself, if you pass this law, to pay the benefit.

So you have to appropriate the money needed to fulfill that obligation.

Mr. BYRNES. I realize that it is open-ended. A lot may depend on what action the President takes in terms of a Tariff Commission finding, whether he decides to take the course of reinstating a duty or whether he takes the course of providing adjustment assistance.

I wonder about the degree to which, in deciding what course to pursue, the President would recognize the burden that you already have in providing manpower training and jobs.

It would seem to me that it would be very well to have some kind of a requirement, maybe in the legislation, that in recommending adjustment assistance, that we look to the Department of Labor to provide the jobs that are an essential ingredient of adjustment assistance.

Secretary SHULTZ. We, of course, can't provide the jobs. I think that is something that the economy, so to speak, has to provide. We can get people adjusted to those jobs.

Mr. BYRNES. Well, it is adjusting to them and the availability of jobs. It seems to me that now there isn't any requirement that you look to that.

This adjustment assistance was sold in 1962 as an item that would enable us not to have to worry anymore about whether some industries were unduly burdened and jobs lost, or businesses went out of existence because of imports.

But it is pointless to suggest that just because you have a program you necessarily have the job, itself, at the end of the road.

Adjustment assistance can't help if you don't have the job at the end. To take a guy and give him extended unemployment compensation benefits for another year-and-a-half doesn't offer very much satisfaction, unless there is a job that you are training him for.

That is the part that I worry about in the whole obligation. It is inherent also in the welfare bill, the idea that we are going to have a job at the end.

It is inherent here, that there will be a job at the end. But if we are pursuing policies that are not too concerned about retaining certain types of jobs in this country, I think we can be getting ourselves into trouble.

I sympathize, frankly, with the burden that is placed on you, because that is also where the complaint is going to rest if it doesn't work out and you have a lot of people on welfare but there are not enough jobs.

Then it will be said: "My goodness gracious, the Secretary of Labor didn't find jobs for these people. It was the same with adjustment assistance. He was supposed to do it but he hasn't.

"So it is the Secretary of Labor again who is at fault."

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Secretary, in connection with the Canadian Auto Parts Agreement, apparently that worked out very satisfactorily. I had some experience with that in my community. The Department of Labor took very good care of the situation.

I want to report that, that it did work.

I would like to know under the program that you have in this bill, how long it will take for a displaced worker to go through the steps?

What are the steps he will have to go through? Say he is displaced on Saturday. What does he go through and how long will he have to wait before he becomes eligible for adjustment assistance?

Secretary SHULTZ. Of course, the first step that has to be taken is that he, as part of a group or some representative, say, of the union that he belongs to if there is a union, makes an application for benefits under this act.

Mr. VANIK. He can do it as an individual, too; can't he? He will be able to do that without the union, if he wants to?

Secretary SHULTZ. Yes, as part of a group—three or more. Then that comes in to the President or to the committee the President appoints.

It is the same procedure as in the auto case that you mentioned.

The case is referred to the Tariff Commission for findings of fact, to investigate the case, so to speak, and the Tariff Commission has a time limit on the length of time it can take of 60 days.

Those are findings of fact, not conclusions, about whether or not adjustment assistance can be paid. Their findings of fact come back to this committee and the committee then decides. It must decide within 30 days.

It doesn't have to take the full 30 days, but it may take 30 days. It can't take longer than that, normally. There you have a time period of 90 days.

Mr. VANIK. What has he done in the meanwhile? He has enough money to take him about 10 days if he is an average case.

What is he going to do for the next 90 until he gets this kind of help?

Secretary SHULTZ. He, undoubtedly, was eligible for unemployment insurance, so he could apply right there, that week, for unemployment insurance. He would be eligible. That has nothing to do with whether it is import-related or not.

He has been laid off so he is eligible for that and he is drawing that.

Mr. VANIK. Have you given any thought of eliminating the Tariff Commission?

Secretary SHULTZ. It is a place where information can be gathered. I think it is important to look into these applications to be sure that you know what is going on there.

At the same time, we felt it important not to just give the Tariff Commission an unlimited amount of time to look into it, but to limit that investigation to a 60-day period. Sixty days is not a long time to look into something like this.

Mr. VANIK. They can't agree on an agenda in 70 or 80 days down there.

Secretary SHULTZ. They only have 60, so they will have to agree on the agenda more quickly.

Mr. VANIK. Again, that creates a rather complex hurdle for the union or the individual.

Secretary SHULTZ. No, sir.

Mr. VANIK. Couldn't we shortcut that?

Secretary SHULTZ. There is no hurdle there. The Tariff Commission provides the President's committee with factual information. The committee can ask the Commission for additional information, which may take longer, or get additional information on its own. That is all they do.

The Tariff Commission is not deciding whether or not there is eligibility. That decision rests with the President or with whomever he delegates it to.

Mr. VANIK. It takes this man 10 days to get going with the union. Then he goes to the Tariff Commission and they have 60 days to hear it. The committee has 30 days to make a ruling. That is 100 days. Now what happens?

Secretary SHULTZ. A certification has to be made.

Mr. VANIK. It comes right back to you?

Secretary SHULTZ. I think it is important to note that I will be upset with the President if he doesn't appoint me a member of this committee. I suppose I shouldn't say it that way, but I would be.

The Secretary of Labor is not oblivious to all these steps and investigations. We are aware of that.

The CHAIRMAN. We will tell the President the assignment you would like to have, Mr. Secretary.

Secretary SHULTZ. I would appreciate that, Mr. Chairman.

The Secretary of Labor is aware of this and he is making his preparations. He has to make a determination as to who is eligible in a class sense. That is, what divisions of the plant, and people are eligible, and the time of the employment impact. He has to make that determination.

That determination—a certification of eligibility to apply for adjustment assistance—goes to the local employment security office which then translates the general criteria into individual names. By that time it is known that Mr. X or Mrs. X is eligible for this assistance and then he or she can start receiving that assistance.

Mr. VANIK. Won't there be any prefabricated criteria so that this could move rather rapidly through the President's office, or will that have to be developed for every single situation?

Secretary SHULTZ. Undoubtedly, as you work at this, you develop a greater facility and standards come into place and so forth.

We have had some experience with that under the Auto Act, as you noted, and some with these recent cases, so it isn't a totally unfamiliar field.

But I would expect that we would be able to act with greater and greater swiftness on it. At the same time, as I was trying to say earlier, as the President's committee is considering whether or not this case should be certified as eligible for adjustment assistance, if it looks like it might be, certainly the Secretary of Labor is going to be busy figuring out what his criteria are, assuming that it does go that way, so he doesn't have to take a long time, and doesn't need any additional information, to make that determination. That can go fast.

Mr. VANIK. How long do you expect it would take for the White House determination?

Secretary SHULTZ. The bill puts a limit on the time of 30 days. So it can't go longer than that, normally.

Mr. VANIK. That is 30 days after the Tariff Commission has acted?

Secretary SHULTZ. Right. In each case there is a time fuse put on this. You can't just sit on this.

Mr. VANIK. Thirty-five days would bring us to the State unemployment compensation office?

Secretary SHULTZ. Now, at the State level, it has to go through the step of determining the length of time of the individual's employment and so on, so that the State employment security office can bring the thing down to the individual and his eligibility. Ultimately, what this is all about is some person that you are trying to help. You have to identify that individual person.

Mr. VANIK. Wouldn't it be true, Mr. Secretary, that it would look like 120 days between the job loss and the payment?

Secretary SHULTZ. I think that is a fair statement.

Mr. VANIK. So what it amounts to is a retroactive award to the displaced worker rather than family sustenance income.

Secretary SHULTZ. Let me go back to the point, that the individual has been drawing unemployment compensation.

Mr. VANIK. Yes, but——

Secretary SHULTZ. That is assuming he is still unemployed.

Mr. VANIK. But in my State that is $61. That, today, covers his gas bill and maybe the light bill, that that is about all he can pay with that.

So he has been plowing himself into debt trying to survive. This doesn't provide family maintenance, which is what he really thinks about as a displaced worker. It comes to him as an award.

Secretary SHULTZ. Let me introduce two other concepts into this discussion of timing.

Again, we are talking about something that, while there has been some experience—we are not fully experienced with. Here is our thinking.

First of all, in many cases you will have, probably, some displacement, but not complete displacement, some displacement and the application.

Let us say this goes through and a decision is made yes, adjustment assistance is certified for that case. Then in the unfolding of the displacement in that case, once that certification has been made, any new

person—who comes within the terms of the certification—who is laid off by the same plant is immediately eligible to apply to the State employment security office.

It doesn't have to go all through this process again. That leads to a second point.

Mr. VANIK. It is only the first determination that takes that long.

Secretary SHULTZ. For that particular case, that is right. In other words, you don't have to go back with each individual person to make a determination.

Second, there is this whole notion of trying to get a little advance thinking into the picture. As people see a threat in their case or through our own studies, we will be trying to identify places that we can see are likely to be problem areas, and to gather information and be prepared, by thinking it through, and trying to figure out what sorts of things might be done in this case or that case, to get a little advance step on it.

Mr. VANIK. Suppose a man is earning $150 a week and he is displaced. Then he goes to the unemployment compensation commission and they say, "We have a job that is comparable to what you have. You must take it." The job pays $120 or $110 a week. And then it may end. Suppose that job should end?

First of all, you don't have to cover him because he has another job. Suppose that job terminates? It is a secondary job, and he had taken it rather quickly.

But he had been working in the displaced job for 25 years. He had the other job for 3 months.

Can he still come back and get benefits under this bill?

Secretary SHULTZ. Yes.

Mr. VANIK. For how long a period?

Secretary SHULTZ. So long as he meets the eligibility requirement under this bill and is eligible for these benefits; for 2 years from the date of the applicable certification unless it has been terminated.

Mr. VANIK. He claims under his original displacement?

Secretary SHULTZ. The criteria are that he has been, or she has been, in the labor force for half of the time in the last 3 years, has worked half the time in the last 3 years; has been employed in the affected plant for 6 months, and that he is available for work, as any other person would have to be to receive unemployment compensation.

The fact that there was an intervening period of work does not in any way affect that condition of eligibility.

Mr. VANIK. What is your projection of the cost of adjustment assistance for the next 5 years? I didn't see that in your testimony.

Secretary SHULTZ. We made an estimate for the first year after enactment on the range of $40 million to $45 million.

Mr. VANIK. Would you have any projection on 5 years?

Secretary SHULTZ. I think it is very difficult to project. It is hard to know just how this is going to flow. I think it is well for the committee to be aware that this is an open-end kind of an obligation that the Government incurs, just as you incur an open-end obligation in unemployment insurance.

You say, "Here are some things for which people are eligible under certain conditions and if those conditions come they are entitled to

that money," and the Congress is obligating itself, so to speak, to provide the funds to meet that obligation.

Mr. VANIK. In order to determine the cost of this program, Mr. Secretary, shouldn't we add that part of the workers' benefits that are paid out of unemployment compensation?

Secretary SHULTZ. I think you could add these interim benefits, you could do that, but then you have to subtract the netting out of unemployment compensation that he would have drawn except that he is drawing these benefits.

Do you follow what I am saying?

Mr. VANIK. I understand.

Secretary SHULTZ. So you net that out.

Mr. VANIK. But there would still be a cost to unemployment compensation.

Secretary SHULTZ. Only this interim cost that was identified in your comments, which might not be any cost in the case of many individuals depending on how rapidly this went.

The days we have estimated, and you have built that up quite correctly, but we have always used the time interval that represents the maximum.

While I recognize there is a tendency for people to take as much time as they have in one of those laws, they may not.

Mr. VANIK. What about the other things a worker may lose, such as his vested retirement benefits? There is nothing to cover that?

Secretary SHULTZ. There is nothing in this adjustment allowance provision that covers private pensions.

On the other hand, that general subject of vesting is a subject very much under discussion. There has been an administration bill not covering vesting but covering other aspects of pensions.

I have stated that we are interested in working on other aspects of the pension problem. This is one. I mentioned that in my talk in New York that I referred to in the testimony, as a problem.

Mr. VANIK. Does your office advise the Congress when employment falls or fails to maintain its proper level within a given category of industry?

Do you give us any warning signals for a specific industry and say, "We are losing out here"?

Do you say the employment is not growing or keeping pace with the country's growth, or we are not needing as many tool and diemakers or drill-press operators?

Do you have anything that gives us any warning on these things?

Secretary SHULTZ. We try. We try very hard. It is very tricky terrain you are talking about.

We try to get a good picture of the employment and occupational outlook by industry and type of occupation and geographic area.

We publish that material. We are constantly striving to examine the trends of demand in employment around the country. We make monthly surveys of employment conditions. All these are published.

Beyond that, we undertake a variety of special efforts that should help us. I mentioned in my testimony our efforts right now to develop some kind of early warning sysem when trade problems might hit an industry.

It is largely through statistical means that we try to identify those conditions. We have periodically—and here I will put in a plug for our appropriations—requested, but haven't gotten, the appropriations to make studies by BLS getting a better picture of price interrelationships in international trade.

If we understood that better, we probably could foresee a little better what was happening. We are constantly striving for the kind of information that enables us to get at the question you raise.

Mr. VANIK. Mr. Secretary, it is one thing to lose employment by way of foreign impact, and it is another thing to find out how we have lost it.

Is your office empowered to determine and investigate the offshore beneficiary of our employment loss, to determine what it is that made us lose, was it circumstances of labor, conditions of labor, quality or quantity of the labor force? And also to determine whether the production offshore is carried on by an American subsidiary or an American investor-owned facility?

This might tell us how to plug the leaks in our employment.

Secretary SHULTZ. There is a provision, section 4(e) of the Fair Labor Standards Act, under which the secretary can make, on request, the kind of investigation you call for.

It has been in effect since 1961. My information is that it has been used in one instance only.

Mr. VANIK. Wouldn't there be some advantage in having a mandatory use of that section where you make a determination of eligibility for adjustment relief?

Secretary SHULTZ. We will make it if we are requested to, and if we think there is some real merit. We certainly can get a request easily enough. But if you make it mandatory to conduct studies, we could be conducting lots of studies that really nobody was particularly interested in.

Mr. VANIK. I can see where it might be of some help to American labor and American management to know why we have lost a given industry and have it documented.

It might tell us how to prevent the recurrence.

I think the experience would be helpful to help prevent future losses.

Secretary SHULTZ. I think that is a fair point. If there are problems that people are interested in under this legislation that we now have, that question can be raised. I don't think we need anything additional, in other words. We do have that kind of authority.

Mr. VANIK. Who would make that kind of request under present law?

Secretary SHULTZ. I think that the request could come from a wide range of sources. One request we had was from an industry association. But a union could make the request or I suppose an individual or group of individuals could.

Then the question is whether or not that is a worthwhile study to make and the Secretary can go ahead.

Mr. VANIK. I want to thank you, Mr. Secretary. I want you to know, Mr. Secretary, that I feel very confident about the administration of this phase of this program by your shop. It has worked very satisfactorily in the Canadian-American Auto Parts Agreement.

If you can promise that kind of an administration, I think it will be all right. Thank you.

Secretary SHULTZ. I appreciate that comment. We are trying to learn from that auto experience. Much of it has, in effect, been incorporated in the trade proposals before you now.

The CHAIRMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. Mr. Chairman, I don't want to ask a question but I would like to make a comment.

A few minutes ago, Mr. Vanik asked if he lost a job, and I noticed that the Secretary said, "If he or she." I will tell you that for a few minutes I almost felt human. The last Secretary of Labor we had up here referred to women as secondary workers.

I would like to thank you for putting us in the same class as workers. Thank you very much.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Secretary, I don't want this to sound like a love feast, but it is always comforting to us seekers of knowledge to see the grasp you have on almost any subject we want to consult you on.

I would like to ask you a little something about labor. First of all, what is happening to foreign wages relative to the wage levels here in this country?

Secretary SHULTZ. We know that the United States is the highest wage country in the world. Canada approaches it. Then other countries are below, and in some cases very, very far below.

I think your question, however, does not go to the fact of whether there are differentials but whether those differentials are tending to narrow, by looking at what is happening abroad.

I am not certain of the answer to that question. I haven't looked at it just that way. But my strong impression is that wages abroad are rising more rapidly than in the United States, if we took the post-World War II period as a whole. It may be that in the last year that isn't true in all cases. While we are certainly worried about the wage-price problems that we have in this country, if we look at what is going on in Britain, for example, or France or Germany right now, they are having a wage explosion that exceeds ours at the moment.

Mr. CONABLE. Recently, by restricting the exportation of capital in the interest of short-term balance-of-payments improvements, we tended to force American industries to establish more subsidiaries abroad, rather than simply exporting or branching.

When this happens, do the American subsidiaries tend to pay above the local level of wages, or do they tend to follow the local wage patterns exactly?

Secretary SHULTZ. They tend to follow local wage patterns, although they have, in the case of the multinational corporation, lots of stresses and strains there, just because of being international, particularly when it comes to fringe benefits of various kinds, for types of people who are in occupations where they want to transfer across country lines.

Mr. CONABLE. Does the international labor movement tend to affect this in any way? Do they tend to encourage the reduction in wage differentials, for instance, between, let us say, a Mexican plant and an American plant run by the same company, or by a subsidiary of the same company?

Secretary SHULTZ. I think they probably tend to encourage narrowing these differentials, although my impression, and, again, it is an impression, is that the force of the international labor movement, as such, leaving United States and Canada aside, is not great. It is more in some industries than others.

On the other hand, the Internatitonal Labor Organization is an international organization which we have supported in the United States and which we continue to work with in the administration, which does try hard to encourage, in the broadest sense, reasonable labor standards throughout the world among all its member organizations.

Mr. CONABLE. In other words, you would feel that there is no very close association between labor unions in different parts of the world?

The ILO is more a loose consultant?

Secretary SHULTZ. It is a tripartite organization. There are all sorts of ties and sometimes they are quite close about certain things.

But when it comes to the matter of collective bargaining relationships, then I don't think you see really tight patterns of organization there, typically.

Mr. CONABLE. Labor is a kind of sounding board. I would like to make inquiry about what the attitude of organized labor is generally toward this legislation that is being considered, and toward the quota legislation which is being so actively advocated here both by this committee and the Congress as a whole.

Is the labor movement unanimously in favor of this type of quota legislation, or is there some consumer interest in maintaining competition?

Traditionally labor has been rather more inclined to a lack of enthusiasm for things that would tend to raise the price of consumer goods than I suspect they feel nowadays in the face of rising unemployment and in the face of the incursion of foreign imports that we are talking about.

Can you generalize about labor's attitude here? Is it spotty or is it a fairly coherent and cohesive attitude?

Secretary SHULTZ. I think it is fair to say that there have been shifts in the attitude of labor leadership on trade matters, more in some unions than in others, over the past 10 years. I think it is fair to say there is widespread support for the adjustment assistance idea that I have concentrated on in my testimony as something that, whatever your attitudes may be on trade matters, is a worthwhile device.

Beyond that, you are asking about in more specific terms. My feeling is that I am really not in a position to speak for the labor movement. It is much preferable for you to ask them. I would not feel confident in trying to express their view.

Mr. CONABLE. Thank you. We will have members of labor before us.

The CHAIRMAN. Mr. Corman.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Secretary, talking about the adjustment assistance that might be given to employees under the escape clause, do you anticipate a program similar to the Manpower Assistance Act which is now used to train hard-core unemployed? Is that the kind of training assistance you anticipate?

Secretary SHULTZ. Not necessarily. I think that is an important point to bring out, a relatively high proportion of our manpower efforts are directed toward the hard-core unemployed and to the welfare population increasingly, particularly as the WIN program gets going and the family assistance plan comes in. There are particular kinds of services that you adapt for that population group.

Now, this group is somewhat different. Of course it will vary a lot from one situation to another, but these are people who have been on jobs. They are attached to the labor force. They have a pattern of working, they have acquired a skill, they have the ability to acquire a skill good enough to have a job and so on. So that we have a different sort of problem to work with.

Mr. CORMAN. I can see that the challenge insofar as the training itself is concerned might be a good bit easier. On the other hand, looking at the end product which is to qualify a person for a specific job, I assume you still have to find jobs for which these people can be trained so at the end of the training experience there is a place for them to work.

Secretary SHULTZ. Exactly right. A lot of the institutional tools that are developed for manpower programs of course generally are the assistance we will use in this case. The Job Bank which we have discussed in this committee is an example of this thing that will be as helpful to this group as any other.

Mr. CORMAN. I want to point out in one of the large aircraft plants in southern California where you have a very vigorous program to train hard-core unemployed to become skilled workers in the middle of some of those training programs the jobs for which they were being trained have evaporated. I can not think of anything more depressing for the beneficiary in that program than to get half-way through, to have succeeded in half of the training and finding himself back out on the street because the job itself disappeared. I mention that only because it seems to me that when you anticipate there being jobs to train people for, it would be well worth while to see how many jobs have disappeared during the training progress in some of these hard-core unemployed programs.

Admitting that these people will be easier to train, the problem is still one of the job to be trained for. We are trying to get some statistics in how many jobs disappeared. In one plant 46 people were removed from a class because they were training for a job for which there were no openings.

Secretary SHULTZ. I agree with your general statement. That is an example of an entirely different cause of the same kind of problem we are talking about here. The adjustment that is going on in the aerospace industry is an adjustment to the reduction in the defense budget which we desire for good reasons. There are, nevertheless, people involved and they have to make an adjustment and there are all sorts of things to be done. We are working on that problem.

Mr. CORMAN. Thank you very much.

The CHAIRMAN. Are there any further questions?

If not, we thank you very much, Mr. Secretary, for a very fine statement, and your responses to our questions. We appreciate always your being with us. And thank you for bringing those at the table with you to the hearing.

Secretary SHULTZ. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is the Secretary of Agriculture, the Honorable Clifford M. Hardin.

Mr. Secretary, I believe this is your first appearance before the Ways and Means Committee as Secretary of Agriculture. We have looked forward to this opportunity of greeting you. You are recognized.

STATEMENT OF HON. CLIFFORD M. HARDIN, SECRETARY OF AGRICULTURE

Secretary HARDIN. Thank you, Mr. Chairman. I appreciate the opportunity very much to come down and get acquainted and to visit with you about some of these trade matters.

I have a formal statement.

Mr. Chairman and members of the committee, I greatly appreciate this opportunity to testify in support of the proposed Trade Act of 1969.

Others who have appeared here earlier in the week have discussed in some detail the provisions of this bill, so I won't go over that ground again. But I will say that enactment of this legislation will continue the overall drive toward freer trade. I am sure that American agriculture, which has seen the rapid spread of protectionism in recent years, favors any measure which, like this bill, emphasizes a liberal rather than a protectionist approach to trade.

Every sector of our economy has a stake in liberalized agricultural trade.

Farmers benefit, of course, from export marketings. For example, in fiscal year 1969 the export market provided an outlet for almost three-fifths of U.S. production of rice; two-fifths of the soybeans—including oil equivalent; nearly two-fifths of the tobacco; and over a third of the wheat.

Businessmen are helped. Agricultural exports mean profits for many export-related enterprises, such as inland transportation, storage, financing, insuring, ocean shipping, and the like.

American workers gain. A study by the Department of Labor reveals that in a recent year agricultural exports supported about 730,000 U.S. jobs.

There is another point. For many years agriculture has been a prime dollar earner in overseas markets. The gross earnings in recent years has been well over $5 billion annually. This, of course, has helped our balance of payments.

U.S. agricultural exports set a new high record of $6.8 billion in fiscal year 1967. At that time it looked as though this trade would continue to expand—to $8 billion, $10 billion, and beyond. Everything seemed to be in our favor. World population was increasing. Economic growth and related per capita purchasing power was on the upgrade. Most importantly, our efficient agriculture enables us to export many major farm products at prices competitive with those of other countries.

But the bright promise has not materialized. In fiscal year 1968 our agricultural exports dropped off to $6.3 billion. In fiscal year 1969 they slid down to $5.7 billion. In this current 1970 fiscal year we are

looking for a total of well over $6 billion—an encouraging recovery, to be sure—but still far below what the rest of the world could and should take from us.

What happened?

Basically, there has been a general increase in agricultural production outside the United States. With some of this increase we can have no quarrel. For example, in the developing countries of the Far East, new varieties of wheat and rice, plus other technological advances, have combined to push production levels upward. Technology has moved ahead almost everywhere as agricultural know-how has become diffused throughout the world. And in recent years the weather has been generally favorable.

But we do quarrel about the increase in agricultural output that has come about because of unreasonable trade barriers set up to protect excessively high guaranteed prices. Trade carried on naturally and without artificial devices or constraints benefits both parties. Barriers to protect high guaranteed prices of farm products are not only a constraint in themselves but they also cause distortions in production. With systems of protected guaranteed prices, governments make it profitable for farmers to use the fertilizer, machinery, improved seeds, improved breeds, and all the other inputs which, in the aggregate, tend to expand output. Therefore, overprotection brings about the substitution of high-cost, domestically produced farm commodities for efficiently produced low-cost imported farm products. Both importing and exporting countries lose in the long run.

Let me note here that the United States also protects its farmers. For example, under section 22 of the Agricultural Adjustment Act of 1933, farm programs on several commodities, including dairy products, are protected from material interference from imports. In recent years we have had to tighten restrictions on dairy products. We also have had to limit imports of meat under other legislation. These restrictions on imports of dairy products and meat stem from chaotic conditions in world markets. High guaranteed dairy prices overseas have stimulated surpluses which foreign countries—notably the European Community—are attempting to push into other countries, including the United States, through use of heavy subsidies.

As for meat, the restrictions of the Community and systems of other countries have tended to divert supplies of the meat exporting countries toward the United States. However, the United States with these few exceptions, protects its farmers with duties averaging a moderate 10 percent—the lowest for any major agricultural country in the world.

Overly protectionist systems are hurting our exports in several ways. First, high prices in the protecting countries mean a generally reduced demand for the protected products. Second, the trade barriers, such as the variable import levies used by the European Community, effectively keep our farm products from competing in the protecting countries. Third, the stimulated production often piles up as commodity surpluses, which the protecting countries try to dispose of abroad by subsidizing exports into our traditional overseas markets.

Let me cite two examples of the way high guaranteed prices distort trade patterns.

In the past 3 years the high-price system of the European Community has contributed to a production increase in course grains amounting to 5.7 million metric tons. This is high-cost output that has increased expenses of farmers and has raised consumer prices of meat, poultry, eggs, and other livestock production. Also, this high-cost production has meant a decrease in imports of efficiently produced feed grains on the order of 3.4 million tons. I might add that the United States has borne the brunt of this decrease.

Also, the European Community, which has increased its wheat production by about 4 million metric tons in the past 3 years, has shown no disposition to reduce acreage or to lower its grain prices in the light of the world's current wheat surpluses. This policy is in marked contrast to actions of the other major wheat-producing countries. The United States recently proclaimed a 1971 national wheat allotment of 43.5 million acres—a record low and the fourth successive cut in U.S. wheat acreage. Canada has put into effect a program that could virtually take that country out of wheat production this year. Australia has initiated a delivery quota system aimed, by limiting farmers' deliveries of wheat, at discouraging production. Argentina is keeping its wheat harvests in check by restraining prices farmers can get for their grain. The failure of the Community to curb its grain surpluses is canceling out in some degree the adjustment efforts of other producing countries.

We also have had difficulties in other directions.

The United Kingdom, a major feed grain market, has been growing more of its own grain, which it has been protecting under a system of variable import levies. For one thing, the United Kingdom has had a balance-of-payments problem, which has made increased self-sufficiency at least temporarily desirable. But the country also is attempting to bring its agricultural production and trade policies somewhat in line with those of the European Community, which it hopes to join.

U.S. exporters are contending with subsidized Danish poultry in such markets as Switzerland, Greece, the Middle East, Singapore, and Hong Kong. And Japan still imposes a number of quantitative restrictions on agricultural products. Many of these, such as grapefruit, canned pineapple, ham, and bacon, are items which, by and large, do not compete with Japan's domestic production.

I have talked about problems. But I don't want to leave the impression that the future of U.S. agricultural trade is completely dark. It isn't, of course. While problems are uppermost in most of our minds—and properly so, I think—I should point out for the sake of perspective that the trade picture also has some bright spots.

Soybean exports make up one of the brightest spots in that picture. This is a product the world wants and needs as a source of protein food for livestock and as a source of vegetable oil for human food. We are the world's most efficient soybean producer. Furthermore, we have duty-free access, not only to the European Community, but also to several other major importers, including Canada, Denmark, Norway, and Israel. We have good access to Japan, the United Kingdom, and other markets. These factors have all come together this season. Exports in this current season have been almost phenomenal. Shipments of soybeans as beans will total about 400 million bushels—a new record by a wide margin and the largest percentage gain in exports since

production of this crop began in the United States. We will ship record quantities of soybean meal, and soybean oil shipments are holding up well. Altogether, exports of soybeans and products will have a record value of over $1.4 billion.

World demand for feed grains also is increasing. Economic growth and increased purchasing power around the world are creating an expanded demand for meat, especially beef, and for other livestock products. The need for bigger herds and flocks is generating expanded requirements for feed grain, much of which must be imported. The United States, as the most efficient producer of coarse grains, should share substantially in foreign market growth.

May I say parenthetically this is one of the factors which has been overlooked to a considerable degree in looking at prospects for agricultural markets in the future, the rising level of living in these deevloping countries and particularly those where the green revolution is taking place. We are beginning to see the figures now in their domestic consumption. Their domestic demands on a per capita basis is rising with their prosperity.

There is a basic market for U.S. wheat. Our hard wheat, in particular, is popular abroad as a source of the high-gluten flour needed for bread-making. Our durum wheat also is in demand for spaghetti, macaroni, and other pasta products.

We see growing markets abroad for other commodities, such as citrus fruits and juices, almonds, hides and skins, tallow, and many processed foods. We see expanded exports of high-quality beef and poultry especially in countries where tourism is important.

We are watching the economic situation as it develops around the world.

Japan is currently the top "country" market prospect for U.S. agricultural commodities. We are already exporting close to $1 billion worth of farm products annually to this remarkable island nation whose gross national product is increasing at a fantastic rate of over 12 percent a year. And we will export more in the years that lie ahead. Japan continues to become more an industrial nation and less an agricultural producer. We have similar opportunities in Taiwan, South Korea, Hong Kong, and Singapore, which are also industrializing. We have opportunities in the oil-rich Middle East and in Libya. We have opportunities in the Caribbean area, where tourism is on the upgrade.

We are doing the best we can under present conditions. But in order to realize the full potential of these markets, we need to work in a liberal, market-oriented climate. The Department of Agriculture has greatly expanded its export market development activities in order to capitalize to the maximum on the potentials that exist. Producer and trade associations representing every major export commodity are now partners with the Department in this drive. Private firms here and abroad are teaming up through these associations to join with us in a sophisticated program of merchandising and promotion through the markets of the free world. The results for many commodities are encouraging despite the protectionist problems that we constantly encounter.

If a market-oriented trade climate is to be created in the trading world, U.S. agriculture will need all the legislative help it can get

from the Congress. We need to move forward from the Kennedy round of negotiations. While that round resulted in some trade liberalizing agricultural concessions with a number of countries, it did not deal effectively with agriculture's major trade problems.

The Department of Agriculture welcomes new initiatives.

In this connection the Department is heartened by knowledge that the President's Commission on International Trade and Investment will be studying agricultural as well as industrial trade problems, and will be recommending policies. The Department, you may be sure, will give the Commission its whole-hearted support.

But the Department does not expect others to carry all the load. Department officials have been accelerating and deepening the process of international consultation in agriculture. Just last week I took part, at Ottawa, Canada, in an international consultation on adjustment of wheat production. I have participated in other agricultural trade conferences on this continent, in Europe, and in Asia.

We must press forward toward liberal trade in this world.

I am sure you recall, as I do, the very serious farm problems that developed in the late 1920's. At that time there were no programs to cope with falling prices, surpluses, drought, and all the other ills that were plaguing the agricultural sector. Programs had to be devised—and some mistakes were made. For example, one of the responses to falling agricultural prices was the passage of extremely restrictive trade legislation—the Tariff Act of 1930. This brought retaliation from foreign countries, of course. As a result, in 1931–34 our agricultural exports dropped to an average of about $800 million, as compared with shipments worth $1.8 billion in the preceding 4 years. I wouldn't want to see such a thing happen again. We have problems now, but we will have even more problems if we push for restrictions in the agricultural trade field instead of continuing our drive for liberalization.

Farmers are still on the lowest side of the income scale. An expansion of exports would enable them to obtain an increased part of their income from foreign markets. First, however, they must have access to those markets. Therefore, the United States must keep up the pressure for progress toward freer trade—toward a more market-oriented world trading system. The Trade Act of 1969 will enable us to continue our drive for liberal trade.

The years immediately ahead are going to be critical from the standpoint of agricultural trade. The policies of the European Community will be spread over a greatly increased area. It now appears that the European Community will eventually encompass the present six countries plus the United Kingdom, Ireland, Denmark, Norway, and possibly other European nations. It could well be enlarged still further through associations or special arrangements. One day it could account for over half of the world's trade in farm products. It is therefore very important that the European Community review and revise the application of its common agricultural policy so that both the Community and the rest of the world will benefit to an increasing degree from a more efficient use of the world's resources through the expansion of trade.

Above all, U.S. agriculture needs a worldwide climate of liberal trade. In such a climate importers and exporters of farm products

can best work together in seeking solutions to their problems. The Trade Act of 1969 is cast in a liberal mold. I urge that it be enacted without delay.

The CHAIRMAN. Thank you very much, Mr. Secretary, for a very interesting discussion.

Mr. Boggs.

Mr. BOGGS. Mr. Secretary, congratulations on a very fine statement. Give me that figure again about soybeans.

Secretary HARDIN. The total exports this year?

Mr. BOGGS. Yes, sir.

Secretary HARDIN. $1.4 billion.

Mr. BOGGS. How does that compare with the last several years?

Secretary HARDIN. It has been about $1.1 billion for the past several years.

Mr. BOGGS. How much has soybean production increased in this country, say, in the last decade?

Secretary HARDIN. It has about doubled in 10 years.

Mr. BOGGS. You can supply that for the record?

Secretary HARDIN. We will give you specific figures, but that is about right. That would be about 5 percent a year.

(The information requested follows:)

Table .--Soybeans: U.S. acreage, yield, and production, by selected groups of States, 1950-70

Crop year	United States	Corn Belt 1/		Lake States 2/		Plains States 3/		Delta States 4/		Atlantic States 5/		All Other States 6/	
		Acreage	% of U.S.	Acreage	% of U.S.	Acreage	% of U.S.	Acreage	% of U.S.	Acreage	% of U.S.	Acreage	% of U.S.
	Acreage harvested for beans												
	1,000 acres	1,000 acres	Pct.	1,000 acres	Pct.	1,000 acres	Pct.	1,000 acres	Pct.	1,000 acres	Pct.	1,000 acres	Pct.
1950	13,807	9,870	71	1,260	9	558	4	979	7	654	5	486	4
1951	13,615	9,434	69	1,245	9	547	4	1,080	8	713	5	596	4
1952	14,435	9,589	66	1,294	9	842	6	1,391	10	714	5	605	4
1953	14,829	10,241	69	1,517	10	699	5	1,071	7	748	5	553	4
1954	17,047	11,160	65	2,174	13	698	4	1,550	9	866	5	599	4
1955	18,620	11,721	63	2,469	13	846	4	1,931	10	977	5	676	4
1956	20,620	12,413	60	2,918	14	902	4	2,396	12	1,301	6	690	3
1957	20,857	13,038	62	2,896	14	717	3	2,191	11	1,331	6	684	3
1958	23,993	13,999	58	3,488	14	1,242	5	3,079	13	1,440	6	854	4
1959	22,631	13,180	58	2,554	11	924	4	3,505	16	1,479	7	989	4
1960	23,655	13,830	58	2,407	10	1,026	4	3,541	15	1,778	8	1,073	5
1961	27,003	15,930	59	2,736	10	1,305	5	3,894	14	1,915	7	1,223	5
1962	27,608	16,176	59	2,645	10	1,412	5	4,174	15	1,953	7	1,248	4
1963	28,615	16,192	56	2,809	10	1,479	5	4,801	17	1,967	7	1,367	5
1964	30,793	17,223	56	3,316	11	1,609	5	5,065	16	2,076	7	1,504	5
1965	34,449	18,837	55	3,766	11	2,113	6	5,633	16	2,268	7	1,832	5
1966	36,546	19,212	53	4,021	11	2,244	6	6,396	17	2,505	7	2,168	6
1967	39,767	19,807	50	4,285	11	2,267	6	7,415	19	2,879	7	3,114	8
1968	41,104	21,409	52	3,856	9	2,254	6	7,545	19	2,640	6	3,400	8
1969 7/	40,857	20,651	51	3,855	9	2,108	5	8,126	20	2,620	6	3,497	9
1970 8/	42,000												

	Yield per acre harvested for beans												
	Bushels	Bushels	% of U.S.	Bushels	% of U.S.	Bushels	% of U.S.	Bushels	% of U.S.	Bushels	% of U.S.	Bushels	% of U.S.
1950	21.7	23.1	106	15.9	73	17.3	75	22.6	98	16.2	75	18.8	87
1951	20.8	22.6	109	17.7	85	15.2	73	17.2	83	16.3	78	17.0	82
1952	20.7	23.0	111	18.9	91	13.4	65	15.1	73	16.3	79	16.8	81
1953	18.2	19.4	107	20.2	111	10.4	57	11.5	63	15.4	85	15.2	84
1954	20.0	22.1	110	21.3	106	14.1	70	11.3	56	14.9	74	13.5	68
1955	20.1	21.4	106	19.4	97	11.1	55	18.5	92	17.7	88	17.9	89
1956	21.8	24.3	111	19.9	91	10.7	49	17.2	79	20.1	92	18.3	84
1957	23.2	24.9	107	21.4	92	17.3	75	21.2	91	18.7	81	19.9	86
1958	24.2	26.8	111	17.8	74	19.1	79	23.3	96	21.4	88	22.5	93
1959	23.5	25.1	107	21.0	89	17.3	74	23.0	98	21.4	91	22.3	95
1960	23.5	24.9	106	18.8	80	19.9	85	22.3	95	22.8	97	22.4	95
1961	25.1	27.4	109	22.5	90	19.8	79	21.8	87	22.2	88	22.5	90
1962	24.2	26.3	109	20.0	83	19.6	81	21.0	87	20.5	85	21.7	90
1963	24.4	27.0	111	21.2	87	21.5	88	19.5	80	18.2	75	20.8	85
1964	22.8	24.3	107	19.7	86	17.8	78	19.7	86	18.4	81	21.9	96
1965	24.5	26.8	109	19.8	81	20.1	82	21.1	86	23.7	97	22.7	93
1966	25.4	27.2	107	22.2	87	23.8	94	23.3	92	18.1	71	24.1	95
1967	24.5	25.5	104	19.2	78	18.6	76	23.2	95	24.6	100	25.6	104
1968	26.8	30.8	115	23.3	87	20.4	76	25.3	94	18.6	69	21.8	81
1969 7/	27.3	30.7	112	22.0	81	24.2	89	20.5	75	27.1	99	24.6	90
1970 8/	27.0												

	Production from harvested acres for beans												
	1,000 bushels	1,000 bushels	% of U.S.	1,000 bushels	% of U.S.	1,000 bushels	% of U.S.	1,000 bushels	% of U.S.	1,000 bushels	% of U.S.	1,000 bushels	% of U.S.
1950	299,249	227,698	76	20,027	7	9,651	3	22,162	7	10,589	4	9,122	3
1951	283,777	213,133	75	22,021	8	8,324	3	18,259	6	11,643	4	10,127	4
1952	298,839	220,221	74	24,445	8	11,285	4	21,068	7	11,628	4	10,192	3
1953	269,169	199,041	74	30,589	11	7,305	3	12,331	5	11,510	4	8,393	3
1954	341,075	246,570	72	46,237	14	9,871	3	17,448	5	12,865	4	8,084	2
1955	373,682	251,080	67	47,945	13	9,398	3	35,890	10	17,278	5	12,091	2
1956	449,251	301,548	67	58,184	13	9,643	2	41,124	9	26,106	6	12,646	3
1957	483,425	324,149	67	61,933	13	12,372	3	46,410	10	24,904	5	13,657	2
1958	580,250	374,651	65	62,185	11	21,798	4	71,676	12	30,749	5	19,191	3
1959	532,899	333,381	63	49,871	9	16,746	3	80,230	15	30,652	6	22,019	4
1960	555,085	347,899	63	46,824	8	21,179	4	76,618	14	38,484	7	24,081	4
1961	678,554	440,094	65	63,288	9	27,400	4	78,594	12	41,620	6	27,558	4
1962	669,186	433,720	65	52,451	8	27,749	4	87,636	13	40,544	6	27,086	4
1963	699,165	450,928	64	66,975	10	28,525	4	87,349	13	36,944	5	28,444	4
1964	700,921	428,830	61	66,682	10	30,004	4	100,007	14	42,531	6	32,867	5
1965	845,608	513,512	61	71,291	8	44,359	5	122,570	15	52,327	6	41,549	5
1966	928,481	524,845	57	95,044	10	54,840	6	147,885	16	53,569	6	52,298	5
1967	976,060	527,049	54	83,534	9	46,032	5	171,605	17	68,261	7	79,579	8
1968	1,103,129	663,690	60	86,698	8	56,838	5	183,770	16	43,966	4	74,166	7
1969 7/	1,116,876	650,077	58	91,136	8	56,798	5	167,666	15	66,394	6	85,915	8
1970 8/	1,134,000		-										

1/ Illinois, Iowa, Indiana, Ohio, and Missouri. 2/ Minnesota, Wisconsin, and Michigan. 3/ Kansas, Nebraska, South Dakota, and North Dakota. 4/ Arkansas, Mississippi, and Louisiana. 5/ North Carolina, South Carolina, Virginia, Maryland, and Delaware. 6/ Includes New York, New Jersey, Pennsylvania, Georgia, West Virginia, Florida, Kentucky, Tennessee, Alabama, Oklahoma, and Texas. 7/ Preliminary. 8/ March 1 planting intentions.

Mr. BOGGS. Where is most of the production centered?

Secretary HARDIN. The largest State, I believe, is Illinois. Iowa is heavy. The Southern States are participating increasingly, particularly Arkansas, and Mississippi. They are quite generally grown in the central and western cornbelt, and increasingly across the southeastern part of the country. Those would be the principal areas.

Mr. BOGGS. How much of the crop is exported, and how much is used internally?

Secretary HARDIN. About 40 percent is exported.

Mr. BOGGS. How much cotton do we export now percentagewise?

Secretary HARDIN. I think it is about 25 percent.

Mr. BOGGS. And wheat?

Secretary HARDIN. Wheat is about 40 percent.

Mr. BOGGS. And feed grains generally?

Secretary HARDIN. Twelve to 14 percent.

Mr. BOGGS. So that American agriculture has a tremendous stake in exports.

Secretary HARDIN. Yes. So do other countries, because of the contributions to the balance of payments.

Mr. BOGGS. What is your suggestion with respect to what Congress may do, or what the administration may do in connection with the European Common Market, particularly with respect to some of the restrictive agricultural import policies that have been imposed?

Secretary HARDIN. What we can do about the Common Market agricultural policy has been frustrating our people for the last 3 or 4 years. As the EC has engaged in more and more subsidized exporting or dumping, we have countered to some degree. For example, when they took over our lard market in the United Kingdom, and we had most of this market and dropped it down to practically nothing with subsidies, we imposed a countersubsidy. It has since been reduced somewhat and theirs has been reduced somewhat. Similar action was taken with regard to poultry in Switzerland and in Greece. Denmark is also involved in this same operation. Recently we subsidized the exports of barley grains, a backdrop of the European Community having taken over completely our market in Japan. We have used this technique very sparingly. In the meantime we have been meeting frequently with the officials of the Community attempting to show them the error of their ways, hoping that we can prove to them that this is not in their best interest either.

So far we have made little progress. Now the Community has been threatening, as perhaps you know, for at least 2 years to impose a tax on soybeans and we have made this a matter of national concern—that this not be done. So far it has not been done and we are hopeful that it won't be. These are the principal techniques that we have had to work with. They are not sufficient, obviously.

Mr. BOGGS. Is there any European production of soybeans?

Secretary HARDIN. Practically none, none of any consequence.

Mr. BOGGS. What are the other countries in the world that produce large quantities of soybeans?

Secretary HARDIN. Mainland China is the one place of significance. There are several countries in South America that are experimenting with them but they do not yet have a commercial production. Brazil, however, is becoming an important producer and exporter.

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Mr. CONABLE. Isn't India getting into soybean production some because of the high protein content?

Secretary HARDIN. Experimentation is going on rather widely.

Mr. BOGGS. What about the preferential treatment that the Common Market extends principally to African countries? What is your feeling about that?

Secretary HARDIN. We are concerned about all of these special arrangements. Of course there has been a historic affiliation with some of the African nations but as the Community develops and these various bilateral arrangements are made, they interfere with our opportunities. That is the only way I know to answer that. We don't like it.

Mr. BOGGS. On the other side of the coin do you have any particular pressures today to increase certain agricultural imports into the United States?

Secretary HARDIN. Yes. The pressure to import has been, I think, intensified by the fact that the Community has closed their doors or raised the walls as far as our commodities are concerned. They have done it for some other countries, too, which has meant that the pressure has come to our shores as we are the most wide-open market in the world. This is one of the reasons for the pressure to import more beef into this country today—the fact that it is difficult to get into many other countries.

The same is true to a degree for dairy products, and we will see a continuation of this.

Mr. BOGGS. Are those the principal areas, meats and dairy products?

Secretary HARDIN. Where the pressures are strong? Yes. There are a few smaller crops but in terms of dollars those would be the principal ones.

Mr. BOGGS. The Common Market barriers are mostly nontariff barriers, quotas, taxes, and so on? Do you have any suggestions on how we approach those?

Secretary HARDIN. I presume that the only way we can approach it is through negotiation.

Mr. BOGGS. Thank you very much, Mr. Secretary.

The CHAIRMAN. Mr. Conable will inquire.

Mr. CONABLE. Mr. Secretary, thank you for your statement, which is very helpful.

I think this area of agricultural products is a very serious one for our consideration. I should like to ask you a little more about the impact of England joining the Common Market. We all are aware that the area in which we have had the greatest problems with the EEC really has been the agricultural products areas and England is a substantial trading partner with us although she also trades very heavily with her commonwealth neighbors who of course are likely to be a problem in her entry into the Common Market because of the substantial agricultural trade they have with the mother country.

What is likely to happen if England does succeed in securing entry into the EEC? Is this likely to result in a substantial change in the pattern of agricultural trade?

Secretary HARDIN. First of all, I think we have to recognize that this depends to some extent on what the terms of their entry may turn out to be, and we do not know those today. So I have to modify any answer, depending on what those are. But we think our grain exports

would fall because this market would be supplied from the Continent and by increased domestic production. That would be one area. And we think that trade in meats and dairy products and fruits and vegetables and tobacco will all be affected, partly because of their being supplied from the continent and partly because of increased domestic production. This development will affect exports from the United Kingdom's commonwealth partners, and would then either bring pressure to import here or take our markets in third countries.

So we can't see but what it will have a detrimental effect on world agricultural trade.

Mr. CONABLE. Is the threat against our soybean exportation to the European Continent related to their dairy surpluses primarily? Since they don't grow soybeans themselves, it would seem unlikely that they would try to raise the price of soybeans in the event of substantial consumption there in Europe unless the vegetable oils were transferred to a substantial extent to dairy products.

Secretary HARDIN. There are two factors there. One is the one you mentioned. They want to sell butter and therefore they would like to have the vegetable oils priced higher. The other factor, and I think the one even more important in their minds, at least at times it seems so, is that the current price for soybean protein is low compared to their domestically grown coarse grains, and their farmers are feeding very large amounts of soybean protein and therefore less of their local coarse grains. The Community wishes to make soybean protein more expensive. This is also disturbing because of the grains they are building up in surplus.

Mr. CONABLE. Have the recent purchases by the Russians of butter from Common Market countries gone very far toward reducing their surpluses there or are they pretty much one-shot deals?

Secretary HARDIN. I don't know whether they are one-shot deals or not. The situation has been vastly improved. They have been putting also a little of it in their livestock rations. We have accused them of perpetual motion there, feeding butter back to the cows. But they still have a serious problem.

Mr. CONABLE. That is not a very efficient way to produce butter.

Secretary HARDIN. Not very efficient.

Mr. CONABLE. Mr. Secretary, what hope do we have with respect to these European surpluses? As I understand it, we have a very inflexible support system there by countries which are closely divided politically. They have roughly 15 percent of their population engaged in the production of food as opposed to less than 5 percent in this country, and because they are closely divided politically and the farmers tend to be block voters, apparently none of the politicians over there are anxious to offend the farmers and therefore they seem to be pretty well locked into high-support policies.

In the light of this, I wonder if we can foresee any substantial possibility of improvement over the foreseeable future.

Secretary HARDIN. I think your analysis is very good. As you said, the organization of the Community is such that the agricultural sector seems to be fairly well isolated from influences which might bring about reduced prices. In fact, the Community officials will state that in their political climate they simply can't reduce prices very much. Furthermore, they strongly resist putting on acreage or production

controls. This in their view means national quotas. It prevents any shift in production areas which they feel is undesirable. So, if you are not willing to reduce prices, if you are not willing to control production, you do produce surpluses, and there is only one outlet left, and that is subsidized exports, and that is what has been happening.

Now what is the solution? We have made some estimate of what this policy is costing. I think you might be interested in these figures if you have not seen them. First, if you add in the increment that the Community itself puts into subsidies, add to this the subsidies from the individual member countries, and then add a factor for increase in cost of food to consumers because of the policy, and this is a net cost to the members of the Community, the total comes to about $15 billion, which is on a gross national product equal to one-half ours. Now the cost is rising every year. We think there must be somewhere a limit as to how long this can be continued and that the policy will have to be modified.

Now, perhaps the enlargement of the Community will give them a temporary reprieve from this because it will permit them to get rid of some of their grains and some of their other surplus products. That the economies of the other countries will complement the Community in this respect.

Mr. CONABLE. I have heard it said that we need a Kennedy round for the farmers, too. There is a strong feeling in the agricultural Kennedy round and that the negotiators were more interested in protecting labor, for instance, than they were in protecting agriculture.

Do you feel that something of this sort is needed? I see you are advocating strongly liberalized policies and negotiating authority. Do you think we ought to have some pointed negotiations toward reducing agricultural barriers?

Secretary HARDIN. Yes; I do. I was not on the scene at the time of the Kennedy round but looking back over the record, the gains were not tremendous for agriculture. I feel strongly, however, that we are not going to accomplish as much as we should if those of us who are ministers of agriculture, for example, do the negotiating.

I think, also, that much of our trade potential is with industrial nations. We feel that if we are to make progress, agriculture and industry must be negotiated together. Concessions will have to come from another economic sphere, such as the industrial area or some place else. An isolated round of agricultural negotiations is not the most productive approach.

Mr. CONABLE. Do you feel that we can look forward with any confidence toward the improvement in our agricultural trade at this point? Looking ahead what do you think is the likely course?

As part of that will you tell us if you think you have sufficient tools to prevent dumping by heavily subsidized agriculture in other countries, to prevent, for instance, the variations of ice cream mix that have been made available in the northeast by the low countries generally? Do you have adequate tools to handle this kind of situation in the future?

Secretary HARDIN. I suppose they will never be adequate, sir. You mentioned ice cream. I will pick that one up first.

The President did today approve a recommendation that I had made to him regarding taking action under section 22 on ice cream, chocolate crumb, animal feeds, and low-fat cheeses. This is now going to the Tariff Commission, which is the first step in taking action under that section. This is what I think you are referring to, the reworking of some of these products so that they fall outside the established quotas.

We feel that there has been evasion here and that this can be handled adequately under section 22. But when you talk about sufficient tools against export dumping—yes; of course we can put in countervailing duties in certain circumstances, we have done so to a degree. We can subsidize some of our exports, and as I mentioned earlier, we have done so in specific instances, where we think it is helpful.

I think if you push something like this too far the ultimate effect is to just simply reduce trade and nobody benefits from that. I guess we come back to the original statement. We hope that, by making a few of these minor retaliatory moves we can continue to encourage an atmosphere of freer trade and attempt to move more vigorously in getting concessions which will continue to expand trade.

Now you asked about the future. We are optimistic that we can continue to expand trade a bit. I think the prospects in Japan are fairly good. I mentioned their industrial development. This is bringing some pressure on their agriculture, by drawing labor away, and taking some of the land. Their economy is growing; their standard of living is rising. We look also at the U.S. balance of trade with Japan where this last year there was a deficit of $1.4 billion on top of $1 billion the year before. We are Japan's best customer. They are our second best agricultural customer. We think there is growth there. I mentioned the other countries. We are looking at some of the other developing countries. I mentioned Taiwan and Korea, but on down the road perhaps Nigeria and some others will become fairly good markets for U.S. farm products.

As we look to developing countries, most of them are not buying very much from us now except under Public Law 480. To the extent that they do develop their own economies and buy more, this is a net increase. So over all, we think our exports will expand but unless there is a reversal of the protectionism trend we will simply not reach our full potential. We are efficient agricultural producers, we can compete if we have a free market situation.

Mr. CONABLE. Thank you, Mr. Chairman. That is all I have.

Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Vanik will inquire.

Mr. VANIK. Thank you, Mr. Chairman.

Mr. Secretary, you gave this figure, but what is our trade balance at the present time in agriculture? What is the total?

Secretary HARDIN. We are exporting this year, it looks like more than $6 billion.

Mr. VANIK. $6 billion?

Secretary HARDIN. Yes.

Mr. VANIK. And we are importing?

Secretary HARDIN. Total imports will be about $1 billion.

Mr. VANIK. Imports are much less.

Secretary HARDIN. Yes, sir.

Mr. VANIK. Now what portion of our imports are noncompetitive things like coffee and so forth?

Secretary HARDIN. The largest proportion is in that category, coffee, cocoa. I have a table here that has these. If you would like we can put this table in the record.

U.S. AGRICULTURAL IMPORTS: VALUE BY COMMODITY, CALENDAR YEARS 1968 AND 1969

[Dollars in thousands]

Commodity or commodity group	1968	1969	Change (percent)
Supplementary:			
Animals and animal products:			
Cattle, dutiable	91,100	93,650	+3
Dairy products	100,692	101,098	
Hides and skins, excluding fur	70,593	57,640	−18
Meats and meat products, excluding poultry:			
Beef and veal	485,515	568,631	+17
Pork	216,114	238,818	+11
Other meats and products	62,113	77,527	+25
Wool, apparel	109,621	85,094	−22
Other animals and animal products	88,269	89,918	+2
Total animals and products	1,224,017	1,312,376	+7
Cotton, raw, excluding linters	12,067	6,326	−48
Feeds and fodders, excluding oil cake	15,405	19,948	+29
Fruits and preparations	180,770	181,756	+1
Grains and preparations	49,295	57,583	+17
Nuts and preparations, edible	110,206	96,163	−13
Oilseeds, oilnuts, and products:			
Coconut oil	63,955	49,502	−23
Copra	62,314	465,22	−25
Olive oil	20,078	18,106	−10
Other oilseeds and products	80,958	76,006	−6
Seeds and nursery stock excluding oilseeds	30,411	32,871	+8
Sugar and molasses:			
Sugar, cane	640,692	638,049	−1
Molasses, inedible	42,339	37,590	−11
Tobacco, unmanufactured	141,765	127,758	−10
Vegetables and preparations	177,815	201,421	+13
Wines and malt beverages:			
Wines	100,217	117,228	+17
Malt beverages	25,988	27,438	+6
Other supplementary vegetable products	59,718	56,212	−6
Total supplementary products	3,038,010	3,102,855	+2
Complementary:			
Bananas, fresh	182,207	179,832	−1
Cocoa and chocolate:			
Cocoa beans	136,029	168,150	+24
Cocoa and chocolate, prepared	35,965	35,753	−1
Coffee:			
Coffee, green or crude	1,139,613	893,900	−22
Coffee, soluble	21,817	42,071	+93
Drugs, crude	40,777	42,825	+5
Essential oils	33,606	26,893	−20
Fibers, unmanufactured	20,516	18,414	−10
Rubber, crude:			
Rubber, crude, dry form	161,213	244,879	+52
Rubber, latex	26,362	30,548	+16
Silk, raw	17,769	13,465	−24
Spices	42,305	46,923	+11
Tea, crude	60,689	52,591	−13
Wool, carpet	48,047	42,619	−11
Other complementary products	18,652	16,207	−13
Total complementary products	1,985,567	1,855,070	−7
Total agricultural imports	5,023,577	4,957,925	−1

Mr. VANIK. I would appreciate if that table could be placed in the record, but my question is this: If you take out the noncompetitve items that we do not produce here, what is the import that is left?

Secretary HARDIN. That would be considered competitive?

Mr. VANIK. That would be considered competitive.

Secretary HARDIN. Or partially so. About $3 billion.

Mr. VANIK. So less than half of what we import is noncompetitive.

Secretary HARDIN. Yes.

Mr. VANIK. How much of our export is not competitive? You mentioned soybeans for one. What would you say would be our noncompetitive exports?

Secretary HARDIN. I am not quite sure I understand the question.

Mr. VANIK. There is a portion of our agricultural export that is noncompetitive, or relatively so.

Secretary HARDIN. You mean no one else produces it?

Mr. VANIK. Well, we don't have any problems.

The CHAIRMAN. The importing country does not produce it.

Secretary HARDIN. We simply do not have that breakdown, Mr. Vanik.

Mr. VANIK. Under section 22 you do in effect for agriculture what Tariff Commission does when we reach a peril point. Isn't that the effect of section 22, when someone comes in and wants to compete you close them off?

Secretary HARDIN. The purpose of section 22, as I read the history of it was to protect the price support program. It applies to those commodities for which the price is being supported in this country and not to others.

Mr. VANIK. Now, what occasion did you have to use section 22 last year?

Secretary HARDIN. Dairy products were the only ones.

Mr. VANIK. What in the history of section 22 are the principal places we have had to restrict?

Secretary HARDIN. I have it exactly here now.

Mr. VANIK. All right.

Secretary HARDIN. A certain type of cotton. Action was taken a dozen years ago. Barley, including rolled barley, ground barley, barley malt, about 15 years ago. Oats, shelled almonds, filberts, peanut oil, tung nuts, and flaxseed.

Mr. VANIK. How does this section 22 provision work? You can stop a lot of things just by threatening to use it without using it but is that a determination that is solely made by your offce, or is there some board? If I disagree or someone should disagree with something, on the decision relating to section 22, is there any administrative appeal?

Secretary HARDIN. The normal process would be for you to get in touch with our office and we would look at the situation, and if we agreed we would make a recommendation to the President who would then refer to the Tariff Commission for study, and then recommend action.

Mr. VANIK. Let me ask you this: In our $6 billion of export how many American jobs does that involve?

Secretary HARDIN. Someone has estimated 730,000 jobs.

Mr. VANIK. 730,000 jobs to produce $6 billion worth of exports. I can compute then the ratio of the worker to the dollar sales.

Let me ask you this: Yesterday we had the Secretary of the Treasury here telling us about this program called DISC. Does that affect you here? Are you interested in that in any way?

Secretary HARDIN. We are very much interested in the DISC's. A number of the agricultural exporters have established foreign affiliates for the purpose of making foreign sales, presumably partially because of the tax benefits from doing so. We feel that under the DISC some of these might be inclined to move back to these shores. But we also think that DISC would provide an opportunity for some of the smaller firms to become more active in this export endeavor. We believe that it would establish a psychological climate that would create more interest in export trade. So, all in all, we feel that it would be a very definite plus in helping agriculture.

Mr. VANIK. Would the farmer who produces solely for export be entitled to just become a DISC and get the tax advantage on it?

Secretary HARDIN. I would doubt that any individual farmer would establish a DISC.

Mr. VANIK. I mean legally he could. He could produce solely for export.

Secretary HARDIN. I recall the requirement, yes, if it was used 95 percent for export, and so on. Yes; I think legally he could.

Mr. VANIK. It is conceivable that a soybean farmer designing his crop solely for foreign sales would become a DISC and get a tax write-off that he doesn't get today, in addition to the others that he might have.

Secretary HARDIN. I don't know how he would provide for all the services he would need.

Mr. VANIK. He could do all of that because he sells his crop. He gives them a weekly report about how the soybeans are doing.

Secretary HARDIN. I don't think it would work that way because the margins that the exporters take for handling this are very, very small, very small indeed. The tax advantage, as I recall, would apply only to the actual cost of performing the export service, fiscal, bookkeeping, and so on. I doubt that there would be any advantage unless the volume is quite large.

Mr. VANIK. But it is a large volume we are talking about. These are large farms. Their production is great. There are large enterprises that are involved in developing a crop of corn for consumption.

Secretary HARDIN. In that case, yes.

Mr. VANIK. The DISC would be a great advantage to him.

Well, if you will put in those tables that we talked about, I think I have the information I was seeking.

Mr. Chairman, I have no further questions.

Thank you, Mr. Secretary.

The CHAIRMAN. Are there any further questions?

Mr. BETTS. Yes.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. I have one question, Mr. Secretary.

Some people from the molasses industry have been talking to me. Are you acquainted with the problems that they claim they have?

Secretary HARDIN. No I am not.

Mr. BETTS. I will try to explain it to you. They tell me there is a terrific Cuban production of molasses which is shipped to European countries and then shipped into the United States which is, I guess, causing quite a bit of injury to the domestic molasses industry. Are you aware of that?

Secretary HARDIN. Yes. This comes under the jurisdiction of the Department of the Treasury.

Mr. BETTS. Is there an antidumping application filed?

Secretary HARDIN. Yes.

Mr. BETTS. Thank you.

The CHAIRMAN. Are there any further questions?

If not, Mr. Secretary, I have some questions but I will not impose on you longer. We have kept you too long this afternoon anyway. I may want you in executive session at the appropriate time when we get to it, either you or some of your staff people.

There being no further questions, we do thank you again for coming to the committee.

Without objection the committee will adjourn until 10 o'clock in the morning.

Secretary HARDIN. Thank you, Mr. Chairman.

(Whereupon, at 4:55 p.m. the committee adjourned, to reconvene at 10:00 a.m., Thursday, May 14, 1970.)